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The Value and Performance of Islamic Banking in Indonesia

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ABSTRACT

This study aimed to examine the value of Indonesian Islamic banking using secondary quarterly data from quarter I of 2016 to quarter IV of 2021. The data were sourced from Sharia Banking Statistics (SPS) published by the Financial Services Authority (OJK). EViews 8 was then used to analyze economic growth with financing distributed by Islamic banking. Furthermore, the study employed a qualitative method assisted with data from OJK. The findings showed that the value, growth, and development of Islamic banking in Indonesia are better than conventional banking. Also, the profitability ratio of Indonesian Islamic banking is categorized as good. The value of Islamic banking can be analyzed using several components such as growth, risk, returns and capital and cost.

Keywords: *Value, Islamic Banking, Growth, Risk, Returns, Capital*

INTRODUCTION

There are 1.57 billion Muslims worldwide, representing 23% of the world's population estimated to be around 6.8 billion in 2020. This data indicates that one in every four people is Muslim or nearly a quarter of the world's population. Indonesia has around 202,867,000 Muslims or 88.2% of the country's population. This number represents about 12.9% of the world's Muslim population. Therefore, 1/8 of all Muslims in the world are Indonesians (Zulfikar, 2020) (Hasan, 2019).

That has a relatively good impact on the growth of Islamic banking in Indonesia, considering the enormous opportunities given to the large Muslim population in Indonesia. Established on data from the Financial Services Authority, to date, there are 14 Sharia Commercial Banks and 20 Sharia Business Units that have been found and distributed throughout Indonesia (Aulia *et al.,* 2020). That is one of the impacts of the growing expansion of Islamic banking globally, including Indonesia. With the title of the enormous Muslim society globally, the development of Islamic banking in Indonesia can compete with conventional banks and supply favourable outcomes. As of

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March 2020, Indonesia's total Islamic financial aid (excluding Sharia shares) reached Rp1,497.44 trillion or USD 91.49 billion. (Octrina & Mariam, 2021) (Hasan, 2020b).

The explanation implies the necessity to evaluate the performance of Islamic banking in these two decades. This requires learning to improve the performance undertaken and analyze existing deficiencies. Islamic banking is based on an economic philosophy that relies on sharia principles. In this context, the philosophy aims to build justice free from exploitation (Takidah & Kassim, 2021).

In Indonesia, banks have been grouped into the BUKU category, namely Commercial Banks established on Business Activities. OJK applies this provision based on POJK Number 6/POJK.03/2016 concerning Business Activities and Office Networks Based on Bank centre assets which is an improvement in Bank Indonesia Regulation No. 14/26/PBI/2012 (Puteh *et al.,* 2018).

OJK changed the BUKU category with the bank cluster method established on the substance assets owned by the bank or called the Bank Group based on Core Capital (KBMI) based on the POJK regarding Commercial Banks. Banks are grouped into four KBMI, the same as BUKU, but each class's core capital is different. KBMI 1 is a bank with core assets of up to 6 trillion. KBMI 2: core assets of more than Rp 6 trillion to Rp 14 trillion. KBMI 3: core assets of more than Rp. 14 trillion to Rp. 70 trillion. Furthermore, KBMI 4: core capital is more than IDR 70 trillion.

Only 4 banks that are perched on the top position of KBMI 4 refer to the financial statements of the second quarter of 2021, namely Bank Rakyat Indonesia with a core capital of IDR 197 trillion. Bank Mandiri has a core capital of Rp 189 trillion. Furthermore, the core capital of Bank Central Asia is Rp. 187 trillion and Bank Negara Indonesia is Rp. 116 trillion (Nastiti & Kasri, 2019).

Data shows that no Islamic banking in Indonesia is included in the Bank Group based on Core Capital (KBMI). Therefore, this study assessed Islamic banking with several indicators. In Indonesia, Islamic banking has been around for a long time and still lacks a considerable sufficient economic impact. It is evident from the market share of Islamic banking, which is below 10%, proving that the economy is still mainly conventional.

Core capital of 12 Islamic commercial banks established on the monetary reports of June and July 2021: Bank Syariah Indonesia Rp

23.6 trillion. Sharia National Pension Savings Bank Rp 6.5 trillion. Bank Muamalat Rp 3.9 trillion. Panin Dubai Sharia Bank Rp 3.1 trillion. Bank Central Asia Syariah Rp 2.7 trillion. Bank Aceh Syariah Rp 2.3 trillion. Bank Mega Syariah Rp 2 trillion. Furthermore, Bank Nusa Tenggara Barat Syariah Rp 1.3 trillion. Bank Jabar Banten Syariah Rp 1.2 trillion. Bank Aladin Syariah Rp 1.1 trillion. Bank Bukopin Syariah Rp 886.3 billion and Bank Victoria Syariah Rp 364.7 billion.

Only BSI is in KBMI 3, then BTPN Syariah at KBMI 2 and 10 other Sharia commercial banks are in KBMI 1. With a relatively short core capital, Islamic banking in the country will find it difficult to move to be able to play a role in boosting market share which is still minimal by 6.51% of national banking as of December 2020. Especially if you are invited to compete with Islamic banking in the ASEAN region and globally.

The Asia Banker data showed that the biggest Islamic bank worldwide in 2020 was Al-Rajhi Bank Saudi Arabia, with nucleus assets of IDR 224 trillion (March 2021). Only two Islamic banks outside the Middle East region are included in the top ten largest Islamic banks globally. First, Maybank Islamic Malaysia occupies position 4 with a core capital of Rp 42.9 trillion. Second, CIMB Islamic Bank Malaysia is at number ten with a core capital of Rp 253 trillion (June 2021). Third, BSI with assets of Rp 240 trillion during the merger, was ranked 19th globally (Rusydiana, 2019). In this journal, researchers will try to see how the value of Islamic banking in Indonesia is by analyzing several components such as growth, risk, returns and capital and its cost.

LITERATURE REVIEW

Some of the models used as tools to assess Islamic banking must include return, capital, and cost of capital. Sustainable growth and risk are also associated with these three components (Schoon Natalie, 2016).

Based on research conducted by (Hasan, 2021a) and (Rusydiana, 2019) shows that Indonesia is one of the countries that implement a double financial strategy, namely the conventional financial method and the Islamic financial scheme (sharia). Islamic finance in Indonesia occurred around 1992 and was pioneered by Bank Muamalat Indonesia. The growth of the Islamic finance industry in Indonesia is influenced by the increasing public demand for sharia-based transactions. There are various kinds of sharia products used by the community, such as financing, purchasing an item, investment, Sukuk, and other products (Al Fathan & Arundina, 2019).

In general, the Islamic banking drive in Indonesia includes shown a fairly reasonable outcome, which is indicated by an increase in services in almost all parts of Indonesia (Hasan, 2019). At the end of 2019, the market share of Indonesian Islamic banking was 5.95% of the whole market share of Indonesia's national banking. Financing spent by Islamic banking has grown every year. At the end of 2019, the amount of PYD was 353.9 billion rupiahs, an increase from 2018, which was 316 billion rupiahs (OJK, 2019). Financing disbursed by Islamic banking includes operational funds financing, acquisition financing, and consumer financing, with the amount increasing every year (Emy Widyastuti & Nena Arinta, 2020).

The Financial Services Authority (OJK) noted that the market share of Islamic finance increases yearly. As of December 2020, Indonesia's total Islamic financial assets reached IDR 1,802 trillion or 9.89% of the total financial assets. However, the economy was hard at the end of 2019 and 2020 due to the impact of the Covid19 pandemic, though the sharia economy continued to grow well (Hasan, 2020b) (Hasan, 2021b).

The market share of the Islamic economy in Indonesia is influenced by Islamic banking, capital market, non-Islamic non-bank financial industry, sharia financing, insurance, pawnshops, fintech, and stakeholders in the halal sector (Ubaidi, 2020). The Islamic capital market has a substantial consequence in increasing the market share of Islamic finance. Subsequently, there has been a surge in financial assets from the Islamic capital market, as seen in 2017.

Tongkong (2012) stated that the company's fund construction is affected by revenue resilience, support system, working force, development speed, profitability, and taxation. Other factors include management, administration mindset, lenders' perspective, rating instruments, market and internal company requirements, and economic flexibility. According to (Sibindi, 2016), the capital structure is influenced by earnings stability, asset composition, investment threat level, the funds needed, the capital market condition, administration, and the height of a business. In line with this, (Fitra & Al Ashry, 2019) stated that directors must pay attention to the factors influencing the capital structure. These factors include sales level, asset structure, company growth rate, profitability, profit, tax preservation variables, company hierarchy, internal business requirements, and microeconomics.

Company Growth Rate

Revenue growth is the company's ability in increasing the number of assets owned by the company. Players with a more instantaneous transition rate must depend on outer assets (Schoon Natalie, 2016). The external capital in question is debt. The fast growth rate will encourage companies to rely on debt. A high or stable income growth rate will have an impact positively on the sustainability of the company so this will be taken into consideration by the company's management in determining the capital structure. Companies with high-income levels will use debt in the capital structure (Ubaidi, 2020). Increased sales growth will encourage management to increase debt. This is seen both by investors and the public, that the company can manage debt well. With the addition of debt, the company indirectly adds to the capital for operations which has a direct impact on increasing the capital structure. The measurement of the company's growth rate can be measured by comparing the total assets of the relevant year (t-year) minus the previous total (t-1) then divided by the total amount of the previous year (t-1 year).

Table 1. Total financing by type of use and category of sharia banking business in 2010-2019 (billion rupiah)

Year	Working Capital Financing	Investment Financing	Consumption Financing	Total Financing	Annual Financing Growth (%)
2010	31.885	13.416	22.910	68.181	-
2011	41.698	17.903	43.053	102.655	33.58
2012	56.097	26.585	64.823	147.505	30.40
2013	71.566	33.839	78.715	184.120	19.88
2014	77.935	41.719	79.677	199.330	7.63
2015	79.949	51.690	81.357	212.997	6.41
2016	87.363	60.042	100.602	248.007	14.11
2017	99.825	66.848	119.021	285.695	13.19
2018	105.055	75.730	139.408	320.193	10.77
2019	110.586	86.972	157.624	355.182	9.85

The Islamic banking industriousness in Indonesia has shown quite good development, which is characterised by an expansion in services in almost all parts of Indonesia (Nastiti & Kasri, 2019), (Hasan, 2019), (Mukhlisin *et al.,* 2015).

Islamic bank financing has contributed to increasing long-term and positive investment (Hasan, 2021c), (Ismal, 2010). Although currently rather slight in size compared to the economy and the altitude of the system's general economic scheme. Islamic finance has contributed to financial growth in Malaysia. Islamic banking is feasible, acceptable, and very effective in developing the economy because the economic system has a direct relationship with growth and development. The growth rate of national income can encourage the economy through productive investment financing, and Islamic banking seeks to overcome economic problems through income distribution (Mohd Thas Thaker *et al.,* 2020). The beginning goals and tasks of the Islamic banking system are financial assets with the total profession, an optimal level of economic growth, and an even distribution of revenue and capital (Kamarulzaman & Madun, 2013).

Other studies have shown that Islamic bank financing has a long-term praising and effective correlation with financial development and prosperity expansion in Malaysia, Indonesia, Bahrain, UAE, Saudi Arabia, Egypt, Kuwait, Qatar, and Yemen. The long-term relationship was stronger than the short-term (Akram Laldin, 2008). Furthermore, there is a long-term association between Islamic banking and economic growth in Southeast Asia. Financial institutions leverage and contribute to economic growth and have a favorable relationship between Islamic banking and financial development. This is because financing resilience, efficiency, and profitability are certified by the Profit and Loss Sharing (PLS) system in Islamic banking (Abdalla Ahmed, 2008).

The existence of Islamic banking has the potential to raise vulnerable groups (farmers and small and medium enterprises) and encourage inclusive economic growth (Hasan, 2019) (Tijjani *et al.,* 2020). Studies conducted in Malaysia and Indonesia on Islamic banking show that Islamic banking donates to financial development in both the brief and prolonged periods in these two nations. Even in these two countries, the short-term contribution is greater when compared to East Asian countries and other gulf countries (Trabelsi & Trad, 2017).

Islamic bank financing and its assistance to financial growth in Malaysia show that Malaysia's GDP is not exposed to Islamic bank financing in the extended run. Islamic bank financing and its assistance to financial growth in Malaysia indicate that Malaysia's GDP is not responsible for Islamic bank financing in the long run. This effect can be described by the financing system of Islamic banks, which marginalizes profit and loss sharing (PLS) established mechanisms, which are in line with the financial facts in Malaysia (Hachicha & Ben Amar, 2015).

Table 2. types of Islamic banking risk

No	Type of risk	Information
1	Credit Risk	The trouble induced by a defeat to complete its commitments in Islamic banks, financing threat includes development risk and risk related to agreeable financing.
2	Market Risk	The chance of failure that occurs in the portfolio held by the bank due to the trend of demand variables (negative action) in the form of exchange rates and interest rates
3	Liquidity risk	Risks are caused by, among other things, the bank's incapacity to satisfy its debts when they fail expected.
4	Operational Risk	Hazards are caused, among others, by insufficient or internal processes malfunction, mortal mistake, method defeat or that affect bank processes.
5	Legal Risk	The risk is driven by the deficiency of the juridical element, such as the presence of cases, the scarcity of funding ruling, or the weakness of the agreement, such as non-fulfilment of the requirements for the reality of a contract or inadequate collateral binding
6	Reputational Risk	Risks are pushed by, among different items, damaging bulletins connected to bank activities or unfavourable perceptions of banks.
7	Compliance Risk	Risks are caused by non-compliance with existing regulations, both internal and external.
8	Return Risk	Risk due to differences in the pace of recovery delivered to clients due to modifications in the rate of recovery obtained by the bank from the allocation of budgets, which can influence the manners of bank third party fund customers.

Islamic bank risk

Islamic bank is one of the business divisions (Hasan, 2019). Therefore, the Islamic bank choice also faces the threat of bank management. If examined in-depth, Islamic banks are banks that are powerless to attempt. The risks faced by Islamic banking are somewhat identical to those encountered by conventional banks. Nevertheless, Islamic banking has its originality in marketing with threats because it must observe the regulations of sharia (Hashem & Abdeljawad, 2018).

Banking business actors (bankers) realize that carrying out the function of bank financial services is risky business. Risk in banking is difficult for a bank that appears in the financial sector and other fields. Banks today must implement risk management. Banks must accept and manage various types of financial risks effectively so that negative impacts do not occur to minimize losses from the consequences of not implementing effective and disciplined risk management (Bakar *et al.,* 2019).

Risk management is the primary movement as an intermediary organization striving to optimize the trade-off between risk and revenue. It also aims to help program and finance industry expansion properly, effectively, and efficiently. Every financial institution, including banks, must identify and control risks inherent in managing deposit funds, earning asset portfolios, and off-balance sheet contracts. The risk management system in Islamic banks involves several successive stages, including (1) Risk identification, (2) Risk and capital quantification, (3) Collecting or grouping of the same risks, (4) Prior control, and (5) Risk monitoring (Jallali & Zoghlami, 2022).

According to Bank Indonesia, Policies in Risk Management contain the following: (Atahau & Cronje, 2019).

a. Perseverance of Risks associated with banking developments and commerce;
b. Decisiveness of the service of stature processes and knowledge methods risk management;
c. Resolution of limits and determination of risk patience;
d. Determination of risk rating assessment;
e. The practice of a contingency schedule in the worst circumstances;
f. Determination of the internal management plan in the execution of threat management.

Returns Islamic bank

Performance is an important thing that every company must achieve because: Performance reflects the company's ability to manage and allocate its resources. In expansion, the primary objective of implementation assessment is to encourage workers to accomplish organizational goals and complete predetermined measures of conduct to make simple efforts and effects. (Tandelilin & Berto Usman, 2022), (Hasan, 2020a).

One of the proportions used to measure company interpretation is Return On Assets (ROA). ROA is used to calculate the capacity of banks managing to obtain overall profit (profit). Return On Assets (ROA) is a condition of profitability percentage to measure the company's ability to develop profits operating the total current assets (Hasan, 2021c). According to (Prima Sakti & Mohamad, 2018), ROA is a ratio to calculate company returns founded on utilising total assets. Return On Assets (ROA) calculates the overall significance of management in developing profits with its public support. Meanwhile, according to Pandia (2012), ROA is an arrow of the capability of banks to make a return on several assets possessed by the bank.

Return On Assets (ROA) is a state of profitability proportion to estimate the company's ability to develop returns utilizing the total current assets. According to (Khalifaturofi'ah, 2021), ROA is a ratio to measure company returns founded on the utilization of total assets. Return On Assets (ROA) calculates the prevailing force of management in generating profits with its public assets (Hasan, 2021c). Meanwhile, according to Pandia (2012), ROA is an arrow of the ability of banks to make a recovery on several assets possessed by the bank.

ROA can be summed up as net income after tax on total assets. This percentage assesses the rate of return (%) of the assets owned. ROA measures the company's capability to utilize its assets to make a return. Established on Bank Indonesia Circular Letter Number 12/11/DPNP dated March 31, 2010. ROA is acquired by separating profit before taxation by the moderate absolute assets in a time; the procedure used is as follows (Duasa *et al.,* 2014):

$$ROA = \frac{\text{Profit before tax}}{\text{Total assets}} \text{x } 100\ \%$$

Capital and its cost

A bank is a business unit that cannot be separated from capital because bank operations affect the bank's behavior. According to (Mohammad, 2021), bank capital has three functions:

1. As a buffer to absorb operational losses and other losses. In this function, the modal gives protection against bank failure or loss and security of the interests of depositors
2. As a basis for setting the maximum limit granting credit, this is a consideration operation for the central bank, as a regulator, to limit the amount of credit given to each bank customer. Through these restrictions, central banks are forced to diversify their credit to protect themselves against credit failure from an individual debtor.
3. Capital is also the basis of calculation for participants' market to evaluate the bank's ability level relatively to make a profit. Level

profits for investors are estimated by comparing net profit to equity. Market participants reach the return on investment between existing banks.

Funds for the profit-sharing account (*Mudharabah*) are real too can be categorized as capital; this is what is usually called with quasi-equity. However, this account can only bear the risk of assets financed by funds from the budget for the result itself. In addition, the holder of a profit-sharing account can refuse to assume the risk of the support it finances if it is proven that the trouble arises as a result of mismanagement (mismanagement), negligence, or fraud committed by the bank management as *mudharib* (Ishak & Rahman, 2021).

Capital adequacy is essential in the banking industry. Banks with a good capital adequacy class demonstrate a healthy bank because its capital adequacy indicates its shape, represented by a certain percentage contacted the capital adequacy ratio (CAR). The type of capital adequacy can be calculated by (Harkati *et al.,* 2020):

1. Comparison of capital with third-party funds, protecting the interests of depositors. The ratio between capital and liabilities indicates the level of security of public deposits in the bank. The calculation is the ratio of associated capital with third party deposits (current accounts, time deposits, and savings) as follows:

Capital and Reserves= 10% Current Account+Deposit+Saving

From these calculations, it is known that the ratio of capital to savings are sufficient at 10%, and the bank's capital is considered healthy with that ratio.

2. Comparing capital with risk assets For the second measure, the BIS (Bank for International Settlements) agreement is the organization of central banks from developed countries sponsored by the United States, Canada, European countries, and Japan.

METHODOLOGY

This study used qualitative and quantitative methods to analyze secondary quarterly data from quarter I of 2016 to quarter IV of 2021. The data were obtained from Sharia Banking Statistics (SPS) issued by OJK on working capital, acquisition, and customer financing. Meanwhile, the

Indonesian Central Statistics Agency (BPS) uses GDP data. EViews 8 was adopted with quantitative descriptive analysis and Vector Autoregression (VAR) study instrument to assess whether the data were standing in the class. However, the Vector Error Correction Model (VECM) method is applied when the data operated is standing at the first distinction.

VECM suggests an uncomplicated operational approach to divide the long and short-run parts of the data creation procedure. Unlike VAR, VECM could be used to model cointegrated and non-stationary time series data. Therefore, it is frequently directed to as the specified form of VAR.

The data stationarity was observed using the Augmented Dickey-Fuller (ADF) method with the decision criteria at a significance level of (1–a) 100%. In this case, the data is stationary when the probability is less than the 1% or 5% whole level. Fixed data were then estimated using VAR with the standard method. Meanwhile, non-stationary data had VAR in the form of the first difference or VECM.

This research is descriptive. This analysis operates secondary data received from the financial reports of banks recorded on the Indonesia Stock Exchange in the 2017-2018 era. The population of this breakdown is all banks reported on the Indonesia Stock Exchange in the 2010 to 2019 total, which is 43 banks. At the same time, the model in this research was 42 banks because there was one bank with insufficient data. The piece of data used in this study was 84 data. Earnings management in this study is proxied by earnings management accruals. By using discretionary accruals limited Jones standards, with the following steps:

1. Calculating Total accruals (TAC):
2. TACit = NIit - CFOit
3. The total accrual value (TAC) is estimated using the OLS regression equation as follows:

   TACit/Ait-1 = 1(1/Ait-1) + 2(ΔREVt/Ait-1) + 3(PPEt/Ait-1) + e
4. Using the regression coefficient above, the value of non-discretionary accruals (NDA)

   can be calculated by the formula:

   NDAit= 1(1/Ait-1)+ 2(ΔREVt/Ait-1–ΔREC/Ait-1)+ 3(PPEt/Ait-1)
5. Furthermore, discretionary accrual (DAC) can be calculated as follows: DACit=TACit -NDAit

Information:

TACit = Total accruals

NIit = Net Income

CFOit = Cash Flow Operation

NDAit = Nondiscretionary accruals

DAit = Discretionary accruals

REVit= Change in income

RECit= Change in accounts receivable

PPEit = Fixed assets

Ait-1 = Total assets in year t-1

= firm-specific parameters

RESULTS

There was a higher growth in the performance of Islamic than conventional banking this year. As of June 2021, the reflected data showed the growth of Islamic banking is superior to traditional banking in terms of assets, credit or financing, and third-party funds (DPK). Moreover, sharia bank assets were recorded at IDR 632 trillion or grew 15.80% annually (year-on-year / YoY), while conventional banking only grew by 8.07% to IDR 8,954 trillion.

It has faced several crisis periods during Islamic banking, namely 1998, 2000, and 2002. The real impact on the economy and the national financial industry was a decline in liquidity, soaring interest rates, falling commodity prices, weakening rupiah exchange rate and growth in sources of funds, declining economic instability, and soaring inflation rates. However, this condition did not become a major barrier to the performance of Islamic banking. The number of deposits and financing in the real sector grew significantly.

In early 2000, only two sharia commercial banks (BUS) were established, as well as three sharia business units (UUS) with 146 operating offices. The assets under the management comprised IDR 1.79 trillion, third-party funds (DPK) of IDR 1.03 trillion, and financing of IDR 1.27 trillion. The progress of Islamic banks has shown significant growth in recent years. At the end of 2012, Islamic banking grew by around 34%.

The FDR ratio significantly influences the growth of Islamic banking assets in Indonesia. This is contributed by increased Financing to Deposit Ratio (FDR), which reduces liquidity in Islamic banks. Subsequently, the number of bank current and total assets decreases. The increased assets are also influenced by the greater profit (ROA) obtained by Islamic banks. This requires greater management efforts to invest the profits in beneficial activities, especially financing distribution. The profit from that investment becomes part of the Islamic bank's assets.

The study also performed a stationarity test using the Augmented Dickey-Fuller Test (ADF). The results showed that no variable data was stationary at the level, necessitating a stationarity test on the first difference. The test at the first difference level showed that only the GDP variable was not stationary. Therefore, a test at the second difference showed that all data variables, including economic growth (GDP), working capital financing (CW), investment financing (INV), and stationary consumption financing (CONS) had a 5% significance.

Table 3. unit root test results

Level		First Different		Second Different Level	
Variabel	**Prob.**	**Variabel**	**Prob.**	**Variabel**	**Prob.**
GDP	0.9989	D (GDP)	0.9342	D (GDP,2)	0.0001*
CW	0.5248	D (CW)	0.0000*	D (CW,2)	0.0000*
INV	0.9989	D (INV)	0.0000*	D (INV,2)	0.0000*
CONS	0.9820	D (CONS)	0.0000*	D (CONS,2)	0.0000*

The results of the VECM estimation will show a short-term and long-term relationship between economic growth, working capital financing, investment financing, and consumer financing. The short-term estimation results show that the variable with a significant short-term effect on economic growth is consumption financing in the previous period. Changes in consumption during the last period of 1% will affect the decline in growth the current economy of 1.32%.

Indonesia targets Islamic banking in Indonesia to experience good growth amid the Covid-19 pandemic. Proves that through the Financial Services Authority, the Indonesian government has continued the 2020-2024 Islamic Banking roadmap, which focuses on the use of technology to accelerate the development of Islamic banking.

The roadmap has proven that there have been three mergers of Islamic banking, namely BSM, BRI Syariah, and BNI Syariah, to become Bank Syariah Indonesia (BSI). PT Bank Syariah Indonesia Tbk (BSI) targets to upgrade to Commercial Bank Business Activities (BUKU) IV in early 2022 with a core capital of above Rp 30 trillion. This step will be met through a rights issue plus retained earnings. It is not difficult for BSI to upgrade to a BUKU IV category bank. Currently, BSI is in BUKU III with a core capital of Rp 22.6 trillion.

In 2020, the growth of Islamic bank financing will be 9.5 per cent. The growth rate of Islamic bank financing is far above the development of national banking financing of 2.41 per cent in the same period. The total Islamic financial assets in 2020 amounted to Rp. 1,770.3 trillion, an increase of 21.48 per cent YoY. This amount consists of banking assets of IDR 593.35 trillion and a capital market of IDR 1,063.81 trillion. The Islamic banking industry was still able to score flattering performance amid the challenges of the Covid-19 pandemic last year. Bank Syariah Indonesia (BSI) observes that the growth of the Islamic banking industriousness is even better than conventional banking. If we compare it with traditional banking, the (development) of Islamic assets is better and even better financing.

Table 4. Liquidity Islamic Banking in Indonesia 2016-2021 (Sharia Commercial Banks)

Year	Short Term Mistmach (%)	Short-Term Assets (*Nominal in Billion Rp*)	Short-Term Liabilities (*Nominal in Billion Rp*)
2016	22.54	26,152	76,398
2017	29.75	30,253	106,627
2019	30,08	33,065	133,786
2020	28.67	39,517	154,582
2021	24.92	42,090	180,390

The table above explains that in 2016 the Short Term Mistmach (%) was around 22.54, meaning it was categorized as Fairly Healthy. In 2017-2020 it can be classified as Unhealthy because it is in 10% 50%. And in 2021, it is ranked as quite healthy because it is at 24.92%.

Table 5. ROA Islamic banking in Indonesia 2016-2021 (Sharia Commercial Banks and Sharia Business Units)

Year	ROA (%)	Profit (*Nominal in Billion Rp*)	Average Assets (*Nominal in Billion Rp*)
2016	2.4	2,955	312,052
2017	3.1	4,423	377,856
2019	3.77	8,926	486,848
2020	3.21	8,392	541,763
2021	3.40	9,018	582,554

The table above analyzed that the ROA of Indonesian Islamic banking from 2016-to 2021 is 2.4, 3.1, 3.77, 3.21, 3.40. In 2016, 2.4%, the ROA was very healthy. 2017 3.1 very beneficial. 2019 3.77 is very healthy. 2020 is 3.21 very healthy, and in 2021 it is 3.40 in the very healthy category. So, in general, from 2016-to 2017, the ROA of Indonesian Islamic banking is categorized as very healthy.

Table 6. NPF Islamic banking in Indonesia 2016-2021 (Sharia Commercial Banks and Sharia Business Units)

Year	NPF (%)	NPF Net %	Non Performing Financing (*Nominal in Billion Rp*)	Non Performing Financing Net (*Nominal in Billion Rp*)	Total Financing to Non-Bank Third Parties (*Nominal in Billion Rp*)
2016	7.91	3.96	9,947	5,122	248,007
2017	6.87	3.81	11,054	6,073	285,695
2019	6.13	3.77	11,030	6,698	355,182
2020	6.14	3.50	11,844	6,536	383,944
2021	5,98	3.58	12,243	6,029	417,212

The NPF of Islamic banking in Indonesia can be quite healthy from 2016-to 2021 because it can be seen from the criteria for applying the ratings from Bank Indonesia, which explains that NPL 5% < NPL < 8% is categorized as quite healthy. From the table above, it ranges from 5-7% each year.

Table 7. FDR Islamic banking in Indonesia 2016-2021 (Sharia Commercial Banks and Sharia Business Units)

Year	FDR (%)	Total Financing to Non Bank (*Nominal in Billion Rp*)	Total Third Party Funds (*Nominal in Billion Rp*)
2016	182.69	248,007	279,335
2017	179	285,695	334,888
2019	179.84	355,182	416,558
2020	172.37	389,656	465,977
2021	184.22	401,881	488,962

The financing to deposit ratio (FDR) of Islamic banking is believed to be effective in helping increase yields in the 95%-98% coverage. That indicates that the district manages 100% of the accounts. 95%-98% of them are directed into the form of financing.

Table 8. CAR Islamic banking in Indonesia 2016-2021 (Sharia Commercial Banks and Sharia Business Units)

Year	ROA (%)	Capital (*Nominal in Billion Rp*)	Risk Weighted Assets (*Nominal in Billion Rp*)
2016	16,63	27.153	163.306
2017	17,91	31.105	173.695
2019	20,59	40.715	197.727
2020	21,64	46.854	216.547
2021	22.89	52.989	230.890

The criteria for determining the Capital Rating (CAR) of Islamic banking from 2016-to 2021 are above 12%, which means that Indonesian Islamic banking has a very healthy capital.

Table 9. Operating Expenses to Operations Revenue Islamic Banking In Indonesia 2016-2021 (Sharia Commercial Banks)

Year	BOPO (%)	Operations Expenses (*Nominal in Billion Rp*)	Operations Income (*Nominal in Billion Rp*)
2016	96.22	34,174	35,517
2017	94.91	29,682	31,273
2019	84.45	30,415	36,014
2020	85.55	30,410	30,410
2021	88.36	32,030	31,210

The table above explains that in 2016 Operating Expenses to Operations Revenue of Islamic banking in Indonesia was categorized as unhealthy because it was at 96.22%. But in 2017, was changed it to a healthy category because it was at 94.91%. After being in market uncertainty and the spread of Covid19, Islamic Banking in Indonesia from 2019-to 2021 is categorized as very healthy. One of the driving factors is the increase in profits earned by all Islamic banking in Indonesia and the merger of 3 banks, namely BSM, BNI Syariah and BRI Syariah, into PT. Bank Syariah Indonesia (BSI). Another addition is the extension of the 2021-2025 Islamic Banking Roadmap, which is a breath of fresh air for the Islamic banking sector in Indonesia.

Capital 12 Sharia Commercial Banks Based on Financial Statements June and July 2021: Indonesian Sharia Bank Rp 23.6 trillion. The National Sharia Pension Savings Bank is Rp 6.5 trillion. Bank Muamalat Rp. 3.9 trillion. Bank Panin Dubai Syariah Rp. 3.1 trillion. Bank Central Asia Syariah Rp 2.7 trillion. Bank Aceh Syariah Rp 2.3 trillion. Bank Mega Syariah Rp 2 trillion. Furthermore, the West Nusa Tenggara Sharia Bank is Rp 1.3 trillion. Bank Jabar Banten Syariah Rp 1.2 trillion. Bank Aladin Syariah Rp 1.1 trillion. Bank Bukopin Syariah Rp 886.3 billion and Bank Victoria Syariah Rp 364.7 billion.

Only BSI is in KBMI 3, BTPN Sharia in KBMI 2, and 10 other sharia commercial banks are at KBMI 1. With a relatively tough core capital, sharia banking in the country will be difficult to move to boost a minimal market share of 6.51% of national banking as of December 2020, especially if invited to compete with Islamic banking in the ASEAN and global regions.

Banks must meet the minimum core capital of Rp 3 trillion in stages based on POJK Number 12/POJK.03/2020 concerning Consolidation of

Commercial Banks. No later than December 31, 2021, the bank must have a minimum core capital of Rp. 2 trillion. Three trillion as of December 31, 2022. Regional Development Bank (BPD) in this case Banten Syariah Bank, Bank Aceh Syariah and NTB Syariah Bank were given leeway until 2024. Meanwhile, there are still three sharia commercial banks that have not met the core capital of less than Rp 2 trillion as of July 2021.

Increasing bank capital is important for business development, absorbing unexpected losses, and a safety net during a crisis. The quality and quantity of bank capital have become a crucial point referring to the series of financial and economic problems in many countries in recent decades. Bank failures include inadequate money to anticipate the risks faced. In this case, capital acts as a buffer to absorb losses arising from various risks, including credit, market, operational, liquidity, and other threats.

DISCUSSION

From the results obtained by the authors, Islamic banking in Indonesia has a value that can influence both the government and the community, both customers and non-customers of Islamic banking. As in the expansion and development of Islamic banking, Indonesia can still cultivate relatively satisfactorily compared to conventional banks.

Seeing the phenomenon of the growth of Islamic banking in Indonesia, apart from support from the Government, stakeholder support is also very influential for the Islamic finance industry. When the merger of 3 Indonesian Islamic banks in 2021, it has provided fresh air for this industry. Especially Indonesia wants to make Bank Syariah Indonesia into the top 10 Islamic banking globally in terms of total assets. Both the central Government and local governments should provide full support for Islamic banking in Indonesia; one of the steps is cooperating in distributing salary payments for civil servants. In addition, the private sector can also contribute to Islamic banking, such through project development cooperation and so on.

Table 10 furthermore indicated that the development of Islamic banking, both sharia commercial banks and sharia business units, has risen from 2016-to 20121; this proves that the increasingly developed sharia banking in Indonesia also increased revenue and Islamic banking offices.

Islamic banking in Indonesia is seen as not being able to enter into large government projects; one of the obstacles is the limited capital that can only finance projects on a small scale. According to researchers who must be at the level and collaborate to finance large projects with financing contracts such as Malaysia, where Islamic banking has played a large enough position in the economising in the neighbouring country. Islamic banking in Indonesia can also make bigger steps because it is supported by the community's topography, which is predominantly Muslim.

The financial ratios described above illustrate that these ratios play a significant part in developing Islamic banking in Indonesia. Such as profitability ratios, where these ratios include: GPM (Gross Profit Margin), OPM (Operating Profit Margin), NPM (Net Profit Margin), ROA (Return to Total Assets), and ROE (Return on Equity). The ratio above can explain that Islamic banking in Indonesia has good value for the Government and the community. One of the Islamic banks in Indonesia, namely Bank Syariah Indonesia, has entered the top 5 best national banks in 2022. That illustrates that the public has trusted Islamic banking to continue contributing to the nationwide economising.

CONCLUSION

The growth of Islamic banking in Indonesia is better than conventional banking because it is supported by stakeholders support in overseeing the development of Islamic finance abroad. Furthermore, the government has made a roadmap for sharia banking from 2021 to 2024 to provide an overview and measurable results of Islamic banking in Indonesia. This is consistent with the continuously increasing development, growth, and market share of Islamic finance, though it is still below 10%.

Financial ratios in Islamic banking are indicators for the assessment of Islamic banks to see how the value of Indonesian Islamic banking is. Along with several components of the evaluation of Islamic banking, the role of the government and the Indonesian people is very much needed. The position here is to fully support Islamic banking and use Islamic banking-based financial transactions.

The government wants Bank Syariah Indonesia to be the best bank and enter the top 10 Islamic banking based on total assets. That is one of the triggers for merging three banks, namely BSM BNI Syariah and BRI Syariah. This realization can be proven by including Bank Syariah Indonesia in the top 10 best banks in Indonesia with several assessments, such as public trust, general satisfaction, fees, digital services and financial facilities.

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