

COMPARISON ANALYSIS OF FINANCIAL PERFORMANCE ON SHARIAH BANKING (CASE STUDY IN INDONESIA AND MALAYSIA)

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Abstract

Banking Corporation has a very significant role in economic parts of a country, because Bank has a strategic function in developing the country. Nowadays, there are two systems in banking corporation. These two are conventional system (using interest based income), and the other one is Islamic banking system (using profit sharing based income). In the early appearance, Islamic banking was just some alternative system in financial and economic world. But as time goes by, it's no longer just a second choice, but it begins to be a solution for them who want to be part of a fairer economic system. Besides, most Moslem community is much more aware that conventional banking system is no longer provide their needs, which is to get non-interest based income, as their faith ask to. Malaysia is one of the first nations to implement Islamic banking system. Indonesia itself begins to apply it in early 90's, 1991 for the exact year. On that case, it's very interesting for the writer to see closely, what is exactly the differences between Islamic banking in Indonesia and Malaysia. The result is there are no significant differences in finance performances between Islamic Bank in Indonesia and Malaysia.

Keywords : *Banking System, Financial Performance*

1. INTRODUCTION

The idea of Islamic banking was first developed in the 1950s and resulted in the creation of the first generation of Islamic investment banks in Malaysia and Egypt in the early 1960s. Consequently, under the WTO agreement, Islamic banks will find themselves in direct competition with the internationally well-established conventional banks, especially since many conventional banks have realized that Islamic banking provides opportunities to tap into new markets. Hence, it is not surprising to see a number of conventional banks such as Barclays, Citibank, HSBC, and ANZ offering Islamic services (Karbhari, et al).

Supportive regulations and infrastructures on law may be the cause for Shariah Banking for being develop. Rapid growth in national sharia banking is signaled by the expansion in sharia network, establishment of branch offices, growth in assets as well as customers (vivanews.com). Indonesian banking system has a slow start and lack behind Malaysian Islamic banking system, along with Singapore, Bank Indonesia's official is still believing that Indonesia could improve its Islamic banking system and will become the largest one in ASEAN regions, as our growth rate in 2009 . In the South East Asia region Malaysia is still in the top of the list of Islamic banking system, as the government of Malaysia has provided its full support. Moreover, Malaysia has provided its human capital by introducing Islamic finance program at some of its universities (Siregar, 2009).

Table 1.1 shown the comparison data on financial performance between shariah banking in Indonesia and Malaysia

Table 1.1
Financial Performance of Shariah Banking in Indonesia and Malaysia
(per August 2001)

Component	Shariah Bank		Percentage	
	Indonesia (Rp Triliun)	Malaysia (RM Miliar)	Indonesia (%)	Malaysia (%)
Total Asset	2,37	14,0	0,23%	2,73%
Third Parties	1,53	11,3	0,21%	3,11%
Equity	0,83%			
Profil/loss this Year	0,37%			
Financing	1,87	6,4	0,55%	2,11%
Non Performing Loans				
Loan to Deposit Ratio				

Source

Bank Indonesia, Oktober 2001, diolah.

Bank Negara Malaysia, <http://www.bnm.gov.my> RM 1 = Rp 2.784

The Islamic financial industry has a golden opportunity in what both the new regulatory environment and its resultant flexibility offer it. This research was took Bank Muamalat Indonesia and Bank Muamalat Malaysia as a representative to compare the financial performance in two countries.

2. RESEARCH OBJECTIVES

- To study the growth of financial performance of shariah banking in Indonesia and Malaysia based on CAMELS method
- To measure the significant differences between CAR, RORA, ROA, BOPO and LDR of shariah banking in Indonesia and Malaysia
- To measure the significant differences on financial performance of shariah banking in Indonesia and Malaysia

3. HYPOTHESIS

The hypothesis is: there is a significant differences on financial performance of shariah banking in Indonesia and Malaysia

4. METHODOLOGY

- This study measures the significant differences on financial performance of shariah banking in Indonesia and Malaysia.
Method analysis used CAMELS method. Analysis of differences of them is addressed by F-test to test if both of variance assumed as equal or not, and continue with t-test to test the hypothesis. A ρ value of less than or equal to 0.05 is considered statistically significant.
- Period of research data consists of 4 periods, 2003 until 2006.

5. HYPOTHESIS TEST

The Hypothesis concerns to the differences between on financial performance of shariah banking in Indonesia and Malaysia. The financial performance was taken from the component of CAMELS method (CAR, RORA, ROA, BOPO and LDR).

The Hypothesis

H₀₁ : There is no significant differences on CAR value of shariah banking in Indonesia and Malaysia

H_{a1} : There is significant differences on CAR value of shariah banking in Indonesia and Malaysia

H₀₂ : There is no significant differences on RORA value of shariah banking in Indonesia and Malaysia

H_{a2} : There is significant differences on RORA value of shariah banking in Indonesia and Malaysia

H₀₃ : There is no significant differences on ROA value of shariah banking in Indonesia and Malaysia

H_{a3} : There is significant differences on ROA value of shariah banking in Indonesia and Malaysia

H₀₄ : There is no significant differences on BOPO value of shariah banking in Indonesia and Malaysia

H_{a4} : There is significant differences on BOPO value of shariah banking in Indonesia and Malaysia

H₀₅ : There is no significant differences on LDR value of shariah banking in Indonesia and Malaysia

H_{a5} : There is significant differences on LDR value of shariah banking in Indonesia and Malaysia

H₀₆ : There is no significant differences on financial performance of shariah banking in Indonesia and Malaysia

H_{a6} : There is significant differences on financial performance of shariah banking in Indonesia and Malaysia

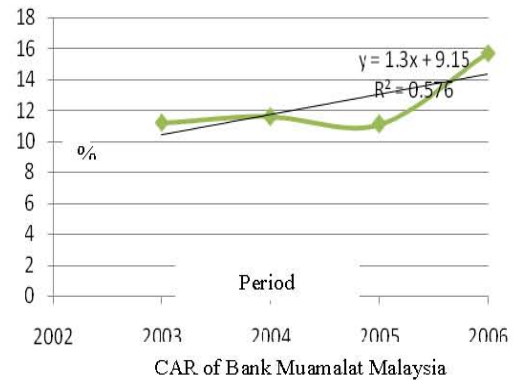
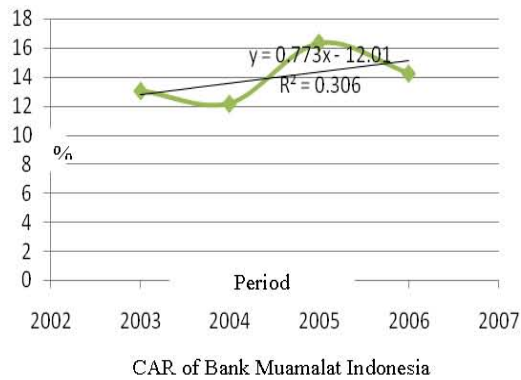
6. RESULTS

6.1. The Growth on Financial Performance of Shariah Banking in Indonesia and Malaysia based on CAMELS Method

Shariah Banking in Indonesia has shown dynamic performance. Year on year the growth of its financial performance of Bank Muamalat Indonesia has a lot of increasing even on a few year it has also decreasing during period of this research.

6.1.1 Growth of Capital Adequacy Ratio (CAR)

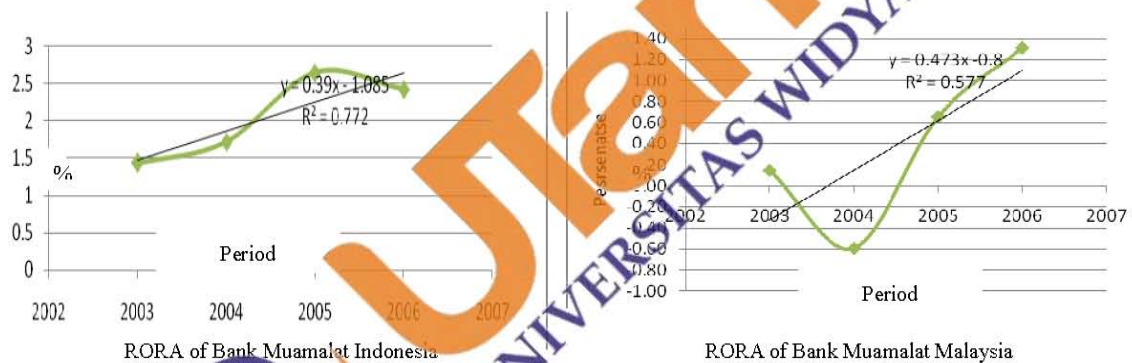
Graph 6.1
Growth of CAR in Bank Muamalat Indonesia (BMI) and Bank Muamalat Malaysia (BMM)



BMI can sustain its ability to guarantee risk assets with their capital, where 100% of weighted assets can guarantee by its capital 13.94%, and BMM is 12.40%. Its still can meet with the requirement from the Central Bank of Indonesia, that requiring 8%.

6.1.2 Growth of Return on Risked Asset (RORA)

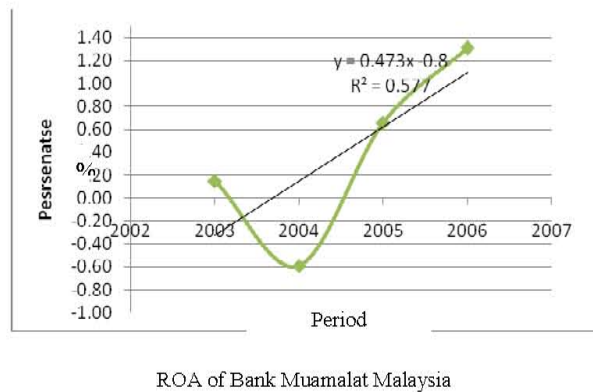
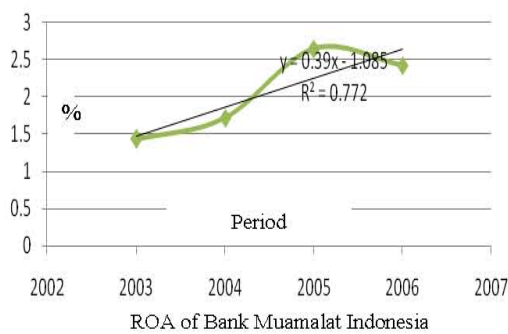
Graph 6.2
Growth of RORA in Bank Muamalat Indonesia (BMI) and Bank Muamalat Malaysia (BMM)



From graphic 6.2, BMI has trend equation as follow, $Y_{RORA} = -1,085 + 0,39X$, which show generally, in base period, RORA = 1,085% with its increasing every period = 0,39 times. BMM has trend equation $Y_{RORA} = 0,8 + 0,473X$, in base period, RORA = 0,8% (low than BMM) with its increasing every period = 0,473 times (higher than BMI).

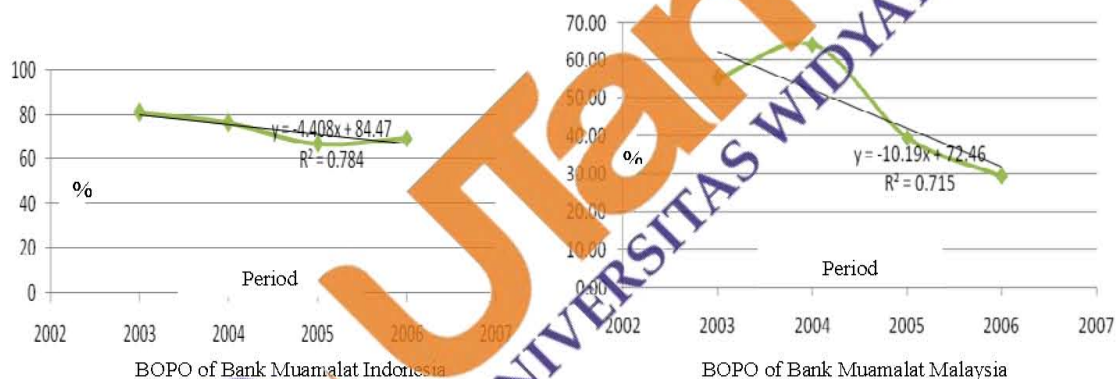
6.1.3 Growth of Earning/Profitability (ROA & BOPO)

Graph 6.3
Growth of ROA in Bank Muamalat Indonesia (BMI) and Bank Muamalat Malaysia (BMM)



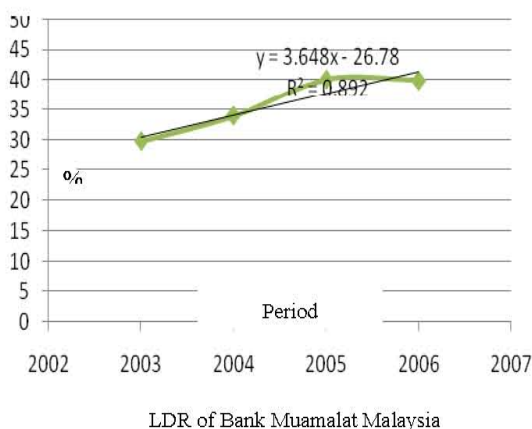
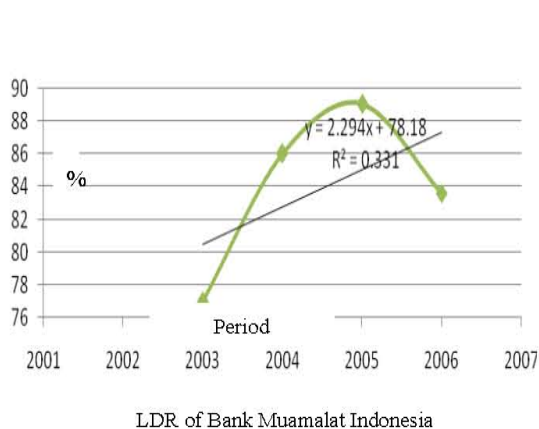
ROA BMI has its dynamic growth. In period 2003-2004 has increase 0.350 because *Earnings Before Tax* (EBT) has significant increasing. With the equation is $Y_{ROA} = 1,18 + 0,304X$. On the other hand, BMM has equation $Y_{ROA} = 0,455 + 0.277X$ that shown BMI has a better ability to deliver ROA than BMM.

Graph 6.4
Growth of BOPO in Bank Muamalat Indonesia (BMI) and Bank Muamalat Malaysia (BMM)



6.1.4 Growth of Liquidity (Loan to Deposit Ratio)

Evaluation from liquidity component using LDR indicator to show the ability from banking to deliver and serve financing function.



6.2 The Significant Differences Between CAR, RORA, ROA, BOPO and LDR of Shariah Banking in Indonesia and Malaysia

Component	Bank Muamalat Indonesia	Bank Muamalat Malaysia
CAR		
Average	0.0487%	0.1357%
F-test	<i>Equal variance assumed</i>	
t-test	Mean for CAR value in Shariah Bankin in Indonesia and Malaysia have no differences.	
RORA		
Average	0.2173%	2.022%
F-test	<i>Equal variance assumed</i>	
t-test	Mean for RORA value in Shariah Bankin in Indonesia and Malaysia have no differences.	
ROA		
Average	0.19%	1.85%
F-test	<i>Equal variance assumed</i>	
t-test	Mean for ROA value in Shariah Bankin in Indonesia and Malaysia have no differences.	
BOPO		
Average	-0.05 %	-0.16%
F-test	<i>Equal variance assumed</i>	
t-test	Mean for BOPO value in Shariah Bankin in Indonesia and Malaysia have no differences.	
LDR		
Average	0.03%	0.10%
F-test	<i>Equal variance assumed</i>	
t-test	Mean for LDR value in Shariah Bankin in Indonesia and Malaysia have no differences.	

6.3 The Significant Differences on Financial Performance of Shariah Banking in Indonesia and Malaysia

Component	Shariah Bank	N	Mean	Std. Deviation	Std. Error Mean	Statistical Testing	
						Signification (0.05)	Ho
CAR	Indonesia	3	.04867	.255919	.147755	0.692	Accepted
	Malaysia	3	.13567	.244259	.141023		
RORA	Indonesia	3	.21733	.312654	.180511	0.262	Accepted
	Malaysia	3	-2.02233	2.960184	1.709063		
ROA	Indonesia	3	.19667	.318957	.184150	0.253	Accepted
	Malaysia	3	-1.85400	2.643246	1.526079		
BOPO	Indonesia	3	-.04733	.081648	.047139	0.549	Accepted
	Malaysia	3	-.15967	.286233	.165257		
LDR	Indonesia	3	.03033	.090091	.052014	0.381	Accepted
	Malaysia	3	.10533	.096381	.055646		

Based on the statistical testing, it can be concluded that all of H_0 were accepted. It means that there's no significant difference on financial performance in Indonesia and Malaysia during 2003 until 2006. But, from the growth average from each bank, clearly shows the different from all the ratio used, Bank Muamalat of Malaysia higher than Bank Muamalat Indonesia.

7. Recommendation

1. Banking System

a. Internal System

Banking system has to increase its performance by deliver outstanding service quality (like conventional system banking) and the quality of product to balancing and meet the requirement from customer. All the employees have to be forced to have ability on applied shariah banking theory.

b. External System

Banking shariah must have regular schedule (make some shariah community) to socialize about shariah banking system to public and give education about shariah not just via emotional religion approach, but the important thing is rational approach.

2. Other Researcher

The writer thing that this research has regularly done using more samples so that can deliver closely with the truth of shariah banking development.

3. Higher Education

Higher education institutions should deliver proactive program to respond in develop shariah economic system (embedded with the curricula or deliver concentration on its program).

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