Influence of External Factors and Policies of Bank Indonesia (BI) & Financial Services Authority (OJK) Against Profitability of Sharia Bank in Indonesia

Juwita Aprillia[1], Efendi Rahmanto[2]

1. Accounting, Sekolah Tinggi Ilmu Ekonomi Nusantara Sangatta, Indonesia
2. Management, Sekolah Tinggi Ilmu Ekonomi Nusantara Sangatta, Indonesia

E-mail: juwita.aprillia@gmail.com, efendirahmanto@gmail.com

Abstract

The aims of this study are: To prove and analyze the influence of external factor on profitability. Proving and analyzing the influence of Bank Indonesia and OJK policy factors on profitability. This study uses 24 Islamic Commercial Banks and Sharia Business Units. This research is a population research or census where the entire population is sampled with a research period from 2012 to 2020, so that 216 data can be seen in this study. The study used multiple linear regression. Linear regression of panel data was chosen by the authors to see the influence of External Factors (consisting of: economic growth, inflation, SBI) and Bank Indonesia (BI) & Financial Services Authority (OJK) policies (consisting of: NPL and CAR) on Profitability (as measured by ROA) to answer the hypothesis, several tests were carried out which included a partial test or t test, analysis of the coefficient of determination, and a simultaneous test or f test. Where the data processing and testing uses SPSS Version 25 software. The variable economic growth has a positive and significant effect on the profitability variable, the inflation variable has a positive and significant effect on the profitability variable, the SBI variable has a positive and insignificant effect on the profitability variable, the NPL variable has a negative and no effect. significant to the profitability variable, the CAR variable has a positive and significant effect on the profitability variable,

Keywords: ***External Factors (consisting of economic growth, inflation, SBI) and Bank Indonesia (BI) & Financial Services Authority (OJK) policies (consisting of: NPL and CAR) Against Profitability (as measured by ROA)***

DOI :
ISSN :

INTRODUCTION

Profitability and efficiency level of management in Islamic Banks that occur are still not optimal. The factors that determine the profitability of Islamic Banks include external factors as well as Bank Indonesia and OJK policies that are able to affect the profitability of Islamic Banks. Factors that affect profitability are supported by existing phenomena in the field as well as several empirical studies which state the effect of each variable on profitability. One of the factors that affect profitability is that external factors greatly determine the growth of banking profitability because external conditions which include economic growth and inflation and SBI are general descriptions of Indonesia which are directly related to the banking sector, especially regional banking. research conducted by Sharaaz (2016) regarding the profitability strategy has the role of inflation as an external factor that has the ability to increase profitability, as is the case with research conducted by Wahyuni & Azmi (2019) which states that banks have good performance when moderated by inflation as a boost banking performance. Research conducted by Bezemer & Grydaki (2014) illustrates that the ability of banks to earn profits in its journey is influenced by external factors as measured by economic growth. Based on the results of this study, it can be seen that external factors are moderating variables between policy and profitability.

The profitability of Islamic banks is also inseparable from the influence of the policies of Bank Indonesia (OJK) and the Financial Services Authority (OJK). The policies of Bank Indonesia (OJK) and the Financial Services Authority (OJK) in relation to the profitability of Islamic banks are measured through non-performing loans and capital adequacy ratios. The policy situation of BI and OJK is experiencing rapid development. One of the bank's business risks is credit risk, which is defined by the risk that arises as a result of counterparty failure to fulfill obligations. There are various reasons, making the debtor may not fulfill his obligations to the bank such as payment of loan principal, payment of interest and others. The non-fulfillment of the customer's obligations to the bank causes losses by not receiving the previously estimated receipts. Receivables management is very important for companies whose operations provide credit, because the greater the receivables, the greater the risk.

Therefore, it is necessary to anticipate the possible risks that arise in running a banking business. The financial ratio used as a proxy for the value of a credit risk is Non-Performing Loan (NPL). This ratio shows that the ability of bank management in managing non-performing loans provided by banks. NPL reflects credit risk, the smaller the NPL, the smaller the credit risk borne by the bank. In order for the bank's value to this ratio to be good, Bank Indonesia has set the criteria for a net NPL ratio of below 5%. the effect of NPL on profitability The ability to manage non-performing loans by banks is shown through the NPL ratio. The greater the NPL ratio, the more non-performing loans that are resolved. Large non-performing loans will reduce bank profitability. So the higher the NPL ratio, the lower the profitability of a bank. This is supported by research conducted by Nguyen et al. (2020), Rahman & Sulistiyono (2017) state that NPL has a significant effect on profitability, while research conducted by Nshimiyimana & Zubeda (2017), Menicucci & Paolucci (2016), Supriyono & Herdhayinta (2019)

DOI :
ISSN :

states that NPL has no significant effect on profitability. The profitability of Islamic banks has changed and is also influenced by the capital adequacy ratio. The need for bank capital is to protect the owner of the funds and maintain public trust, to cover operational risks that may occur, to remove non-performing loan assets where the borrower cannot repay the debt at a predetermined time, the source of preliminary funding. Based on this, the two main functions of capital are financing in infrastructure and protecting customers from possible losses, thus it can be said that bank capital is used to maintain public trust. This public trust will be seen from the amount of demand deposits, deposits and savings. In the CAR formula, capital is compared with all types of assets considered to contain risk or commonly referred to as Risk Weighted Assets (RWA). CAR is a capital adequacy ratio which is an important factor for banks in the context of business development and accommodates the risk of losses caused in bank operations. CAR shows the extent of the decline in bank assets.

REVIEW OF LITERATURE

Islamic banks are financial institutions whose main business is to provide financing and other services in payment traffic and money circulation operating in accordance with sharia principles. Islamic bank is a bank which in its activities, both in raising funds and distributing funds, provides and imposes rewards on the basis of sharia principles, namely buying and selling and profit sharing. According to Law no. 21 of 2008 concerning Sharia Banking, Sharia Banks are defined as banks that carry out their business activities based on sharia principles and by type consist of Sharia Commercial Banks and Sharia People's Financing Banks. According to Muhammad, Islamic banks are banks that operate without relying on interest. Islamic banks or commonly referred to as interest-free banks are financial/banking institutions whose operations and products are developed based on the Al-Quran and Al-Hadith. In other words, Islamic banks are financial institutions whose main business is to provide financing and other services in payment traffic and money circulation whose operations are based on Islamic law. Islamic banks are banks which in carrying out their business are based on the principles of Islamic law or sharia with reference to the Qur'an and al-Hadith.

Islamic banking also carries out financing activities, but based on the principles of Islamic law. This is in line with the contents of Law no. 21 years 2010 concerning Islamic Banking. The development of Islamic banking in Indonesia has great opportunities, because conventional banks are given the freedom to open a branch office or replace an existing branch office into a sharia branch office. This is an advantage, because it can help the development of Islamic banking in Indonesia, the more Islamic banking there will be more easily recognized by the public. Islamic banking in Indonesia for the first time ran its operations starting with the establishment of PT Bank Muamalat Indonesia Tbk. in 1992. Operations carried out by Bank Muamalat became a benchmark for the operation of Islamic banks in Indonesia. But at that time, the existence of Islamic banking had not yet been glimpsed by the national banking industry. In the reform

DOI :
ISSN :

era, the world of Islamic banking has increased so that the establishment of Islamic banking in Indonesia is starting to be taken into account.

Profitability is the company's ability to earn profits in related to sales, total assets, and own capital. Thus, long-term investors will be very interested in this profitability analysis, for example, shareholders will see the profits they will actually receive in the form of dividends. According to Gitman (2015:65) the profitability ratios are: "These measures enable the analyst to evaluate the firm's profit with respect to a given level of sales, a certain level of assets, or the owners investment. the company's profits from sales, certain asset levels, or investments by the owners of the company. According to Brigham & Houston (2015:112) profitability ratios are A group of ratios that show the combined effects of liquidity, asset management, and debt and operating results. This means a group of ratios that show the combination of liquidity, asset management, debt, and operating results. According to Gallagher & Andrew (2003:98) profitability ratios are: "Measure how much company revenue is eaten up by expenses, how much company earns relative to sales generated, and amount earned relative to the value of the firm's assets and equity." This means a ratio that describes how much the company's income compared to its expenses, how much the company's ability to generate profits in relation to sales, assets, and capital. Profitability is the final result achieved by management from every policy and decision. Profitability ratio is used to measure the company's ability in its business to earn profits by using its assets. According to Brigham & Houston (2015:115) the types of Profitability Ratios are:

1) Profit Margin on Sales The ratio that describes the net income from each sale, calculated through the quotient between net income and sales.
2) Return on Total Assets (ROA) The ratio obtained from net income divided by total assets.
3) Basic Earning Power (BEP) ratio The ratio that describes the company's ability to generate profits is calculated through the quotient between income before interest and taxes with total assets.
4) Return on Common Equity (ROE) The ratio of net income divided by capital; describes the rate of return on the investment of shareholders.

Bank Indonesia as the Central Bank is an institution that has the authority to issue legal instruments of payment from a country, formulate and implement monetary policy, regulate and maintain the smooth running of the payment system, regulate and supervise banking, and perform the function as lender of last resort. (Law No. 3 of 2004 concerning Bank Indonesia). Bank Indonesia is a state institution that is independent in carrying out its duties and authorities, free from interference from the government and or other parties except for matters explicitly regulated by law. As the Central Bank, Bank Indonesia aims to achieve and maintain stability in the value of the rupiah and does not conduct intermediation as is done by banks in general. However, in order to support its duties, the Central Bank may carry out banking activities as deemed necessary.As a state institution that aims to achieve and maintain stability in the value of the rupiah, Bank Indonesia has the duty to: Establish and implement monetary policy. In accordance with the provisions of article. 10 paragraph (3) of Law Number 3 of

DOI :
ISSN :

2004 concerning Amendments to Act Number 23 of 1999 concerning Bank Indonesia, Bank Indonesia has the authority to:
1) Setting monetary targets by taking into account the inflation rate target
2) Carry out monetary control by using methods that include, but are not limited to, such as open market operations on the money market, both rupiah and foreign exchange, setting discount rates, setting minimum statutory reserves, and arranging credit or financing. These methods can also be implemented based on sharia principles.
Regarding the implementation of the monetary control, Bank Indonesia stipulates the procedure as set forth in the form of a Bank Indonesia Regulation, the main provisions of which include:
1) Procedures for conducting open market operations on the rupiah money market
2) Procedures for implementing foreign exchange interventions in the context of stabilizing the rupiah
3) Instruments used in open market operations
4) Procedure for setting the discount rate
5) Determination of the type and amount of the minimum mandatory reserve for banks, both in rupiah and foreign currencies
6) Determination of administrative sanctions for violations of the minimum mandatory reserves
7) Restrictions on credit or financing, including all forms of loan facilities through the rupiah and foreign exchange markets
8) Regulations regarding instruments used in open market operations, procedures for determining discounts, and restrictions on credit or financing based on sharia principles, especially regarding the determination of profit-sharing or reward ratios.
The task of implementing Bank Indonesia's monetary policy also includes the implementation of an exchange rate policy based on a predetermined exchange rate system. The exchange rate policy is pre-determined by the government in a presidential decree based on a proposal from Bank Indonesia. The policies that will be taken by Bank Indonesia are adjusted to the exchange rate system adopted, for example:
1) If using a fixed exchange rate system, the policy is in the form of devaluation or revaluation
2) If using a floating exchange rate system, the policy is in the form of market intervention
3) When using the daily exchange rate fixing system and intervention bandwidth

METHOD

The population in this study is based on the recording of banking statistical reports sharia by the Department of Banking Licensing and Information (2020) of the Financial Services Authority that in Indonesia, in this study, 24 Sharia Commercial Banks and Sharia Business Units were used. This research is a population research or census where the entire population is sampled with a research period of years 2012 to 2020, so that the data in this study can be seen as much as 216 Data. Research using multiple linear regression using panel data

DOI :
ISSN :

because it combines cross section and time series data. Where this research consists of several samples of objects and time periods. Linear regression of panel data was chosen by the authors to see the influence of External Factors (consisting of: economic growth, inflation, SBI) and Bank Indonesia (BI) & Financial Services Authority (OJK) policies (consisting of: NPL and CAR) on Profitability (as measured by ROA) Islamic banks in Indonesia. To answer the hypothesis, several tests were carried out which included a partial test or t test, analysis of the coefficient of determination, and a simultaneous test or f test. Where data processing and testing uses SPSS Version 25 software.

RESULTS AND DISCUSSION

The analysis of the research results will describe the influence of External Factors (which consists of: economic growth, inflation, SBI) and Bank Indonesia (BI) & Financial Services Authority (OJK) policies (consisting of: NPL and CAR) Against Profitability (as measured by ROA) of Islamic Banks in Indonesia which is calculated using analytical tools multiple linear regression with SPSS version 25 program, the results of the study can be known through the following elaboration:

Multiple linear regression equation is an equation used for responding to the direction of External Factors (consisting of: economic growth, inflation, SBI) and Bank Indonesia (BI) & Financial Services Authority (OJK) policies (consisting of: NPL and CAR) Towards Profitability (as measured by ROA) of Islamic Banks in Indonesia:

Table1: Multiple Regression Analysis Results

		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta		
1	(Constant)	-.683	.466		-1.466	.145
	X1	.199	.070	.227	2.836	.005
	X2	.134	.041	.275	3.304	.001
	X3	.133	.165	.066	.806	.422
	X4	-.028	.018	-.123	-1.543	.125
	X5	.332	.093	.293	3.572	.000

Source: Primary Data Processed, 2022.

From the results of the above analysis, the following equation can be drawn up: Y = - 0.683 + 0.199 X1 + 0.134 X2 + 0.133 X3 - 0.028 X4 + 0.332 X5. The equation shows that the coefficient value of X1 (economic growth) of 0.199 states that if there is an increase in X1 (economic growth) of one unit, then profitability will increase by 0.199 units. The value of the X2 coefficient (inflation) is
0.134 states that if there is an increase in X2 (inflation) by one unit, then profitability will increase by 0.134 units. The coefficient value of X3 (SBI) of 0.133 states that if there is an increase in X3 (SBI) of one unit, profitability will

DOI :
ISSN :

increase by 0.133 units. X4 coefficient value (NPL) of -0.028 states that if there is an increase in X4 (NPL) of one unit, profitability will decrease by 0.028 units. X5 coefficient value (CAR) of 0.332 states that if there is an increase in X5 (CAR) of one unit, profitability will increase by 0.332 units.

Analysis of Correlation Coefficient (R) and Coefficient of Determination (R2)

After knowing the value of the multiple linear regression coefficient, then to find out the close relationship between the independent variable and the dependent variable, it can be seen from the correlation coefficient (R) and the coefficient of determination (R2) in the following table:

Tabel 2: Analysis Of Correlation Coefficient and Coefficient of Determination (R2)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.451[a]	.203	.173	.25745

Source: Primary Data Processed, 2022.

Based on the results of the data obtained correlation coefficient value of 0.451 or 45.1%. This means that there is a fairly strong relationship between the variables of External Factors (consisting of: economic growth, inflation, SBI) and Bank Indonesia (BI) & Financial Services Authority (OJK) policies (consisting of: NPL and CAR) on Profitability (as measured by ROA) because it is in the coefficient interval 0.600-0.799. The analysis of the coefficient of determination is used to show the proportion of the dependent variable that is explained by the independent variable. R2 is able to provide information about the variation in the value of the dependent variable that can be explained by the regression model used. If R2 is close to one, it means that there is a strong relationship. The coefficient of determination (R2) of 0.203 means that 20.3% variation of the External Factors variable (consisting of: economic growth, inflation, SBI) and Bank Indonesia (BI) & Financial Services Authority (OJK) policies (which consists of: NPL and CAR) To Profitability (as measured by ROA), while the other 79.7% is explained by other variables that are not included in the variables studied.

Partial test is used to determine the magnitude of the influence of the Factor . variable

External (consisting of: economic growth, inflation, SBI) and Bank Indonesia (BI) & Financial Services Authority (OJK) policies (consisting of: NPL and CAR) on Profitability (as measured by ROA) partially are as follows:

1) At the level of significance of 0.05, the significance probability value for the economic growth variable (X1) is 0.005 < 0.05, which means that partially the economic growth variable has a positive and significant effect on the profitability variable.

2) At the level of significance of 0.05, the significance probability value for the inflation variable (X2) is 0.001 < 0.05, which means that partially the inflation variable has a positive and significant effect on the profitability variable.

DOI :
ISSN :

3) At the level of significance of 0.05, the significance probability value for the SBI variable (X3) is 0.442 > 0.05, which means partially the SBI variable has a positive and insignificant effect on the profitability variable.
4) At the level of significance of 0.05, the significance probability value for the NPL variable (X4) is 0.125 > 0.05, which means that partially the NPL variable has a negative and insignificant effect on the profitability variable.
5) At the level of significance of 0.05, the significance probability value for the CAR variable (X5), is 0.000 <0.05, which means partially the CAR variable has a positive and significant effect on the profitability variable.

Tabel 3 : F Test

		Sum of				
1	Regression	2.199	5	.440	6.635	.000[b]
	Residual	8.616	130	.066		
	Total	10.815	135			

Source: Primary Data Processed, 2022.

The table above shows that at the 5% significant level (α) in the ANOVA table, it shows a significance value of 0.000 (0.05 > 0.000) for all variables, thus it can be concluded that together the External Factors (which consist of: economic growth , inflation, SBI) and Bank Indonesia (BI) & Financial Services Authority (OJK) policies (which consist of: NPL and CAR) have a significant effect on Profitability (as measured by ROA).

CONCLUSION

1) At the level of significance of 0.05, the significance probability value for economic growth variable (X1), amounted to 0.005 <0.05, which means that partially the economic growth variable has a positive and significant effect on the profitability variable.
2) At the level of significance of 0.05, the significance probability value for the inflation variable (X2) is 0.001 < 0.05, which means that partially the inflation variable has a positive and significant effect on the profitability variable.
3) At the level of significance of 0.05, the significance probability value for the SBI variable (X3) is 0.442 > 0.05, which means partially the SBI variable has a positive and insignificant effect on the profitability variable.
4) At the level of significance of 0.05, the significance probability value for the NPL variable (X4) is 0.125 > 0.05, which means that partially the NPL variable has a negative and insignificant effect on the profitability variable.
5) At the level of significance of 0.05, the significance probability value for CAR variable (X5), of 0.000 <0.05 which means partially the CAR . variable positive and significant effect on the profitability variable.
6) At the significant level (α) 5% in the ANOVA table, it can be seen that the significance value is 0.000 (0.05 > 0.000) for all variables, thus it can be

DOI :
ISSN :

concluded that together the External Factors (consisting of: economic growth, inflation, SBI) and Bank Indonesia (BI) & Financial Services Authority (OJK) policies (which consist of: NPL and CAR) have a significant effect on Profitability (as measured by ROA).

REFERENCES

Bezemer, Dirk. Grydaki, Maria. (2014). Financial fragility in the Great Moderation.

Brigham, Eugene F., and Joel F. Houston, (2015). Fundamental of Financial Europe: An empirical investigation. 10(17).

Gallagher, T.J., and J.D. Andrew. (2003). *Financial Management: Principle and Practice 4th edition. Pearson Education*, inc. USA.

Gitman, Lawrence J. (2015). Principles of Management Finance 12th Edition. Boston: Pearson Education, Inc. *Journal of Banking & Finance*, 49, 169-177.

Menicucci, Elisa. Paolucci, Guido. (2016). Factors affecting bank profitability in Europe: An empirical investigation. 10(17), 410-420.

Nguyen, Van Chien. Thu Thuy Nguyen. Huu Tinh Nguyen. (2020). Government Ability, Bank-Specific Factors and Profitability: An Insight from Banking Sector of Vietnam. *Journal of Advanced Research in Dynamical & Control Systems*, 12 (4).

Nshimiyimana, Yves Claude. Zubeda, Mizeroyabadege Alyda. (2017). The Influence of Economic Factors on Profitability of Commercial Banks. *International Journal of Management and Applied Science*, 3 (1), (2), *Practice 4th edition.* Pearson Education, inc. USA.

Rahman, Reza Fazlur. Sulistiyono, Adi. (2017). Analisis Pemisahan Wewenang Pengawasan Lembaga Keuangan Perbankan Antara Bank Indonesia dengan Otoritas Jasa Keuangan. *Privat Law*, 5 (1).

Sharaaz, Mohamed Jaffar Mohamed. (2016). Strategy and Profitability: Managing Profits in Inflation Economy. Doctoral Study. *Doctor of Business Administration.* Walden University.

Wahyuni, Mirasanti. Azmi, Fika. (2019). The effect of non-performing financing volume with inflation as moderating variables on sharia commercial banks. *Journal of Islamic Accounting and Finance Research*, 1 (1), 79-96.

DOI :
ISSN :