ISLAMIC BANK PREPARATION TOWARD GO PUBLIC

Devy M. Puspitasari, Nugroho J. Setiadi and Marlian Hasrantih
Faculty of Business and Management Widyatama University

ABSTRACT

After years of stable growth, recovering from a severe economic crisis in 1997, the indonesian economy was hit by the global economic downturn in 2008. The global financial crisis has affected a number of banking institutions, including indonesian islamic banks. The crisis is reflected by the higher financing to deposit ratio (fdr) in islamic bank. Actually,the high fdr has positive impact to economic growth in the community. However, islamic banks have liquidity problems if the clients want to pull their funds from the islamic bank. This study aims to determine the effect of level of liquidity to the level of profitability in islamic banking(muamalat indonesia bank, syariah mandiri bank and syariah mega indonesia bank) over the periods 2005-2009. Results showed that the level of liquidity as measured by the quick ratio, financing to deposit ratio and loan to asset ratio has a significant influence on return on equity. Interesting funding showed that loan to asset ratio has a negative impact on return on equity.

KEYWORDS

Quick ratio, financing to deposit ratio, loan to asset ratio, return on equity, islamic banking.

INTRODUCTION

In 2008, Global crisis affected the financial sector including Islamic Banking. Islamic Bank liquidity was triggered by condition of high Financing to Deposit Ratio (FDR) rather than Conventional Bank. The high FDR correlates positively for economic growth in society. If rush happens,Islamic Bank will have liquidity problems. Withdrawal symptoms can be seen from the decline in Third Party Funds (TPF) and Certificate of Bank Indonesia Sharia (SBIS). In June 2008, deposits reached Rp 33.05 trillion, while in August 2008 was only Rp 32.36 trillion, down to 2%. This triggered a decline SBIS position at Rp 1.82 trillion in August, whereas in June it was recorded at Rp 3.08 trillion. Decreasingof SBIS indicating Central Bank applytight monetarypolicy, especiallyfor Islamic Bank.

The high of FDR Islamic Bank (above 95%) expected Central Bank apply easy monetary policy.Because all of the banks apply tight liquidity. Therefor, the Islamic Bank need more liquidity than Conventional Bank. Basically, Islamic Banks must be concerned about real sector. They do not involve in the securities trading. When conditions of FDR is high, customers tend to withdraw their deposits from Bank Syariah. If it has occured,the bank will have liquidity problem.Meanwhile, only 50% of FDR in Conventional Banks used for loan and the other 50% buy the securities. Therefore when liquidity is needed, Conventional Banks will sell their

securities (Agustianto, 2008). Based on the problem, this study focus on how the level of liquidity affects the level of profitability in Islamic banking over the periods 2005-2009.

FRAMEWORK AND HYPOTHESIS DEVELOPMENT

The results of this study are expected to yield both theoretical and practical contributions. If the empirical study showed that the liquidity affects the profitability of a bank, it is consistent with Simorangkir's (2004) view. He mentions thatthe ability of bank to raise funds is increased. However, if bank only focuses on profitability, liquidity position will be threatened. The main attention of Islamic Bank is to maintain the liquidity,on the other hand Central Bank hasto supervise the banks liquidity.

To understand the mechanism of Islamic Banking, it has been stated in the Act No.10/1998. "The principle of Islamic law in banking activities is based on what was issued by institutions that have authority in determining what was in the field of Islamic Banking". According to Siamat's (2005) definition of Islamic Banking is Banks do business based on the principles of Islamic law or by reference to the Al-Quran and Al-Hadith. Therefore, it can be concluded that Islamic Bank is a bank with business activities that are based on the principles of Islam.According to Circular Letter of Central Bank No.9/24/Dpbs, October 30, 2007 assessment of liquidity was intended to assess the ability of banks to maintain adequate of liquidity level, including anticipation arise of liquidity risks. Liquidity ratios used in this study consisted of Quick Ratio,Financing to Deposit Ratio (Loan to Deposit Ratio), and Loan to Asset Ratio.

Quick Ratio is a ratio that indicates the ability of banks to repay their depositors savings with the tools most liquid bank owned (Muljono, 1999). Financing to Deposit Ratio (Loan to Deposit Ratio) based on conventional banking system is known as Loan to Deposit Ratio. According to Dendawijaya (2005), the ratio indicates how far the ability of banks to repay the withdrawal of funds by depositors to rely on financing provided as a source of liquidity. Loan to Asset Ratio is a ratio that indicates the ability of banks to lend the fund through the total assets banks (Dendawijaya, 2005).

Profitability is intended to assess the ability of banks to generate profits. Profitability ratios used in this study is Return on Equity.Return on Equity showed the ratio between net profit of the bank and capital (Dendawijaya, 2005). If the profitability ratio increases, it means that net income rises.

Islamic bank as an intermediary financial institution, has a function to borrow and lend mass fund. The main important problem faced by Islamic Banks is how to manage asset and liquidity (Simorangkir, 2004). If banks only focus on high profitability, liquidity position will be threatened. Result from the previously study showed that the level of liquidity affects the level of profitability of a bank.Based on it, the hypothesis can be formulated as follows: *there is a significant influence level of liquidity toward the level of profitability.*

METHOD

This study used data from listed Islamic Banks at Central Bank that have issued financial statements for 5 (five) yearsfrom 2005 untill 2009.The sampling was done by using purposive sampling.Based on the criteria of availability of financial statements for the period 2005-2009, there were three banks eligible to serve as samples of this study. They are Muamalat Indonesia Bank, Syariah Mandiri Bank and Syariah Mega Indonesia Bank. BRI Syariah and Syariah Bukopin Bank were excludedin this study (see table 1).To test the hypothesis previously developed, this study used statistical tools. They were Classic AssumptionTest (normality test, linearity, autocorrelation, multicollinearity, and heteroskedastisitas), Correlation Analysis and Coefficient of Determination, Multiple Linear Regression Analysis (Multiple Linear Regression), and Simultaneous Hypothesis Test(Test F).

Table 1
Islamic Banking Listed at Central Bank

No.	Islamic Banking	Year Established	Availability of Financial Statements
1.	Bank Muamalat Indonesia (BMI)	1991	Yes
2.	Bank Syariah Mandiri (BSM)	1999	Yes
3.	Bank Syariah Mega Indonesia (BSMI)	2004	Yes
4.	Bank BRI Syariah	2008	Not
5.	Bank Syariah Bukopin	2008	Not

Source: Central Bank (processed data)

ANALYSIS

Prior to testing hypothesis, normality, linearity, multicollinearity, and heteroskedastisitas were done in this study. Contribution of Quick Ratio, Financing to Deposit Ratio and Loan to Asset Ratio variable toward Return on Equity was shown by Adjusted R Square. Table 2 showed that coefficient of determination is 0.087 or 8.7%.

Table 2
Coefficient of Determination in Simultaneous
Model Summary (b)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.367(a)	.135	.087	13.05016	2.157

a Predictors: (Constant), X3_LAR, X2_FDR, X1_Q1
b Dependent Variable: Y_ROE

Table 3
Multiple Regression
Coefficients (a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-14.088	31.161		-.452	.653		
	X1_Q1	-.052	.188	-.038	-.277	.783	.856	1.168
	X2_FDR	.571	.361	.214	1.583	.119	.861	1.161
	X3_LAR	-.177	.074	-.301	-2.386	.020	.992	1.008

a Dependent Variable: Y_ROE

Table 3 shows that, the coefficient of quick ratio has significance of0.783 (> 0.05). It means that Hypothesis is accepted.To test this hypothesis in partial examination, the results show that there is no significant effect of the relationship between Quick Ratio (X1) and Return on Equity (Y) inIslamic Banking. In addition, the results also showed a significance of 0.119 (> 0.05).It means Hypothesis is accepted. It showed that there is no significant effect of Financing to Deposit Ratio (X2) to Return on Equity (Y) in Islamic Banking. On the other hand, influence Loan to Asset Ratio (X3) toward Return on Equity (Y) in Islamic Banking in amount of 0.020 <0.05. It means Hypothesis is refused.

Based on this study, thereis no significant effect of the relationship between Quick ratio and Return on Equity. Basically, Islamic banks give priority to public business to get profit. This is different result from Wulandari's (2008) study which shows that Quick Ratio has negative significant relation to profitability.The second independent variable is Financing to Deposit Ratio (FDR). The results showed that there is no significant effect of the relationship between Financing to Deposit Ratio and Return on Equity. This result is consistent with Guspiati's (2009) study which shows that FDR variable has no significant impact on the profitability of Islamic Banking. The third independent variable is Loan to Asset Ratio. The results showed that Loan to Asset Ratio affects Return on Equity negatively.It is seen from the growth of lending in Islamic Banking during 2005-2009 period. In 2005, lending policy at Syariah Mandiri Bank declined in the third quarter from Rp.5.948.969.000.000 to Rp1.698.664.000.000. In the fourth quarter of the same year, it also decreased as much as 71.5%. It also happened in Muamalat Indonesia Bank with the level of decreasing lending by 54.1% and Syariah Mega Bank decreased around 35.1% in the same quarter. Meanwhile, in 2006-2009 lending of Islamic Bank started to increase, although not significantly as Muamalat Indonesia Bank in third quarter 2009 increased its lending from Rp5.938.574.000.000 to Rp6.169.481.000.000 in fourth quarter of that year. The increaseof funds lending is only 3.9%, which indicates that the net profit of Islamic Banking is low. Syariah Mandiri and Syariah Mega Indonesia Bank experienced it also. Both banks are increasing in funding but not significantly. One of Islamic Banks profits came from lending

activities. When the Islamic Banks lend for productive activities, it means they can make a profit. The increases of Islamic Bank's lending showed an increase in net income. Nevertheless, these profits are not wholly-owned by Islamic Banks, because of the profit sharing system used in the Islamic bank's operation. The profits from the Islamic bank has to be divided into banks and customers in accordance with an agreement of profit sharing as stated in the contract. Increased lending is also followed by increasing in total assets of Islamic banks. According to data of total banking assets of Islamic banks in 2005 recorded to 21.5 trillion, while in 2009 total assets increase to 60 trillion. Basically, total assets is total debt plus total equity. If total assets increasing, the total debt and capital will increase. This can be represented with one of Islamic banks, Syariah Mandiri Bank, which has experienced an increase in the equity/capital to be 1.51 trillion in 2009. Net income earned by lending has divided into the customer and Islamic banks own capital. The increased return on equity of Islamic Bank is low. It indicates that Loan to Asset Ratio negatively affects Return on Equity.This study indicates that level of liquidity affects level of Islamic Banking Profitability in the period 2005-2009. This result is consistent with Guspiati's (2009)study.

CONCLUSION

Based on the analysis, we can draw conclusion that there is significant influence between level of liquidity and level of Profitability in Islamic Banking simultaneously. It is indicated by a significance of $0.046 < \alpha = 0.05$. Variable Quick Ratio and Financing to Deposit Ratio has no effect to Return on Equity. This is indicated by each of significance which are 0.783 and 0.119. Meanwhile, Loan to Asset Ratio negatively affects Return on Equity. It is shown by significance of $0.020 < \alpha = 0.05$. Islamic Bank management should supervise the level of liquidity by lowering the value of FDR where it was still above 80%. It indicates that Islamic Banking still lacks of liquidity. Islamic Bank should also begin to design a strategy to go public in order to raise capital and shore up the company's future business expansion and increase lending to raise profitability.

REFERENCES

Agustianto. (2008). *Regulasi REPO Bank Syariah Mendesak Dikeluarkan Bank Sentra*l. Take from: http://mediaindonesia.com/pertumbuhan-bank-syariah.htm, retrieved 1 November 2010.

Dendawijaya, L. (2005). *Manajemen Perbankan*. Bogor: Ghalia Indonesia.

Guspiati, S. (2009). Pengaruh Rasio Likuiditas terhadap Rasio Profitabilitas (Studi Kasus Pada Bank Syariah Mandiri Tahun 2004-2007). *Skripsi yang tidak dipublikasikan*. Yogyakarta: Perpustakaan Digital UIN Sunan Kalijaga-Yogyakarta.

Muljono, T.P. (1999). *Analisis Laporan Keungan Untuk Perbankan*. Jakarta: Djambatan.

Peraturan BI No.10/36/PBI/2008, tentang Operasi Moneter Syariah.

Siamat, D. (2005). *Manajemen Lembaga Keungan (kebijakan moneter dan perbankan)*. Jakarta: FE-Universitas Indonesia.

Simorangkir, O.P. (2004). *Pengantar Lembaga Keuangan Bank dan Nonbank*. Bogor Selatan: Ghalia Indonesia.

Situs Bank Indonesia. Laporan Keuangan Publikasi Bank: http://www.bi.go.id

Situs Bank Muamalat Indonesia. Profil Bank Muamalat Indonesia: http://www.muamalatbank.com

Situs Bank Syariah Mandiri. Profil Bank Syariah Mandiri: http://www.mandirisyariah.co.id

Situs Bank Syariah Mega Indonesia. Profil Bank Syariah Mega Indonesia: http://www.megasyariah.co.id

Surat Edaran BI No.9/24/Dpbs, 30 Oktober 2007, tentang Sistem Penilaian Tingkat Kesehatan Bank Umum Berdasarkan Prinsip Syariah.

Surat Edaran BI No.10/44/DPM, tentang Tata Cara Repo Surat Berharga Syariah Negara (SBSN).

Wulandari, A. (2008). Pengaruh Likuiditas terhadap Rentabilitas pada PT. Bank Jabar Syariah Cabang Bandung. *Skripsi yang tidak dipublikasikan*. Bandung: Politeknik Negeri Bandung.