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# 3 Did the Bank with Bigger of Total Assets had Ensured Its Financial Soundness?

Irma Setyawati

University of Bhayangkara Jakarta Raya, Jalan Raya Perjuangan, Marga Mulya Bekasi Utara, Indonesia.  
irma.setyawati@ubharajaya.ac.id

Keywords: Financial soundness, profitability, Bank Mandiri, Bank Syariah Mandiri, Indonesia.

Abstract: Bank Mandiri is a bank that has the 24<sup>th</sup> largest total assets in Indonesia, thus has the ability to protect and maintain the overall stability of the bank. The purpose of this study is to analyze internal and external factors in influencing the financial soundness of Bank Mandiri and Bank Syariah Mandiri. This study also analyzed whether the total assets of Bank Mandiri and Bank Syariah Mandiri guarantee the bank have a good level of soundness, so as to improve profitability. The result of this research is a performance of Bank Mandiri is better than Bank Syariah Mandiri, seen from return on assets, capital adequacy ratio and operational cost to operational income that have greater, while the Bank Syariah Mandiri better than the non-performing finance. The result of this study also shows that the amount of assets owned by Bank Syariah Mandiri and Bank Mandiri do not guarantee to obtain high profits. The amount of assets owned by Bank Syariah Mandiri and Bank Mandiri do not guarantee to obtain high profits. However, the handling of CAR, NPF / NPL and BOPO is getting better. Economic growth has a negative and significant impact on profitability, while the inflation rate has a positive or negative impact on the profitability of the bank.

## 1 INTRODUCTION

Bank Syariah Mandiri was established in 1999, at that time the national banking industry dominated by conventional banks. By 2015, total assets of Bank Syariah Mandiri are the largest among sharia banks in Indonesia.

The election of Bank Mandiri, both sharia and conventional, have the largest total assets among other banks in Indonesia, shown in table 1 and 2.

Table 1: Total Assets of Sharia Banks, 2015.

The Name of Bank	Total Aset (Millions IDR)
Bank Syariah Mandiri	43,102,568
Bank Muamalat	28,141,599
BRI Syariah	9,425,432
BNI Syariah	7,895,421
Bank Mega Syariah	5,408,629
Bukopin Syariah	3,632,834
Bank Jabar Banten Syariah	2,508,183
Maybank Syariah	1,691,841
BCA Syariah	1,121,924
Panin Syariah	992,222
Victoria Syariah	534,171

Source: Banking Annual Report (Financial Services Authority, 2014)

Table 2: Total Assets of Conventional Banks, 2015.

The Name of Bank	Total Aset (Trillion IDR)
8 Bank Mandiri	905,76
BRI	802,30
BCA	584,44
BNI	456,46
Bank CIMB Niaga	244,28
Bank Danamon	195,01
Bank Permata	194,49
Bank Panin	182,23
BTN	166,04
Bank Maybank Indonesia	153,92

Source: Banking Annual Report (Financial Services Authority, 2014)

The Islamic financial services industry has experienced remarkable growth since four decades ago with a 31<sup>st</sup> growth forecast of 10-15% during 1995-2005. The assets of the Islamic financial services industry are estimated to be worth 700 billion US dollars in 2005 with annual growth by 15% through 2010, the assets of the Islamic financial services industry totaled \$ 4 trillion in 2010 and \$ 2.8 trillion

in 2010 (Hassan & Bashir, 2003). Islamic banks carry out the same functions as conventional banks, but perform the functions in accordance with Islamic principles, so that Islamic banks appear to meet the needs of Muslim communities to enjoy banking products and services in accordance with Islamic principle (Ahf & Khan, 2009).

The importance of bank profitability can be shown at the micro and macro levels (Setyawati, Suroso, Suryanto, & Siti, 2017). At the macro level, profit is an important prerequisite for competing in the banking industry and as a source of cheap funds. Very low profitability, can lead to agency conflicts from activities undertaken by banks, resulting in banks failing to attract enough capital to operate and usually occurs in banks with low capitalization (Olweny, 2011).

At the micro level, bank profitability is determined by internal determinants sourced from bank accounts (balance sheet or income statement), due to a role in management decisions and bank policy objectives, such as liquidity levels, reserve policies, capital adequacy, management costs and bank size (Setyawati, 2016)..

Third party funds are still low even though from year to year has increased, so there is an indication of competition between sharia and conventional banking in collecting public funds. Third party funds collected by sharia banks and sharia business units account for about 5% of all third party funds of the national banking industry (Setyawati, 2016; Setyawati, Kartini, Rachman, & Febrian, 2015). The causes are among others the education of sharia banking products/services is still low. Other factors such as the passive attitude of the people, the complexity of the products services offered, the influence of third parties has also become constraints on the products/services of sharia banks. When viewed from the side of sharia commercial banks, competitive strategy with competitor orientation has not been optimally implemented in expanding fund raising or community financing (Masyita & Ahmed, 2011).

The purpose of this study is to analyze the differences in financial performance between conventional Bank Mandiri and Bank Syariah Mandiri. By having a large asset amount, does it guarantee the bank has a good level of sound, so it can improve profitability. The contribution of this research is how big asset owned by the bank, able to increase profitability and can guarantee bank soundness, either through internal and external factors that can affect bank performance. A soundness and profitable banking sector are better

able to withstand negative shocks and contribute to the stability of a country's financial system.

## LITERATURE REVIEW

### 2.1 Theory of Profitability

Profitability is one of the benchmarks of bank financial performance. In theory market power assumes that bank profitability is a function of external market factors, while efficiency structure theory and portfolio balance assume that bank performance is influenced by internal efficiency and management policy. Profitability of the bank functions internal and external variables. Internal variables affecting bank performance (profitability) individual bank characteristics determined by the directors and internal management decisions, while external variables are sectors in the broader economy that may affect the bank's sustainability (Al-Tamimi, 2010; Ongore & Kusa, 2013).

One measure of profitability is return on assets (ROA), which shows the profit generated per dollar of the assets owned by the bank and is very important to demonstrate the ability of management in utilizing the financial resources and investment bank to generate profit (Wasiuzzaman & Nair Gunasegavan, 2013).

### 2.2 Bank Soundness Indicators

#### 2.2.1 Non-Performing Finance/Non-Performing Loan

Non-performing finance (NPF) or non performing finance (NPL) is an indicator of asset quality, which can be seen from the amount of bad finance/bad loans by banks.

#### 2.2.2 Capital Adequacy Ratio

Capital adequacy ratio (CAR) is one measure to determine the adequacy of bank capital in case of a shock. There is no provision on how much capital should be provided by the bank, but the government more pleasing if the bank has capitalized higher than the minimum amount that has been set to reduce the case of bank failure. The capital is considered a reserve that helps banks to offset losses and avoid long-term failures (Setyawati et al., 2015).

2.2.3 Gross Domestic Product

Gross Domestic Product (GDP) is a value of goods and services produced by a country an increase in GDP will affect the demand for bank assets. As long as there is an increase in GDP, people's purchasing power will rise, as their income rises, demand for credit rises, which in turn has a positive impact on bank profitability. Thus, the business cycle affects the growth of the bank. (Athanasoglou, Brissimis, & Delis, 2005).

2.2.4 Inflation

Inflation has direct effects (such as salary and wage increases) and indirect effects (e.g. changes in interest rates and asset prices) on bank profits. The profitability of the bank is influenced whether the bank management can anticipate inflation or not. If bank management has anticipated inflation, it means the bank has adjusted interest rates, resulting in an increase in bank income faster than the cost, so inflation has a positive impact on profitability. (Hidayat & Abduh, 2012; Misman, 2012; Wasiuzzaman & Nair Gunasegavan, 2013).

3 RESEARCH METHODS

3.1 Proposed Model

The data used is quantitative data in the form of time series. Sources of data are secondary data derived from quarterly financial reports of Bank Mandiri and Bank Syariah Mandiri, 2011 - 2016 period. Data is processed using software Stata version 11, by using multiple regression analysis.

Table 3 shows the variables that affect the increase in bank profitability.

Table 3: Variables Used in the Regression Model.

Variable	Sub Variable	Hypothesis
<b>Dependent Variable</b>		
Profitability	Return on asset (ROA)	NA
<b>Independent Variable</b>		
<b>Internal determinants</b>		
Soundness of bank	Capital adequacy ratio (CAR)	+
	Non-performing finance (NPF)	-

Table 4: OLS Test.

	Non-performing loan (NPL)	
	Operational costs of operating income (BOPO)	-
<b>External determinants</b>		
	Logarithm-natural Gross Domestic Product (LnGDP)	+
	Inflation rate (INF)	+/-

3.2 Econometrics Specifications

To analyze the effect of return on assets with bank soundness (CAR and NPF), multiple regression equations are used, because this regression model is more than one explanatory variable/independent variable that can influence its dependent variable (Gujarati & Porter, 2010). Thus, the breakdown of estimation models is done through ordinary least squares (OLS) tests, multicollinearity, heteroscedasticity, autocorrelation and normality tests are required.

The estimation model for analyzing research variable data as follows:

$$R_{t1} = \alpha_0 + b_1C_t + b_2N_t + b_3B_t + b_4L_t + b_5I_t + \epsilon_{t1} \dots \dots \dots (1)$$

The model can be used for Bank Mandiri or Bank Syariah Mandiri (Setyawati, Suroso, Rambe, & Susanti, 2017).

4 RESULTS AND DISCUSSION

4.1 Summary of Research Estimates

Table 4: OLS Test.

No	Test	Tools	Result
1.	Normality	Plot Diagram Data Normality	Normal
2.	Multicollinearity	Partial correlation	No multicollinearity
3.	Heteroscedasticity	Bruesch-Pagan/Cook and Weisberg's	No Heteroscedasticity
4.	Autocorrelation	Breusch-Godfrey LM and Prais-Winsten and Cochrane-Orcutt Regression test	No autocorrelation

## 4.2 Empirical Result

In the model 1 and 2, the F statistic test (global test), the results obtained that the model is significant because the p-value < 0.05, so the model can be accepted in describing its dependent variable.

Model 1 has R<sup>2</sup> of 84.92%, it means that the variation of ROA can be explained by variations of NPF, CAR and BOPO, while 15.08% is explained by variations of other variables, which are not included in the model. While model 2 has R<sup>2</sup> of 72.3%, it means that the variation of ROA can be explained by variations of NPF, CAR and BOPO, while 27.7% is explained by variations of other variables, which are not included in the model. Table 5 and 6 shows the summary of the dependent variable and its explanatory variables.

Table 5: Summary of Dependent Variables and Explanatory Variables (model 1).

Variable	Mean	Deviation Standard	Min	Max
ROA	0.71	0.47	0.03	1.93
NPF	9.5	2.84	3.8	15.33
CAR	18	13.80	10	77
BOPO	54.04	17.59	24.32	103.13
GDP	13.44	0.97	11.51	14.65
INF	6.46	3.46	2.48	18.9

Table 6: Summary of Dependent Variables and Explanatory Variables (model 2).

Variable	Mean	Deviation Standard	Min	Max
ROA	0.95	0.52	0.116	2.19
NPL	12.46	12.46	6.81	95.74
CAR	20.09	5.15	14	29
BOPO	70.53	7.56	58.08	87.66
GDP	13.44	0.97	11.51	14.65
INF	6.46	3.46	2.48	18.9

Bank Indonesia regulation No.8/2/PBI /2006, ROA of banks must be greater than 1.5%. Neither Bank Syariah Mandiri nor Bank Mandiri, the average ROA is not in accordance with the rule.

Bank NPF/NPL must be below 5% in accordance with Bank Indonesia regulation No.15/2/PBI/2013. Whether Bank Syariah Mandiri or Bank Mandiri, the average NPF/NPL is still above 5%, meaning that non-performing finance/ non-performing loans still require handling of bank management.

CAR Bank Syariah Mandiri nor Bank Mandiri above 8%, in accordance with Bank Indonesia regulation No.15/12/PBI/2013, this means that Bank Syariah Mandiri nor Bank Mandiri have sufficient capacity to expand the amount of CAR owned.

The achievement of the national bank efficiency level is measured by the ratio of the operational cost to operational income (BOPO), so the recommended BOPO ratio is 60-70%. BSM and BM have the ideal BOPO ratio, even BSM is more efficient with BOPO ratio below 60%.

## 4.3 Multivariate Analysis

The estimation result of the research model is presented in table 7.

Table 7. The Estimation Result.

Variable	Model 1	Model 2
	Dependent variable ROA – Bank Mandiri Syariah – N = 63	Dependent variable ROA – Bank Mandiri Conventional – N = 64
INTERCEPT	+ 5.2201*** (1.1638)	- 0.3546* (2.7211)
CAR	- 0.0036*** (0.0056)	+ 0.0066* (.0243)
NPF/NPL	- 0.0712*** (0.0182)	- 0.1524* (0.0856)
BOPO	- 0.0027* (0.0039)	+0.0122** (0.0124)
LnGDP	- 0.2539*** (0.0722)	- 0.0436* (0.026)
INF	- 0.0326*** (0.0162)	+ 0.1494* (0.1401)
R <sup>2</sup>	0.849	0.723
F (prob)	0.0000	0.0006

\*, \*\*, \*\*\* indicates significant at the 1 per cent, 5 per cent, and 10 per cent levels respectively.

CAR has a significant negative effect on ROA Bank Syariah Mandiri, but has a significant positive impact on Bank Mandiri. This shows that the level of profit earned by Bank Syariah Mandiri and Bank Mandiri is significantly influenced by the CAR, if the bank uses most of its capital to cover operational failures such as non-performing financing/loan and others. The negative signified regression coefficient indicates the smaller the CAR, the bank tends to increase in profits, vice versa.

CAR is derived from capital divided by risk weighted assets (RWA), in which the ratio should not be less than 8% (Bank Indonesia, 2013). In weighting the risk to assets, financing/credit is an asset with the greatest risk weight, on the other hand financing /credit contributes to the greatest income as well. If the financing/credit rises, the bank's income will increase, the ROA will increase, but the increase in financing/credit resulted in the increase of risk-

weighted assets (RWA). Thus, the increase in CAR can result in lower ROA, vice versa. In addition, there are other assets that have a 100% risk weight, i.e. fixed assets or other assets that do not contribute to bank income. If an increase in the RWA is due to an increase in assets in this group, there may be an increase in CAR followed by a decrease in ROA, vice versa. This is because bank funds are used for assets that do not contribute to bank operating income (Setyawati, 2016; Setyawati, Suroso, Rambe, et al., 2017).

Some CAR studies have a negative effect on profitability (Hidayat & Abduh, 2012; Setyawati, 2016; Wasitman & Tarmizi, 2009), while other CAR studies have a positive influence on profitability (Sufian & Abdul Majid, 2008; Sufian & Habibullah, 2012).

NPF has a significant negative effect on the ROA of Bank Syariah Mandiri, as well as NPL has a significant negative effect on ROA of Bank Mandiri. Regression coefficients that are marked as negative indicate the less problematic financing/loan, banks tend to increase in profits. In some studies in the banking industry, non-performing loans or non performing financing as a credit/financing risk proxy (Al-Omar & Al-Mutairi, 2008; Ramlall, 2009; Setyawati, 2016; Setyawati, Suroso, Suryanto, et al., 2017; Sufian & Habibullah, 2010). The results of empirical tests, statistically indicate that credit/financing risk resulted in lower profitability, both conventional and sharia banks (Aburime, 2008; Al-Omar & Al-Mutairi, 2008; Alper & Anbar, 2011; Athanasoglou et al., 2005; Hassan & Bashir, 2003; Kosmidou, 2008; Olweny, 2011; Ongore & Kusa, 2013; Ramlall, 2009; Setyawati, 2016; Setyawati et al., 2015; Setyawati, Suroso, Suryanto, et al., 2017; Vong & Chan, 2009). The greatest failure of banks, stems from the way banks recognize the weaknesses of their assets and create reserves to remove the write-off of these assets (Sufian & Habibullah, 2010).

BOPO has a significant negative effect on the ROA of Bank Syariah Mandiri but will have a significant positive effect on Bank Mandiri ROA. The negative signified regression coefficient indicates the smaller the ratio between operational cost and operating income, the bank tends to increase in profits, and vice versa. The operational activities of the Bank will be less efficient if operating costs increase higher than operating income as a result in decreased ROA. Some studies have found that operating costs have a negative relationship, so management cost efficiency is a prerequisite for improving profitability in the banking sector

(Setyawati, 2016; Sufian & Abdul Majid, 2008; Sufian & Habibullah, 2010; Wasizzaman & Nair Gunasegavan, 2013).

GDP has a significant negative effect on ROA, both for Bank Syariah Mandiri and Bank Mandiri. The negative signified regression coefficient indicates the smaller the GDP, the bank tends to increase in profitability.

Gross domestic product (GDP) is one a macroeconomic indicator in measuring the total economic activity of a country. GDP is expected to affect many factors, especially with regard to supply and demand for loans and deposits. Conducive economic conditions will affect the demand and supply of banking services. However, GDP measures only the material side, whereas the non-material side can not be measured. This means that low GDP does not mean that people's welfare decreases, because there are non-material factors that affect.

Positive influence between GDP and ROA, consistent with previous research (Hassan & Bashir, 2003; Kosmidou, 2008; Setyawati, Suroso, Rambe, et al., 2017; Setyawati, Suroso, Suryanto, et al., 2017), and did not support the argument that economic growth and performance of Bank Syariah Mandiri and Bank Mandiri are positively related.

The inflation rate has a significant negative effect on ROA of Bank Syariah Mandiri, but positively affects the ROA of Bank Mandiri. The negative signified regression coefficient indicates the smaller the inflation rate, the banks tend to increase in profitability, and consistent with previous research (Kosmidou, 2008; Setyawati, Suroso, Rambe, et al., 2017; Setyawati, Suroso, Suryanto, et al., 2017). If the inflation rate is not expected, the bank may slowly adjust interest rate. As a result, costs increase faster than bank income, which consequently has a negative effect on bank profitability (Athanasoglou et al., 2005; Bourke, 1989; Kosmidou, 2008; Setyawati, 2016).

#### 4.4 Bank Syariah Mandiri and Bank Mandiri: Performance Comparison

To examine the differences in Bank Syariah Mandiri (BSM) and Bank Mandiri (BM) performance, using parametric (t-test) and nonparametric tests (Mann-Whitney [Wilcoxon] and Kruskal-Wallis). The results are presented in Table 8.

Table 8. Summary Parametric and Non-Parametric Tests.

INDIVI-DUAL TESTS	PARAMETRIC TEST		NON-PARAMETRIC TEST		
	T – test		Mann-Whitney [Wilcoxon Rank-Sum] Test	Kruskall-Wallis Equality of Populations test	
ROA					
BSM	0.70	-2.86***	29.8	-3.765***	8.12***
BM	0.95		33.4		
NPF/NPL					
BSM	9.35	2.35**	37.2	-2.25**	3.51**
BM	8.42		26.7		
CAR					
BSM	17.72	-1.28	54.19	-4.05***	34.89***
BM	20.09		30.44		
BOPO					
BSM	53.20	-6.87***	17.67	-5.89***	39.88***
BM	70.53		34.73		

Either with parametric or non-parametric tests (Mann-Whitney [Wilcoxon] and Kruskal-Wallis Test), table 6 shows that the performance of Bank Mandiri is better than Bank Syariah Mandiri, seen from ROA, CAR and BOPO that have greater. While the Bank Syariah Mandiri better in the NPF. This is in accordance with research on the assessment of the performance of banks in Indonesia, the amount of ROA is determined by the bank managers to allocate assets into productive assets.

## 5 CONCLUSIONS

This study found that the amount of assets owned by Bank Syariah Mandiri and Bank Mandiri do not guarantee to obtain high profits. However, the handling of CAR, NPF / NPL and BOPO is getting better. Management should note that the increase in capital adequacy will reduce profits, decreasing the exposure to financial risk will reduce profits. In addition, inefficiencies in cost management, also reduce profits.

Economic growth has a negative and significant impact on profitability, indicating that the income from the community is entirely based on the GDP, while the inflation rate can have a positive or negative impact on the profitability of the bank.

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# Impact of Government Policy on Hajj Funds Transfer on Conventional Bank and Islamic Bank Third Party Funds in Indonesia: Difference in Difference Approach

Eko Fajar Cahyono, M. Fariz Fadillah Mardianto, and Tika Widiastuti  
*Airlangga University, Airlangga Street, Surabaya, Indonesia*  
{ekofajarc, m.fariz.fadillah.m, tika.widiastuti}@feb.unair.ac.id

**Keywords:** Government Policy, Hajj Fund Transfer, Third Party Fund, Difference in Difference.

**Abstract:** This paper aims to examine the impact of government policy that is Regulation of the Minister of Religious Affairs of Indonesia about Banks Receiving Deposit Fees for Hajj in 2013 which contains about the provisions of Islamic banks as the recipient bank deposits of pilgrimage. This paper seeks to investigate how the policy impacts on the performance of third party funds of conventional commercial banks and Islamic commercial banks. The data used includes the amount of third party funds collected by banks and researched for 8 years from 2009 to 2016. This paper uses difference in difference statistical method with the year 2013 as the year of the policy of the transfer of funds. The results showed that there is a significant effect between the policy of hajj fund transfer from conventional banks to Islamic banks to the amount of third party funds collected by conventional banks and Islamic banks. Government policies in Hajj funds have an effect on the decline in third party funds owned by conventional banks and in-and-pilgrim government policies have a significant effect on third party funds in Islamic banks. The implications of this research are the development of Islamic banks, especially Third Party Funds, need to be supported by the Government's policy and the strength of the Law and the implication of knowledge science that provides empirical support on the influence of government policies on the development of Islamic Bank.

## 1 INTRODUCTION

The Indonesian government is paying great attention to the development of Islamic banks because it believes Islamic banks will encourage the real sector because it is free from the elements of interest and unsure of speculation. One of the most important concerns and support from the government towards Islamic banks is the policy of hajj bank recipients. The reason behind the emergence of such a policy is the huge hajj of Indonesia and in the future, the potential for the fund will also be predicted to increase. According to a report from the Kompas daily quoting Abimanyu, the Indonesian Hajj pilgrimage after audited per year in 2016 reaches Hajj funding, both the initial deposit, the value of benefits, and the endowment of the Ummah reached Rp 95.2 trillion. Nevertheless, the large fund is not yet fully absorbed by Islamic banks in Indonesia it can be seen on the news website detikfinance report stating that Haj funds in each conventional banking reached Rp 16 trillion.

The Ministry of Religion sees this situation and seeks to help Islamic banks absorb these funds and fulfill the hopes of pilgrims so that haj funds can be managed by Islamic banks. In 2013 the Government of Indonesia or the Ministry of Religious Affairs shall issue Regulations Regarding Banks Receiving Deposit Haj funds shall be Islamic Banks. This policy is expected that all pilgrim funds can be managed by Islamic Bank and able to improve the performance of Islamic banks. The most influential implication due to the enactment of this policy is the third party funds of both types of banks. Third party funds are funds taken from public funds for the purpose of financial intermediation. With this policy it is suspected that third-party funds of conventional banks will shift to Islamic banks, thereby reinforcing the role of financial intermediation of Islamic banks.

Behavior of economic actors is influenced by several factors and among the factors that are considered important is the government's policy because of its coercive and binding nature and there is no other choice for economic actors besides

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