

## The Effect of Return, Cost, Financing Factors and Risk on Profitability of Sharia Banks in Indonesia

Tanti Widia Nurdiani  
Prodi Manajemen, Universitas Islam Raden Rahmat, Indonesia  
[tanti\\_widia@unira.ac.id](mailto:tanti_widia@unira.ac.id)

Ruki Ambar Arum  
Prodi Administrasi Bisnis, Politeknik LP3I Makassar, Indonesia  
[ruki\\_arum@yahoo.com](mailto:ruki_arum@yahoo.com)

Rahmat Putra Ahmad Hasibuan  
Prodi Ekonomi Syariah, UIN Fatmawati Sukarno Bengkulu, Indonesia  
[rahmatputrahasibuan@gmail.com](mailto:rahmatputrahasibuan@gmail.com)

Eddy Silamat  
Prodi Agribisnis, Universitas Pat Petulai Rejang Lebong, Indonesia  
[eddysilamat9@gmail.com](mailto:eddysilamat9@gmail.com)

Samuel PD Anantadjaya  
Prodi IPMI Business School, IPMI School, Indonesia  
[ethan.eryn@gmail.com](mailto:ethan.eryn@gmail.com)

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### Abstract:

Some of the factors identified as influencing the profitability of Islamic banks include asset growth, volume of financing, low non-performing financing ratios, optimal financing distribution, large income spreads, low-cost funds, professional internal management, prudential principles in channeling financing, and several other factors that have an influence on the profitability of Islamic banking. This research is explanatory research (explanatory research). Explanatory research seeks to explain the causal relationship between variables by testing hypotheses. The purpose of this research is to test the proposed hypothesis regarding the influence of the firm's fundamental variables on sharia stock prices as the dependent variable. This research is also quantitative. The quantitative approach is research related to quantitative data in the form of numbers that can be used with mathematical operations (Muhamad, 2008: 203). This study uses time series data with monthly data from January 2022 to June 2022. The focus of the research is the condition of all Islamic banking in Indonesia. Partially, the financing deposit ratio (FDR) has a positive and significant influence on the profitability of Islamic banking. This shows that the FDR ratio has a direct effect on the profitability of Islamic banking, because the FDR ratio is a ratio that describes a bank's ability to channel financing, and also describes the bank's liquidity. If the FDR is <80%, the bank will be burdened by profit sharing to third parties and additional Minimum Statutory Reserves (GWM) to Bank Indonesia, so that profitability is not optimal. On the other hand, if the FDR > 100%, it indicates that the bank's liquidity is disrupted.

## INTRODUCTION

Based on Article 1 Number 7 of Law No. 21 of 2008 concerning Islamic Banking, Islamic banks are banks that carry out their business activities based on sharia principles, and according to their type, consist of Islamic Commercial Banks (BUS) and Islamic People's Financing Banks (BPRS). Islamic commercial banks are Islamic banks that, in their activities, provide services in payment traffic, while BPRS is an Islamic bank that, in its activities, does not provide services in payment traffic.

Sharia banking is one of the largest sharia industries in Indonesia, so it is very important to continue to develop sharia banking so that the sharia industry in Indonesia becomes bigger and can even become the center of the world's Islamic economy. Basically, Indonesia already has enormous potential, considering that it is a country with the largest Muslim population in the world. Furthermore, with the beginning of a trend of increasing demand and development of the halal industry, Islamic banking has the potential to become one of the supporting pillars of Indonesia's large halal ecosystem.

The large network of Islamic banks in Indonesia is the initial capital for Islamic banks to reach all Indonesians who wish to access sharia-based financial institutions. Based on news from the CNBC Indonesia Research Team (2019), the number of Islamic banks is predicted to increase again. Fitch Ratings predicts that the number of Islamic banks in Indonesia can increase by around 20 more companies by 2023. According to Gary Hanniffy, Director of the Financial Institution Group, PT Fitch Ratings Indonesia, the predicted number the 20 new banks are based on the number of sharia business units (UUS) of conventional banks, which must be separated from their parent companies and form separate companies. "At least it can be seen from the 20 UUS conventional banks that they have the potential to separate themselves." "It won't be soon because the regulations will only become mandatory in 2023, and it still depends on the consolidation of the banking industry and the dynamics of the financial market going forward," Hanniffy to the press today (29/8/19). Currently, around 20 conventional banks that have UUS are trying to fulfill their obligation to spin off their sharia unit from the parent entity (spin off) with a deadline of 2023 as stipulated in Law (UU) Number 21/2008 concerning Islamic Banking. This regulation came into effect on July 16, 2008. In the regulation, it is stated that a UUS must have an asset value of around 50% of the assets of the parent entity when it spins off or at least disengages after 15 years since the enactment of the law.

One of the strategic issues of Islamic banking in Indonesia is its slow growth when compared to the potential for a very large market share, considering that Indonesia is a country with the largest Muslim majority population (Lastuti, 2017: 124).

Currently, industrial era 4.0 is taking place in various aspects of life, including the business world. Business people respond quickly by competing to change the concept of doing business from conventional (offline) to digital (online) to face increasingly fierce business competition (Darman, 2019: 132).

According to the Financial Services Authority Regulation (POJK) No. 77 of 2016, peer-to-peer lending is the provision of financial services to bring together lenders and loan recipients in order to enter into loan agreements in the rupiah currency directly through an electronic system using the internet network.

Peer-to-peer landing financial institutions are one of the main competitors of Islamic banks in the context of financial intermediary institutions, where peer-to-peer landing financial institutions present an easier and faster way of financing. This is a challenge for conventional and sharia banking to be able to adjust their business models to make them faster and simpler.

The development of the financial technology (fintech) business has also influenced the emergence of startup companies engaged in the digital financial sector. One of these digital financial products is an electronic wallet or digital wallet (Rifqy, 2018:23). E-Wallet, also known as an electronic wallet, is a type of digital payment instrument that employs electronic media in the form of a server-based. In general, e-wallets are in the form of server-based applications, and the process of using them requires a connection with the publisher first (Mulyana, 2018: 64). The emergence of electronic money or electronic wallets will enable people to carry out financial transactions without using cash. The mushrooming of startup businesses has made these business actors compete to make innovations in their digital financial products, namely Go-Pay from Go-Jek, Dana, Shoppe Pay, Ovo, etc. (Rifqy, 2018: 23).

The development of electronic money or non-banking electronic wallets is currently taking up a portion of

low-cost funds for banking in general and Islamic banking in particular because it has become a trend in today's society to transact using electronic wallets. Electronic wallets have their own charm because they are practical to use, have many merchant collaborations, and have massive promotion strategies. On the one hand, e-wallets can collect public funds for free. Sharia and conventional banks must keep an eye out for this so that they can compete to become customer transactional banks.

Islamic banks have also experienced disbursement conditions that have not been optimal in recent years; this can be seen in 2018, when the average Islamic banking financing deposit ratio was below 80%, so this can also affect the optimization of Islamic banking profitability.

Some of the conditions above have slowed down the growth of Islamic banking, as seen from the market share of Islamic banking, which is still below 6%. Another condition is that the profitability of Islamic banking is still far lower than that of conventional banking, as reported by CNBC Indonesia (2019) this year. The return on assets (ROA) of Islamic banking is still far below that of conventional banks, where the ROA of Islamic banking is recorded at only 1.28%. At the end of December 2018, conventional banking ROA reached 2.55%.

The future growth and development of Islamic banking is expected to increase its profitability so that the welfare of Islamic bank employees will be better and they can better serve the public with more sophisticated features.

One measure of company performance is the level of profit. Profitability is the most important indicator to measure the performance of a bank. Return on Assets (ROA) focuses on the company's ability to earn earnings in the company's operating activities by utilizing its assets (Refi, 2018: 2).

Some of the factors identified as influencing the profitability of Islamic banks include asset growth, volume of financing, low non-performing financing ratios, optimal financing distribution, large income spreads, low-cost funds, professional internal management, prudential principles in channeling financing, and several other factors that have an influence on the profitability of Islamic banking.

## LITERATURE REVIEW

### Syariah Banking

A bank is a financial institution whose business activities are collecting funds from the public and channeling them back to the community in the form of financing and providing other bank services, while a financial institution is any company engaged in the financial sector where its activities are either only collecting funds or only channeling funds or both (Kasmir, 2012: 3).

According to Lukman (2009: 14), banks are financial intermediary institutions that channel funds from excess funds (surplus units) to parties who need funds (deficit units) at a specified time, which will help capital circulation in society and improve the national economy.

Sharia banking, according to RI Law No. 21 of 2008, Article 1 Paragraph 1, is everything related to Islamic Banks or Islamic Business Units, including institutions, business activities, and methods and processes in carrying out their business activities.

In article 1, paragraph 7, it is stated that Islamic banks are banks that carry out their business activities based on sharia principles and, according to their type, consist of Islamic Commercial Banks and Islamic People's Financing Banks. Islamic banking is a banking system founded on islamic sharia law.

Sharia principles are rules of agreement based on Islamic law between banks and other parties for depositing funds, financing business activities, or other activities declared in accordance with sharia, including financing based on the principle of profit sharing (muhababah) or equity participation (musyarakah). capital goods financing based on the principle of pure lease without choice (ijarah), or with the option of transferring ownership of goods leased from the bank by another party (ijrah wa iqtin). The application of sharia principles is fundamental to bank business activities with a profit-sharing system. Therein lies the fundamental difference between Islamicbanks and conventional banks, especially those related to usury practices (Dwi, 2010:9).

The author summarizes that the difference between Islamic banks and conventional banks is that the way Islamic banks work is that fundraising activities do not use interest, which has a predetermined percentage, but are determined in the form of a profit-sharing ratio depending on the bank's income from fund distribution activities.

This is different from the conventional banking system, which uses a percentage of interest to raise funds.

The next difference between Islamic banks and conventional banks is the system for financing income. Profit sharing, margin or fee-based, is used by Islamic banks. In the profit-sharing system, there is a difference between bank interest and profit-sharing, namely that the amount of profit-sharing is adjusted based on the amount of the customer's business profit, commonly referred to as "profit-sharing realization" (RBH), whereas in the bank interest system, the amount of interest is determined at the time of credit. The percentage of bank interest is adjusted to the amount of credited capital.

The next difference between conventional banks and Islamic banks is the role of the Islamic supervisory board. Whereas Islamic banks are required to have a Sharia Supervisory Board (DPS), conventional banks do not stipulate a Sharia Supervisory Board. DPS itself is a council made up of scholars and economic experts who have a mastery of fiqh mu'amalah and are tasked with overseeing the bank's operational system and all its products.

### **Bank Profitability**

Profitability is the company's ability to gain profits from its business (Suntoto, 2013: 113). So, it can be concluded that profitability is related to the company's profit ratio. Meanwhile, according to Kasmir (2012:196), the profitability ratio is the ratio used to assess the company's ability to seek profit. The return on assets (ROA) ratio is frequently used to measure this profitability.

Return on assets (ROA) is a company's financial ratio related to profitability that measures a company's ability to generate profit at a certain asset level. Return on Assets (ROA), according to Kasmir (2012: 201), is the ratio that shows the results (return) on the total assets used in the company. ROA can also show the effectiveness of management in using assets to earn income. By knowing ROA, we can assess whether the company has been efficient in using its assets in its business activities to generate profits.

The author concludes that bank profitability can be identified using return on assets (ROA). Return on assets can be used to measure a company's effectiveness in generating profits by utilizing its total assets. The higher the ROA, the better, because the return is getting bigger.

The difference between Islamic banks and conventional banks in recognizing revenue is related to the recognition of fines. Late fees are a source of income for conventional banks. In contrast, although Islamic banks include information on late fees in their financing structure and contracts, these fines are not recognized as bank income or profit, but rather as non-halal income that is channeled back to social institutions.

Islamic banks also apply late fees, but if customers experience payment difficulties due to declining business conditions and not due to bad character, requests for the elimination of late fees are generally granted.

### **Factors Affecting the Profitability of Islamic Banks**

#### **Financing**

According to Veithzal (2010: 681), "financing is financing provided by a party to another party to support planned investments, either by themselves or by institutions." In other words, "financing is financing issued to support planned investments."

The ratio commonly used to measure the distribution of financing is the financing deposit ratio (FDR) or the loan-to-deposit ratio (LDR). According to Dendawijaya (2009: 125), the loan-to-deposit ratio (LDR) measures the bank's ability to pay back the withdrawals of funds made by depositors by relying on credit provided as a source of liquidity. If the bank can disburse all of the funds collected, it will indeed be profitable, but there is a risk if the owner of the funds withdraws the funds or if the user of the funds cannot return the funds he borrowed. In more detail, LDR can be explained as the ratio between the total amount of credit given by the bank and the funds received by the bank. This ratio shows one assessment of bank liquidity. Based on the provisions of Bank Indonesia, the standard value of LDR according to Bank Indonesia is between 80% and 110%.

In Islamic banking, the term "credit" (loan) is not known but "financing," so one of the liquidity assessments uses the Financing to Deposit Ratio (FDR). The Financing to Deposit Ratio (FDR) is the ratio of the entire amount of financing provided by the bank to the funds received by the bank. This ratio states how far the bank's ability to pay back the withdrawal of funds made by depositors by relying on the financing provided as liquidity has increased; the higher the FDR ratio, the better the Islamic bank is at carrying out its intermediary function. However, in carrying

out their intermediary function, Islamic banks also need to pay attention to the availability of funds to meet the needs of their depositors when withdrawing funds (Veithzal, 2007: 389–394).

The author concludes that Islamic Commercial Banks must maintain their FDR value between 80% and 100%. This is intended so that the liquidity of Islamic banks is maintained, because a high FDR for Islamic commercial banks (above 100%) will be a serious threat to their liquidity. On the other hand, if the FDR is below 80%, it will have an impact on the profitability of the bank because Islamic banks, which will be subject to an additional GWM of 1%, cannot place funds in Bank Indonesia Syariah Certificates (SBIS) plus profit sharing expenses for third-party customers. so that optimal financing distribution will also increase the profitability of Islamic banking.

### **Return**

Return or profit margin is a certain percentage that is determined per year for daily profit margin calculations, so the number of days in a year is set at 360; if profit margins are calculated on a monthly basis, then a year is set at 12 months (Adiwarman, 2008: 279–280). Meanwhile, Ahmad Gozali (2005, 280) defines the notion of "margin," namely the difference between the purchase price and the selling price, which is the gross profit in a sale and purchase transaction of goods. Margin is not the same as interest because the margin must have been determined at the beginning of the agreement and cannot change midway.

The Net Interest Margin (NIM) ratio can be used to calculate the return on financing distribution. According to Taswan (2010: 167), net interest margin (NIM) is the ratio between net interest income and average earning assets. This ratio indicates the bank's ability to generate net interest income by placing productive assets; the greater this ratio, the better the bank's performance in generating interest income.

The author uses a different return variable, namely the net reward, which is the difference between the financing yield and the cost of funds. The author concludes that the net return is influenced by two conditions, namely the price of the financing provided and the cost of third-party funds. One of the methods to increase the net return is to provide financing accompanied by depositional or transactional requirements at the bank. So that it is optimal from two perspectives: on the one hand, the cost of financing becomes more competitive, and on the other, banks obtain low-cost funds from sources such as wadi'ah savings or wadi'ah demand deposits with a low cost of funds, thereby increasing the profitability of Islamic banks.

### **Cost**

Cost is the direct or indirect expenditure on business activities carried out to generate income during a specific time period. In banking, one of the ratios used to measure the level of efficiency with which banks manage their costs is the ratio of operating expenses to operating income (BOPO).

BOPO is the ratio between operational costs and operating income; the lower the BOPO ratio, the better the performance of the bank's management, because it is more efficient in using existing resources in the company; the higher the cost of income, the less efficient the bank becomes (Slamet Riyadi, 2006:159).

The ratio of operating expenses to operating income (BOPO) also indicates the operational efficiency of a bank. The higher this ratio indicates; the more inefficient the bank's operations are (Taswan 2010:167). Operational efficiency is the ability of banking management to control operational costs against operating income. According to Dendawijaya (2009: 111), analysis of operational efficiency ratios uses the following calculations: operating costs and operating income.

Efficiency issues are related to cost control issues. Operational efficiency means that the costs incurred to generate profits are smaller than the profits derived from the use of these assets. Efficiency can be measured by the ratio of operational costs to operating income (BOPO); the smaller this ratio, the more efficient the operational costs incurred by the bank concerned.

Based on the description of the theoretical explanation above, the author concludes that BOPO is one of the ratios that describes a company's level of efficiency in running its business. BOPO in conventional banks and Islamic banks basically has no difference, only regarding the recognition of income and expenses; conventional banks calculate the interest expense of third-party funds against interest income, while Islamic banks calculate the burden of yield on third-party funds against margin income, *ujroh*, or yield.

## **Risk**

According to the regulation of the financial services authority number 65/pojk.03/2016 concerning the application of risk management for Islamic commercial banks and Islamic business units (2016: 2), risk is the potential loss due to the occurrence of a certain event.

There are 10 types of risks that must be faced by sharia commercial banks and sharia business units, including: Credit risk is the risk resulting from the failure of customers or other parties to fulfill their obligations to the bank in accordance with the agreed agreement. Market risk is the risk to balance sheet positions and administrative accounts due to changes in market prices, including risks in the form of changes in the value of assets that can be traded or leased. Liquidity risk is the risk resulting from the bank's inability to meet its maturing obligations from cash flow funding sources and/or from high-quality liquid assets that can be pledged as collateral without disrupting the bank's activities and financial condition. Operational risk is the risk of loss caused by inadequate internal processes, internal process failures, human errors, system failures, and/or external events that affect the bank's operations. Legal risk is the result of lawsuits and/or weaknesses in the law. Reputation risk is the risk resulting from a decrease in the level of stakeholder trust originating from a negative perception of the bank. Strategic risk is the result of inaccuracy in making and/or implementing a strategic decision and a failure to anticipate changes in the business environment. Compliance risk is the result of the bank not complying with and/or not implementing the applicable laws, regulations, and Sharia principles. Yield risk is the risk resulting from changes in the rate of return paid by the bank to customers due to changes in the rate of return received by the bank from channeling funds, which may affect the behavior of the bank's third-party fund customers. Investment risk (also called equity investment risk) is the risk resulting from the bank taking part in the loss of the customer's business financed in profit-sharing-based financing using both the net revenue sharing method and those using the profit and loss sharing method.

One of the risks that occur in Islamic banks is credit or financing risk, which is identical to the non-performing loan (NPL) ratio. NPF financing is financing that, in its implementation, has not reached or met the target desired by the bank, such as a problematic return on principal or profit sharing, financing that has the possibility of future risks for the bank, financing that is classified as special attention, doubtful, or loss, or current class financing that has the potential to result in arrears in returns (Veithzal, 2007: 34).

## **METHODOLOGY**

This research is explanatory research (explanative research). Explanatory research seeks to explain the causal relationship between variables by testing hypotheses (Iqbal, 2006: 9). The purpose of this research is to test the proposed hypothesis regarding the influence of the firm's fundamental variables on sharia stock prices as the dependent variable. This research is also quantitative. The quantitative approach is research related to quantitative data in the form of numbers that can be used with mathematical operations (Muhamad, 2008: 203). This study uses time series data with monthly data from January 2022 to June 2022. The focus of the research is the condition of all Islamic banking in Indonesia. The objects studied are all Islamic Commercial Banks in Indonesia. The dependent variable is the profitability (ROA) of Islamic commercial banks in Indonesia. The independent variables are the Financing Deposit Ratio (FDR), Net Returns (NI), Operating Costs to Operating Income (BOPO), and Allowance for Impairment Losses (CKPN). The data used in this research is secondary data. The data analysis technique used in this study is a multiple linear regression analysis model. To assist their research, researchers will use the statistical data processing software SPSS version 19.

## **RESULTS AND DISCUSSION**

Based on the profitability trend of Islamic banking for the 2015–2018 period the lowest ROA ratios occurred in May 2016 and January 2018, but there has been a trend toward increasing the profitability of Islamic banking. This shows that Islamic banking has experienced growth in terms of profitability. Based on the trend of financing distribution or financing deposit ratio (FDR) in Islamic banking for the 2015–2018 period, The FDR ratio has decreased in 2018;

even in several months of 2018, it experienced conditions below 80%. This shows that the performance of sharia banking financing distribution still needs to be improved to optimize its profitability. Based on the trend of net reward (NI) in Islamic banking for the 2015–2018 period the net return ratio experienced a stable trend but tended to experience a slight decline. This indicates that the return from financing disbursements still needs to be increased, because recently banks have experienced quite tight competition, including competition for cheap financing prices and competition in pursuing low-cost funds, where banks are competing to become community transactional banks to gain cheap funds. Not to mention the competition with peer-to-peer lending institutions and electronic wallets, which have recently been intense with promotions so that people use them as a transactional tool. This needs to be watched out for by banking institutions so they can face competition, including by increasing merchant partnerships, optimizing mobile banking, and implementing QR pay. Based on the trend of operational costs to operational income (BOPO) in Islamic banking for the 2015–2018 period, The BOPO ratio has experienced a decreasing trend from year to year. This shows that Islamic banks are able to manage their business more efficiently by reducing costs and increasing income. Based on the trend of allowance for impairment losses (CKPN) in sharia banking for the 2015–2018 period, the loan loss ratio has a stable trend but tends to decrease. This shows that the quality of Islamic bank financing has improved. Islamic banking needs to continue to improve the quality of financing so that the funds that have been reserved can be returned (reversed) to become profits in the following year.

Based on the observation period, this study uses the period from 2015–2018, with the object of research being all Islamic commercial banks in Indonesia. The regression equation model used is:  $Y = \alpha + \beta_1 \text{FDR} + \beta_2 \text{NI} + \beta_3 \text{BOPO} + \beta_4 \text{CKPN} + \varepsilon$ .

Based on the results of the t test, the results show that the FDR variable has a sig. of 0.005 (<0.05), t-count of 2.968, and a regression coefficient of 0.014. This figure shows that FDR has a positive and significant impact on Islamic banking ROA. The FDR variable has a significant influence on Islamic banking ROA because the FDR ratio is a ratio that describes a bank's ability to channel financing and also describes the bank's liquidity. If the FDR is < 80%, the bank will be saddled with profit sharing to third parties as well as additional statutory reserves (GWM) to Bank Indonesia. On the other hand, if the FDR > 100%, it indicates that the bank's liquidity is disrupted. Therefore, Islamic banking must maintain its FDR ratio between 80% -100% so that the profitability of Islamic banks can be optimal.

The NI variable has a sig. value of 0.104 (> 0.05), t count of 1.660, and a regression coefficient of 0.058. This figure shows that NI has a positive but not significant effect on the ROA of Islamic banking. This NI variable is a variable that has just been used, so this variable can be used for further research to look at the effect of the spread between the yield of financing and the cost of funds on the profitability of Islamic banking. The results of the research above show that there is no direct relationship between the financing income spread and the profitability of Islamic banking. This is because net income from the use of third-party funds is also influenced by other factors such as minimum statutory reserves, LPS guarantee funds, the allowance for impairment losses (CKPN), and the quality of financing. In addition, price movements for Islamic bank financing are also influenced by the BI 7-day repo rate as a benchmark interest rate and conventional bank lending rates (SBDK), so that the spread of income from financing tends to be stable because every time there is a decrease in the Bank's 7-day repo interest rate In Indonesia, the tendency for banks to reduce lending rates is also occurring. Based on this, the net rewards have not directly affected the profitability of Islamic banks.

The BOPO variable has a sig value of 0.000 (<0.05), t-count of -15.445, and a regression coefficient of -1.20. This figure shows that BOPO has a negative and significant impact on Islamic banking ROA. The BOPO variable has a large influence on profitability. This is because this variable illustrates the efficiency of banks in managing their expenses compared to the income earned, the more efficient Islamic banking management is, the more optimal the profitability of Islamic banking will be.

The CKPN variable has a sig value of 0.000 (<0.05), t-count of 0.909, and a regression coefficient of -116. This figure shows that NI has a negative and insignificant effect on Islamic banking ROA. This is possible because the allowance for impairment losses (CKPN) that has been reserved by banks can return to profit (reverse) if the financing does not experience a decrease in collectibility (quality of current financing), so that impairment does not directly affect bank profitability.

Based on the results of the *f* test, the sig. of 0.0000 is smaller than the significance level of 0.05, so  $H_0$  is rejected. This means that the variables (FDR, NI, BOPO, and CKPN) simultaneously have a significant influence on Islamic banking ROA, so that the regression model can be used to predict the dependent variable.

Based on the test results of the coefficient of determination ( $R^2$ ), the Adjusted R-Squared ( $R^2$ ) score is 0.930. This shows that the percentage effect of the independent variable on the dependent variable is 93%, while the remaining 7% is influenced by other factors outside the regression model. This indicates that the variables FDR, NI, BOPO, and CKPN are quite good at explaining the dependent variable, namely ROA.

Based on the results of the research above, the current factors that have a significant effect on the profitability of Islamic banking are the financing deposit ratio (FDR) and the operational costs to operating income (BOPO), so it can be concluded that the expansion of financing distribution and cost efficiency are the keys to increasing the profitability of Islamic banking.

Several breakthroughs that can be implemented by Islamic banking include: "Digital Branch" is a concept of banking services or activities using electronic and digital facilities owned by the bank or through digital media owned by bank customers that are carried out independently by customers. Because the process of banking activities is carried out independently by customers, branches can save on labor costs, allowing bank operations to become more efficient. Banks must increase their cooperation with merchants and develop QR Pay in mobile banking as a transactional tool. This aims to encourage customers not to transfer their funds to electronic wallets (e-wallets) of peer-to-peer lending financial institutions because the bank has provided all the needs of customers. Mobile banking is a transaction service for customers provided by banks. Banks must continue to develop their mobile banking so that it is easy to use, fast, and complete. This is intended so that banks can optimize fee-based income from the use of mobile banking, such as e-money top-ups, electricity payments, telephones, internet pulses, and all other things that have become basic needs.

## CONCLUSION

Based on the analysis and discussion of research results obtained by testing the hypothesis using multiple linear regression analysis, namely financing proxied by the Financing Deposit Ratio (FDR), return proxied by Net Rewards (NI), cost proxied by Operational Costs to Operating Income (BOPO), and risk proxied by Allowance for Impairment Losses (CKPN) on Islamic banking profitability proxied by Return on Assets (ROA) can be concluded as follows.

Partially, the financing deposit ratio (FDR) has a positive and significant influence on the profitability of Islamic banking. This shows that the FDR ratio has a direct effect on the profitability of Islamic banking, because the FDR ratio is a ratio that describes a bank's ability to channel financing, and also describes the bank's liquidity. If the FDR is <80%, the bank will be burdened by profit sharing to third parties and additional Minimum Statutory Reserves (GWM) to Bank Indonesia, so that profitability is not optimal. On the other hand, if the FDR > 100%, it indicates that the bank's liquidity is disrupted. Therefore, Islamic banking must maintain its FDR ratio between 80% -100% so that the profitability of Islamic banks can be optimal.

Partially Net Rewards (NI) has a positive but not significant effect on the profitability of Islamic banking. The results of this study indicate that there is no direct relationship between the financing income spread and the profitability of Islamic banking. This is because net income from the use of third-party funds is also influenced by other factors such as minimum statutory reserves, LPS guarantee funds, the allowance for impairment losses (CKPN), and the quality of financing. In addition, price movements for Islamic bank financing are also influenced by the BI 7-day repo rate as a benchmark interest rate and conventional bank lending rates (SBDK), so that the spread of income from financing tends to be stable because every time there is a decrease in the Bank's 7-day repo interest rate, in Indonesia, because of the tendency for banks to also lower their lending rates or financing prices based on this, the movement of net rewards has not directly affected the movement of Islamic Bank profitability.

The ratio of partially operational costs to operating income (BOPO) has a negative and significant impact on Islamic banking profitability. This shows that the more efficient banks are at managing costs and increasing income, the greater the profitability of Islamic banking. This efficiency is the key for banks as they face competition in the financial industry, which is getting easier, cheaper, and faster.

Partially, the allowance for impairment losses has an insignificant negative effect on the profitability of Islamic banking.

This shows that the reserves made by banks do not have a significant negative effect on the profitability of Islamic banking. This can happen because the Allowance for Impairment Losses (CKPN) that has been reserved by banks can be returned (reversed) to profit if the financing does not experience a decrease in collectability (the quality of current financing), so that it does not directly affect the profitability of Islamic banking.

Simultaneously, the results of the study show that there is a significant influence between the variables Financing to Deposit Ratio (FDR), Net Rewards (NI), Operating Costs to Operating Income (BOPO), and Impairment Losses Reserves (CKPN) on the ROA (profitability) of Islamic Banking. The coefficient of determination (Adjusted R square) is 93%, so that the remaining 7% is influenced by other variables not included in this study.

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