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Analyzing the Factors Affecting Profit Distribution on Islamic Banking

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Abstract

This research aims to analyze the internal and external factors that have a significant effect on Islamic bank profit distributions so that it can inform the formulation of Islamic bank strategies. The analytical method used is panel data regression. The selected model is Fixed Effect Model, then tested by t-test and f-test. All independent variables in the study simultaneously affect the dependent variable. Partially, there are internal factors that have a significant effect on the profit sharing, namely Main Operating Revenue (POU), Earning Asset based on Collectability (KAP), Financing to Deposit Ratio (FDR), Net Return (NI), Return on Equity (ROE), and the ratio of Operating Expenses to Operating Revenue (BOPO), while internal factors that do not have a significant influence are Depositor Funds (DPK) and Return on Assets (ROA). The external factors that have a significant influence are the conventional bank's 3-month deposit interest rate and inflation, while the external factor of BI rate does not have a significant influence on the profit-sharing of customers.

Keywords*: Profit Distribution, Main Operating Income, Earning Assets Quality, Net Returns, Inflation.*

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1. INTRODUCTION

The development of Islamic banking practices in Indonesia and abroad is clear evidence that the Islamic economy has begun to adapt to the conventional economy which has long been the framework of people's lives in Indonesia and the world. Islamic banking in Indonesia began in 1991 with the establishment of its first Islamic bank, namely PT Bank Muamalat Indonesia on November 1 that year (Muamalat, 2016), and continues to grow until now. In 2020, there are 14 Sharia Commercial Banks (*Bank Umum Syariah*, BUS) with 2,034 offices, and 20 Sharia Business Units (*Unit Usaha Syariah*, UUS) with 392 offices, which is equivalent to 7.79% of the total banking office channeling in Indonesia (Keuangan, 2021).

Table 1.1 Development of Sharia Banking Office Network in Indonesia

No	Network	2015	2016	2017	2018	2019	2020
1	Number of Sharia Commercial Banks (*Bank Umum Syariah*, BUS)	12	13	13	14	14	14
2	Number of Sharia Business Units (*Unit Usaha Syariah*, UUS)	22	21	21	20	20	20
3	Number of Sharia Commercial Bank (BUS)'s Offices	1,990	1,869	1,825	1,875	1,919	2,034
4	Number of Sharia Business Unit (UUS)'s Offices	311	332	344	354	381	392
5	Number of Conventional Commercial Banks	106	103	75	101	96	95
6	Number of Conventional Commercial Banks' Offices	30,984	30,874	30,464	29,748	29,222	28,713
7	Percentage of BUS and UUS	24.29%	24.82%	31.19%	25.19%	26.15%	26.36%
8	Percentage of BUS and UUS' offices	6.91%	6.65%	6.65%	6.97%	7.30%	7.79%

Source: https://www.ojk.go.id

In terms of assets, Indonesian Islamic banking in 2020 recorded an increase from the previous year of 13.23%. However, its achievement in terms of market share is still small, amounting to 6.08% of total banking assets in Indonesia. This means that the banking market in Indonesia is still dominated by conventional banking at 93.92% (Keuangan, 2021).

Table 1.2 Total Assets *(in billion IDR)*

Description	2015	2016	2017	2018	2019	2020
BUS	213,423	254,184	288,027	316,691	350,364	397,073
UUS	82,839	102,320	136,154	160,636	174,200	196,875
Total Assets (BUS and UUS)	296,262	356,504	424,181	477,327	524,564	593,948
BUK	6,095,908	6,729,799	7,387.634	7,913,491	8,562,974	9,177,894
Percentage of BUS and UUS Assets to Total Banking Assets	4.63%	5.03%	5.43%	5.69%	5.77%	6.08%
Percentage of BUK Assets to Total Banking Assets	95.37%	94.97%	94.57%	94.31%	94.23%	93.92%

Source: https://www.ojk.go.id

In 2020, the composition of funding, particularly Third-Party Funds (*Dana Pihak Ketiga*, DPK) for Islamic Banks, is still dominated by investment funds with Time Deposits products (*Deposito*) at 53.65%, followed by Saving Deposits (*Tabungan*) at 31.47% and Demand Deposits (*Giro*) at 14.89%. The trend in the composition of depositor funds (DPK) shows that the public's preference for Islamic banking products is still inclined towards products that share higher yields (Keuangan, 2021).

Table 1.3 Composition of Islamic Banking Third Party Funds *(in Billion IDR)*

Description	2015	2016	2017	2018	2019	2020
a. iB Wadia	32,532	38,361	47,033	54,344	65,751	67,071
1. iB Demand Deposits Wadia	17,327	20,153	24,897	26,435	30,331	31,775
2. iB Saving Deposits Wadia	15,206	18,208	22,137	27,909	35,420	35,297
b. Non-Profit Sharing Investment Fund	197,475	240,974	287,854	317,484	350,807	347,871
1. Demand Deposits	3,859	7,820	15,291	17,161	27,321	29,993
2. Saving Deposits	53,388	66,980	76,361	86,529	97,839	95,280
3. Time Deposits	140,228	166,174	196,202	213,794	225,646	222,598
c. Profit Sharing Investment Fund	1,168	-	-	-	-	-
1. Demand Deposits	8	-	-	-	-	-
2. Saving Deposits	60	-	-	-	-	-
3. Time Deposits	1,101	-	-	-	-	-
Total Demand Deposits	21,193	27,972	40,187	43,597	57,653	61,767
Total Saving Deposits	68,653	85,188	98,498	114,437	133,259	130,577
Total Time Deposits	141,329	166,174	196,202	213,794	225,646	222,598
Total Third-Party Funds	231,175	279,335	334,888	371,828	416,558	414,942
Percentage of Demand Deposits	9.17%	10.01%	12.00%	11.72%	13.84%	14.89%
Percentage of Saving Deposits	29.70%	30.50%	29.41%	30.78%	31.99%	31.47%
Percentage of Time Deposits	61.13%	59.49%	58.59%	57.50%	54.17%	53.65%

Source: https://www.ojk.go.id

The provision of returns to depositors in Islamic banks is different from conventional banks. The amount of return in Islamic banks is adjusted to the amount of income received by Islamic banks, while in conventional banks this is based on the interest rate set at the beginning of an account opening. Therefore, the return provided by Islamic banks will not be the same each month, in contrast to conventional banks, where depositors will receive the same interest every month.

Profit-sharing in Islamic banking is usually given to third-party depositors with a *mudharabah* contract every month based on the Main Operational Revenue obtained by the bank from distributing funds in earning assets (*aktiva produktif*), namely profitable

assets by the selling of goods, profit-sharing, or leasing schemes.

Islamic banking is expected to provide depositors with a higher return than conventional banks so that it can attract more depositors to put their funds in Islamic banks, as well as increase the market share of Islamic banking in Indonesia. This is also due to the fact that the majority of Indonesian people are rational customers in dealing with banks (expecting high returns/profit-sharing) and Islamic banks can be an option for saving funds for both Muslim and non-Muslim communities.

Based on the above background, the authors wish to conduct more in-depth research on the factors that can encourage the competitiveness of Islamic banking, both against fellow Islamic banks and conventional banks, considering the slow development of Islamic banking assets in Indonesia which is still a common concern.

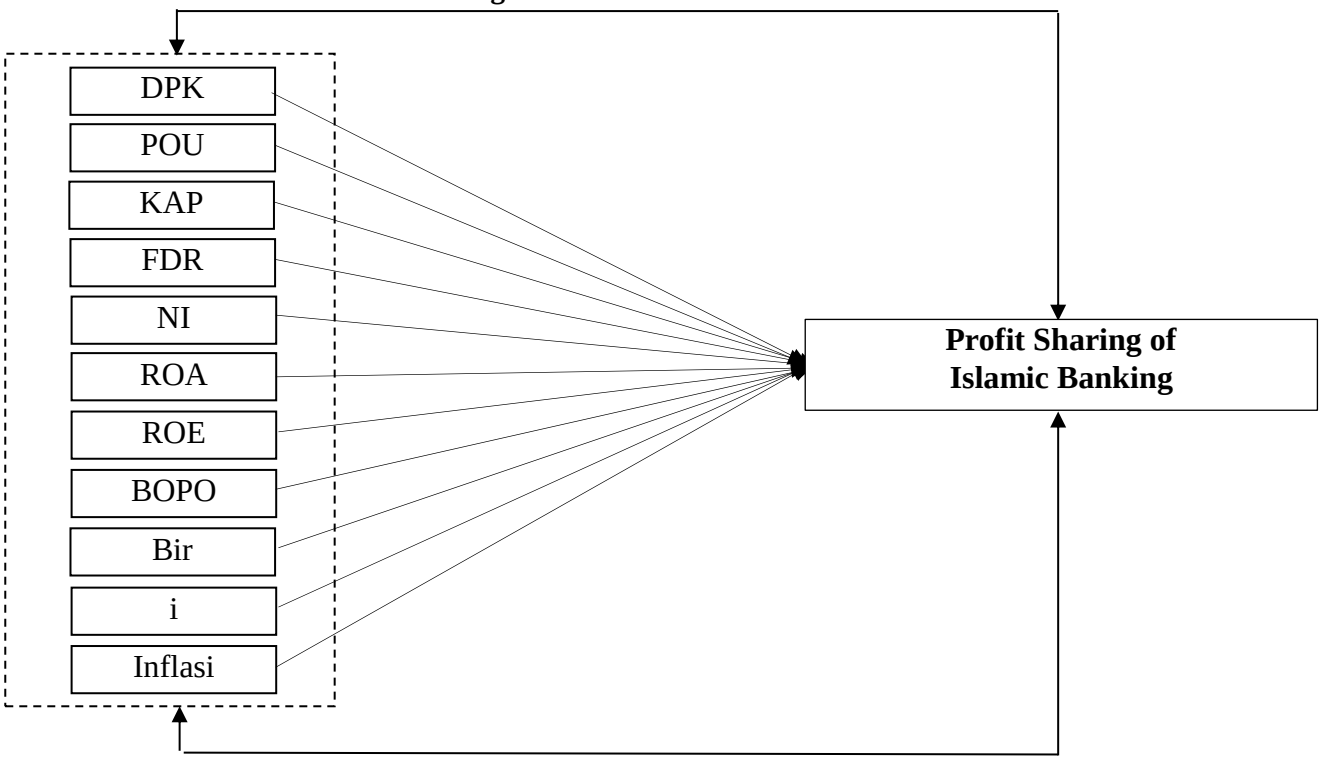
This research uses BUS and UUS financial data published on the official websites of each Islamic bank and the websites of the Financial Services Authority of Indonesia (Otoritas Jasa Keuangan, OJK) and the central bank of Indonesia (Bank Indonesia, BI) for 6 (six) years from 2015 to 2020.

2. METHOD

This research is a quantitative study, consisting of eleven independent variables and one dependent variable. The independent variables in this study are Depositor Funds (*Dana Pihak Ketiga*, DPK), Main Operating Revenue (*Pendapatan Operasi Utama*, POU), Earning Assets based on Collectability (*Kualitas Aktiva Produktif*, KAP), Financing To Deposit Ratio (FDR), Return on Asset (ROA), Return on Equity (ROE), Net Return (*Net Imbalan*, NI), The ratio of Operating Expenses to Operating Revenue (*Biaya Operasional terhadap Pendapatan Operasional*, BOPO), BI *rate*, 3-months deposit interest rate in conventional commercial bank, and inflation. Meanwhile, the dependent variable is the profit sharing of Islamic banking. The data source comes from secondary data in the form of financial statements from 2015 to 2020. Data analysis uses multiple linear regression.

The data which is the object of this research are quarterly financial statements of all Sharia Commercial Banks (BUS) and Sharia Business Units (UUS) operating in Indonesia during the financial reporting period of 2015 to 2020 (6 years), which has been officially published on the websites of each BUS and UUS, the Financial Services Authority of Indonesia (OJK), and Bank Indonesia (BI). The researcher will test the influence of the independent variables on the dependent variable. Its influence will be studied both separately and simultaneously. The research mechanism can be seen in the following framework:

Figure 2.1 Research Framework



DPK : *Jumlah Dana Pihak Ketiga* (Depositor Funds)
POU : *Pendapatan Operasi Utama* (Main Operating Revenue)
KAP : *Kualitas Aset Produktif* (Earning Assets based on Collectability)
FDR : Financing to Deposit Ratio
NI : *Rasio Net Imbalan* (Net Return)
ROA : Return on Asset
ROE : Return on Equity
BOPO : *Beban Operasional terhadap Pendapatan Operasional* (The ratio of Operating Expenses to Operating Revenue)
Bir : BI *Rate*
i : 3-months deposit interest rate in conventional commercial bank
Inflasi : inflation rate set by Bank Indonesia

In conducting the test, the systematics of data analysis techniques are: 1. Model fit test; 2. Regression analysis to explain the relationship between the independent variables and the dependent variable. The next step is the f-test, R^2 test, and t-test. To determine whether such a model can be BLUE (Best Linear Unbiased Estimators), then the following tests are carried out: heteroscedasticity test, multicollinearity test, and autocorrelation test, and; 3. Data interpretation.

The data analysis technique of this research is panel data analysis, which analyzes the combination of various types of data (Winarno, 2009). The panel data analyzed is a combination of cross-sectional data and time-series data (Putri, 2020). The analysis was carried out by using a regression test of the dependent variable and the independent variable. According to Ghozali (2009), the regression test examines the influence of the independent variables on the dependent variable. Furthermore, the evaluation was carried out using an econometric model and tested using Stata Ver 14.2 software.

According to Wibisono (cited in Basuki (2015), the advantages of panel data regression are: 1. Accounts for individual heterogeneity in panel data; 2. The ability to control heterogeneity into panel data and used in testing the behavior of more complex models; 3. Panel data used is based on repeated cross-sectional observations and can be used as SDA; 4. The intensity of observation can have implications for informative and varied data; 5. Panel data is used to study complex subjects, and; 6. Panel data is used to eliminate bias.

Other than the various advantages of the panel data model, there are also problems that may arise from the use of panel data, namely problems of heteroscedasticity, autocorrelation, and cross-correlation. Usman (2005) describes the estimation of the panel data model that can be done using processing techniques such as the Ordinary Least Square (OLS)/Pooled Least Square (PLS) Model, Fixed Effect, and Random Effect Model.

3. RESULT AND DISCUSSION

3.1. Result

Based on the test results from the Chow test and Hausman test, the correct model in this study is the Fixed Effect Model.

Table 3. 1. ***Fixed Effect Model***

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. . xtreg l_baghas l_pou l_dpk kap roa roe ni bopo fdr bir inflasi i, fe

Fixed-effects (within) regression               Number of obs      =       720
Group variable: id                              Number of groups   =        30

R-sq:                                           Obs per group:
     within  = 0.9377                                         min =        24
     between = 0.9646                                         avg =      24.0
     overall = 0.9590                                         max =        24

                                                F(11,679)          =    928.44
corr(u_i, Xb)  = -0.2826                        Prob > F           =    0.0000

------------------------------------------------------------------------------
    l_baghas |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
       l_pou |   1.099087   .014811    74.21   0.000     1.070007    1.128168
       l_dpk |  -.0096476   .0242962   -0.40   0.691    -.0573523     .038057
         kap |  -.6182032   .1897909   -3.26   0.001    -.9908509   -.2455556
         roa |  -.0018774    .393967   -0.00   0.996    -.7754175    .7716626
         roe |   .1235146   .0298033    4.14   0.000     .0649969    .1820322
          ni |  -2.377756   .2149248  -11.06   0.000    -2.799753   -1.955759
       bopo |    .318868   .0484066    6.59   0.000     .2238233    .4139127
         fdr |  -.1136397   .0123158   -9.23   0.000    -.1378213   -.0894581
         bir |  -.5251367   .5356882   -0.98   0.327    -1.576941    .5266678
     inflasi |   .6199015   .3335637    1.86   0.064    -.0350389    1.274842
           i |    2.75695   .8622916    3.20   0.001     1.063871    4.450028
       _cons |  -1.058482   .1767309   -5.99   0.000    -1.405487   -.7114772
-------------+----------------------------------------------------------------
     sigma_u |  .1189444
     sigma_e |  .07360921
         rho |  .72307613   (fraction of variance due to u_i)
------------------------------------------------------------------------------
F test that all u_i=0: F(29, 679) = 37.89                     Prob > F = 0.0000
```

Source: The author's own data processing

Goodness of-Fit Model Test (*R Square*):

The coefficient of determination can be used to test *goodness-fit*. The magnitude of the R-Square in the *Fixed Effect Model* is seen from the *overall R-Square* of 0.9590 (95.90%), in the sense that DV can be explained by IVIwith a value of 99.90%. The model looks valid, then the rest of it is 4.10%.

Simultaneous Effect Test (f-test):

(Prob > F) = 0.0000 means (Prob > F) < Alpha (0.05) in the sense that all IV combined (simultaneously) can have an effect on the dependent variable (l_baghas).

Partial Test (t-test)

The test results for each parameter/independent factor in the regression model show that:

Table 3. 2. Partial Test Results (t-test)

No	Description	Variable	P > | t |	Significance
1	Depositor Funds	l_dpk	0.691	Tidak Signifikan
2	Main Operating Revenue	l_pou	0.000	Signifikan (1%)
3	Earning Assets based on Collectability	kap	0.001	Significant (1%)
4	Financing to Deposit Ratio	fdr	0.000	Significant (1%)
5	Net Return	ni	0.000	Significant (1%)
6	Return on Asset	roa	0.996	Insignificant
7	Return on Equity	roe	0.000	Significant (1%)
8	The ratio of Operating Expenses to Operating Revenue	bopo	0.000	Significant (1%)
9	BI rate	bir	0.327	Insignificant
10	3-months deposit interest rate in conventional commercial bank	i	0.001	Significant (1%)
11	Inflation	inflasi	0.064	Significant (10%)

Source: The author's own data processing

Regression Equation:

Regression equation model:

l_baghas = - 1.0585 - 0.0096 l_dpk + 1.0991 l_pou - 0.6182 kap - 0.1136 fdr - 2.3778 ni - 0.0019 roa + 0.1235 roe + 0.3189 bopo - 0.5251 bir + 2.7569 i + 0.6199 inflasi

The constant - 1.0585 states that if the independent variable is considered constant, the profit sharing in Islamic banking with *mudharabah muthlaqah* funds will decrease by IDR1.0585.

The interpretation of data processing is as follows:

Hypothesis testing (1):

H_0 : $\beta_1 = 0$, This means that the amount of Depositor Funds (DPK) does not significantly affect the determination of the customer's profit sharing

H_1 : $\beta_1 \neq 0$, This means that the amount of Depositor Funds (DPK) does significantly affects the determination of profit sharing in Islamic banking

The t-test at $\alpha = 5\%$ found a value of 0.691 > 0.05 which indicates that the hypothesis H_0: $\beta_1 = 0$ is accepted, or H_1 : $\beta_1 \neq 0$ is rejected. It means that the amount of Depositor Funds (DPK) does not significantly affect the profit-sharing in Islamic banking. So, the hypothesis of the effect of Depositor Funds (DPK) on profit-sharing in Islamic banking is proven not to be evident.

The *l_dpk* regression coefficient of -0.0096 states that for every IDR1 growth of Depositor Funds, the profit-sharing in sharia banking with *mudharabah* funds will decrease by IDR0.0096.

Hypothesis testing (2):

H_0 : $\beta_2 = 0$, This means that the Main Operating Revenue does not significantly affect the determination of the customers profit-sharing.

H_1 : $\beta_2 \neq 0$, This means that the Main Operating Revenue does significantly affect the determination of the customers profit-sharing.

The t-test at $\alpha = 5\%$ found a value of 0.000 < 0.05 which indicates that the hypothesis H_0 : $\beta_2 = 0$ is rejected, or H_1 : $\beta_2 \neq 0$ is accepted. It means that the Main Operating Revenue does significantly affect the distribution of profit-sharing in Islamic banking. So that the hypothesis of the effect of Main Operating Revenue on the provision of profit-sharing in Islamic banking is proven (significantly positive of 1%).

The *l_pou* regression coefficient of 1.0991 states that for every IDR1 growth in Main Operating Revenue, the profit-sharing in sharia banking with *mudharabah* funds will increase by IDR1.0991.

Hypothesis testing (3):

H_0 : $\beta_3 = 0$, This means that the Earning Assets based on Collectability (KAP) does not significantly affect the determination of the customers profit-sharing.

H_1 : $\beta_3 \neq 0$, This means that the Earning Assets based on Collectability (KAP) does significantly affect the determination of the customers profit-sharing.

The t-test at $\alpha = 5\%$ found a value of $0.000 < 0.05$ which indicates that the hypothesis $H_0 : \beta_3 = 0$ is rejected, or $H_1 : \beta_3 \neq 0$ is accepted. It means that the Earning Assets based on Collectability (KAP) does significantly affect the distribution of profit-sharing in Islamic banking. So that the hypothesis of the effect of Earning Assets based on Collectability (KAP) on the provision of profit-sharing in Islamic banking is proven (significantly negative of 1%).

The *kap* regression coefficient of -0.6182 generalizes that for every 1% growth (delta) of the Earning Assets based on Collectability measure, profit-sharing in sharia banking with *mudharabah* funds will decrease by IDR0.6182.

Hypothesis testing (4):

H_0 : $\beta_4 = 0$, This means that the FDR does not significantly affect the determination of the customers profit-sharing.

H_1 : $\beta_4 \neq 0$, This means that the FDR does significantly affect the determination of the customers profit-sharing.

The t-test at $\alpha = 5\%$ found a value of $0.000 < 0.05$ which indicates that the hypothesis $H_0 : \beta_4 = 0$ is rejected, or $H_1 : \beta_4 \neq 0$ is accepted. It means that the FDR does significantly affect the distribution of profit-sharing in Islamic banking. So that the hypothesis of the effect of FDR on the provision of profit-sharing in Islamic banking is proven (significantly negative of 1%).

The *FDR* regression coefficient of -0.1136 means that for every 1% growth in the Financing to Deposits Ratio, the profit-sharing in Islamic banking with *mudharabah muthlaqah* funds will decrease by IDR0.1136.

Hypothesis testing (5):

H_0 : $\beta_5 = 0$, This means that the Net Return does not significantly affect the determination of the customers profit-sharing.

H_1 : $\beta_5 \neq 0$, This means that the Net Return does significantly affect the determination of the customers profit-sharing.

The t-test at $\alpha = 5\%$ found a value of $0.000 < 0.05$ which indicates that the hypothesis $H_0 : \beta_5 = 0$ is rejected, or $H_1 : \beta_5 \neq 0$ is accepted. It means that the Net Return does significantly affect the distribution of profit-sharing in Islamic banking. So that the hypothesis of the effect of Net Return on the provision of profit-sharing in Islamic banking is proven (significantly negative of 1%).

The *ni* regression coefficient of -2.3778 states that for every 1% increase in Net Return, the profit-sharing in Islamic banking with *mudharabah* funds will decrease by IDR2.3778.

Hypothesis testing (6):

H_0 : $\beta_6 = 0$, This means that the Return on Asset does not significantly affect the determination of the customers profit-sharing.

H_1 : $\beta_6 \neq 0$, This means that the Return on Asset does significantly affect the determination of the customers profit-sharing.

The t-test at $\alpha = 5\%$ found a value of $0.996 > 0.05$ which indicates that the hypothesis $H_0 : \beta_6 = 0$ is accepted, or $H_1 : \beta_6 \neq 0$ is rejected. It means that the ROA does not significantly affect the distribution of profit-sharing in Islamic banking. So that the hypothesis of the effect of ROA on the provision of profit-sharing in Islamic banking is not proven.

The *roa* regression coefficient of -0.0019 states that for every 1% increase in ROA, the profit-sharing in Islamic banking with *mudharabah* funds will decrease by IDR0.0019.

Hypothesis testing (7):

H_0 : $\beta_7 = 0$, This means that the Return on Equity does not significantly affect the determination of the customers profit-sharing.

H_1 : $\beta_7 \neq 0$, This means that the Return on Equity does significantly affect the determination of the customers profit-sharing.

The t-test at $\alpha = 5\%$ found a value of $0.000 < 0.05$ which indicates that the hypothesis $H_0 : \beta_7 = 0$ is rejected, or $H_1 : \beta_7 \neq 0$ is accepted. It means that the Return on Equity does significantly affect the distribution of profit-sharing in Islamic banking.

The *roe* regression coefficient of 0.1235 states that for every 1% increase in ROE, the profit-sharing in Islamic banking with *mudharabah* funds will increase by IDR0.1235.

Hypothesis testing (8):

H_0 : $\beta_8 = 0$, This means that the ratio of Operating Expenses to Operating Revenue does not

significantly affect the determination of the customers profit-sharing.

H_1 : $\beta_8 \neq 0$, This means that the ratio of Operating Expenses to Operating Revenue does significantly affect the determination of the customers profit-sharing.

The t-test at $\alpha = 5\%$ found a value of $0.000 < 0.05$ which indicates that the hypothesis $H_0 : \beta_8 = 0$ is rejected, or $H_1 : \beta_8 \neq 0$ is accepted. It means that BOPO does significantly affect the distribution of profit-sharing in Islamic banking. So that the hypothesis of the effect of BOPO on the provision of profit-sharing in Islamic banking is proven (significantly positive of 1%).

The *bopo* regression coefficient of 0.3189 states that for every 1% increase in BOPO, the profit-sharing in Islamic banking with *mudharabah* funds will increase by IDR0.3189.

Hypothesis testing (9):

H_0 : $\beta_9 = 0$, This means that the BI rate does not significantly affect the determination of the customers profit-sharing.

H_1 : $\beta_9 \neq 0$, This means that the BI rate does significantly affect the determination of the customers profit-sharing.

The t-test at $\alpha = 5\%$ found a value of $0.327 > 0.05$ which indicates that the hypothesis $H_0 : \beta_9 = 0$ is accepted, or $H_1 : \beta_9 \neq 0$ is rejected. It means that the BI rate does not significantly affect the distribution of profit-sharing in Islamic banking.

The *bir* regression coefficient of -0.5251 states that for every 1% increase in BI Rate, the profit-sharing in Islamic banking with *mudharabah* funds will decrease by IDR0.5251.

Hypothesis testing (10):

H_0 : $\beta_{10} = 0$, This means that the 3-months deposit interest rate in conventional commercial bank does not significantly affect the determination of the customers profit-sharing.

H_1 : $\beta_{10} \neq 0$, This means that the 3-months deposit interest rate in conventional commercial bank does significantly affect the determination of the customers profit-sharing.

The t-test at $\alpha = 5\%$ found a value of $0.001 < 0.05$ which indicates that the hypothesis $H_0 : \beta_{10} = 0$ is rejected, or $H_1 : \beta_{10} \neq 0$ is accepted. It means that the 3-months deposit interest rate in conventional commercial bank does significantly affect the distribution of profit-sharing in Islamic banking. So that the hypothesis of the effect of the 3-months deposit interest rate in conventional commercial bank on the provision of profit-sharing in Islamic banking is proven (significantly positive of 1%).

The *i* regression coefficient of 2.7569 states that for every 1% increase in the 3-months deposit interest rate in conventional commercial bank, the profit-sharing in Islamic banking with *mudharabah* funds will increase by IDR2.7569.

Hypothesis testing (11):

H_0 : $\beta_{11} = 0$, This means that inflation does not significantly affect the determination of the customers profit-sharing.

H_1 : $\beta_{11} \neq 0$, This means that inflation does significantly affect the determination of the customers profit-sharing.

The t-test at $\alpha = 5\%$ found a value of $0.064 > 0.05$ but $0.064 < 0.1$ which indicates that the hypothesis $H_0 : \beta_{11} = 0$ is accepted, or $H_1 : \beta_{11} \neq 0$ is rejected. It means that inflation does significantly affect the distribution of profit-sharing in Islamic banking. So that the hypothesis of the effect of inflation on the provision of profit-sharing in Islamic banking is proven (significantly positive of 1%).

The *inflasi* regression coefficient of 0.6199 states that for every 1% increase in inflation, the profit-sharing in Islamic banking with *mudharabah* funds will increase by IDR0.6199.

3.2. Discussion

The results of the above test show that the factors that can have a statistically significant effect on profit-sharing of Islamic banking are: POU (l_pou), KAP, FDR, ROE, BOPO, 3-months deposit interest rate in conventional commercial bank (i), and inflation (inflation). While the factors that are not statistically significant are: Depositor Funds (l_dpk), Return on Assets (roa), and BI rate (bir). If a Sharia Bank wants the level of profit sharing provided to its customers to be competitive, the management of Islamic banks is advised to: 1. To increase the main operating income (POU) by increasing the amount of financing to customers who have Character , Capacity, Capital, Condition and Collateral (5C) and restructuring non-performing customers (NPF). 2. Maintain financial ratios to comply regulations such as: KAP, FDR, ROE, BOPO. 3. Consider changes in interest rates for three-month deposits of conventional banks (i), and inflation (inflation) in providing profit sharing to customers.

Based on the test results, the effect on the profit sharing of Islamic banking is discussed as follows:

Depositor Funds Variable (l_dpk)

The amount of DPK does not affect the profit-sharing in Islamic banking. This is in line with the findings of Tugiantoro (2014) and Vustany (2006), which state that DPK does not affect the customer's profit-sharing, in contrast to the findings of Rachman dkk (2017), which state that the amount of DPK affects the profit-sharing to customers.

When the amount of DPK is proven to not affect the profit-sharing provided by Islamic banks and its competitiveness against conventional banks, it is not recommended for Islamic bank management to continue to increase DPK growth in order to increase its profit-sharing and its competitiveness.

Main Operating Revenue Variable (l_pou)

This study finds that Main Operating Revenue affects profit-sharing in Islamic banking. This is in line with the studies of Tugiantoro (2014), Vustany (2006), which state that Main Operating Revenue influences customer profit-sharing.

Main Operating Revenue is the bank's revenue from the distribution of funds in the form of productive assets. Recognition of bank revenue is based on an accrual and cash basis. The profit-sharing in Islamic banking is based on the revenue received by the bank in cash (cash basis). So, the greater the amount of Main Operating Revenue, the greater the profit-sharing provided by Islamic banks. Main Operating Revenue greatly influences the profit-sharing provided by Islamic banks. Therefore, Islamic banks must maintain the quality of their productive assets and avoid defaulted financing so that the expected revenue can be achieved according to the plan. If Islamic bank revenue is high, the profit-sharing provided will also high, so that Islamic banks can compete with conventional banks.

Earning Assets based on Collectability Variable (kap)

Earning Asset Quality Ratio has an influence on profit-sharing in Islamic banking. This finding is different from the findings of Tugiantoro (2014) that Non-Performing Financing (NPF) has no effect on the provision of profit-sharing. The NPF in question is the same as the quality or collectability of the earning assets referred to by the author.

This study found that the quality of Earning Assets, expressed in the classification of the ratio of NPF to total earning assets (collectability 2, 3, 4, 5), has an influence on the profit-sharing of Islamic banks. Therefore, Islamic banks must maintain the quality of their earning assets so that they are always performing or have collectability levels 1 and 2 as stipulated by the OJK. The quality of earning assets must always be maintained so that the expected revenue of Islamic banks can be achieved according to plan. If the income of Islamic banks is high, the profit-sharing for depositors with *mudharabah* contracts will also be high, competitive with conventional banks.

Financing to Deposit Ratio Variable (fdr)

FDR has an influence on the profit sharing of Islamic banking, in line with the findings of Vustany (2006), and contrary to the findings of Tugiantoro (2014) which state that FDR has no effect on profit sharing and findings of Astuti (2021) which state that FDR has a positive effect but does not affect the profitability of Islamic banking in Indonesia and Malaysia.

Considering that the FDR ratio affects the profit-sharing, Islamic banks are advised to maximize FDR so that they can provide maximum profit sharing and can compete with conventional banks, while still complying with the FDR ratio regulated by the OJK.

Net Return Variable (ni)

Net Returns influences the profit-sharing of Islamic banks. There has been no previous research that measures the influence of the Net Returns Variable (ni) on profit-sharing of Islamic banks.

Given this findings, Islamic Banks are advised to continue to increase this net return ratio. The higher the *ni* ratio, the better the performance of Islamic banks. That way, Islamic banks will be able to provide higher profit-sharing and increase their competitiveness.

Return on Asset Variable (ROA)

ROA has no effect on profit-sharing in Islamic banks, contrary to Mismiwati (2019) which found that Profit Distribution Management was significantly affected by ROA.

ROA does not affect the profit-sharing provided by Islamic banks. This is due to the fact that most of the banks in the study experienced a decline in revenue, resulting in a decline in Return on Assets, especially after COVID-19 began to hit Indonesia around February 2020. To increase ROA, Islamic Banks must improve their asset structure, especially productive assets with good quality/collectability and can generate maximum profit, to increase revenue and ROA ratio.

Return on Equity Variable (ROE)

Return on Equity has an influence on the profit-sharing provided by Islamic banks, in line with Dwijayanti (2016) who found that the profit distribution of *mudharabah* deposit products is greatly influenced by ROE.

Given these findings, Islamic banks are advised to continue to increase the ROE ratio. The higher the ROE ratio, the better the performance of Islamic banks, which in turn leads to high profit-sharing that they can provide.

The ratio of Operating Expenses to Operating Revenue Variable (bopo)

BOPO has an effect on the profit-sharing provided by Islamic banks, in accordance with many previous studies. However, this is different from Mismiwati (2019) which found that Profit Distribution Management was not significantly affected by BOPO and findings of Astuti (2021) which state that BOPO has a positive effect but does not affect the profitability of Islamic banking in Indonesia and Malaysia.

With these findings, Islamic banks are advised to continue to improve the BOPO ratio by making it lower or more efficient. The low BOPO ratio will increase the competitiveness of Islamic banks in the banking industry.

BI rate Variable (bir)

This study finds that the BI rate does not affect the profit-sharing of Islamic banking, in accordance with Tugiantoro (2014) and Vustany (2006).

The BI rate is issued by the monetary authority (BI) in a meeting of the BI Board of Governors to create healthy competition among banks. The BI rate is used as the basis by conventional banks in determining the interest rate for customer deposits. In practice, Islamic banks do not only compete with fellow Islamic banks, but also with conventional banks. Therefore, the BI rate is often used as a factor in calculating the pricing ratio of Islamic banking. However, this study found that the BI rate has no effect on the profit-sharing provided by Islamic banks. This means that Islamic banks do not take into account the BI rate factor in determining depositor pricing ratios.

3-months Deposit Interest Rate in Conventional Commercial Bank Variable (i)

The three-month deposit interest rate of conventional banks has an influence on the profit-sharing provided by Islamic banks, confirming the findings of Tugiantoro (2014). This finding is also in line with Sudin Haron & Norafifah Ahmad who found that profit is the main consideration for customers in saving funds at Islamic banks in Malaysia, and Mawardi (2005) who found that the one-month deposit interest rate of conventional banks has an influence on profit sharing for customers.

However, this study differs from Vustany (2006) who found that the 12-month deposit interest rate had no significant effect on profit-sharing. This difference is because this study was conducted only on Bank Muamalat, with different periods and variables. The variable examined in another study is the interest rate for 1-month deposits of conventional commercial banks, while the variable that is examined in this study is the interest rate for 3-month deposits of conventional commercial banks.

The term of deposits generally can be one month, three months, six months, or twelve months. In determining pricing, the internal factors of each bank are also included in the calculation. If deposit interest rates of conventional commercial banks are still a factor in determining the profit-sharing of Islamic banks, sometimes it can cause moral hazard from Islamic banks in distributing profit-sharing by giving rights that should be the bank's revenue or vice versa. Islamic banks must be more competitive in providing profit-sharing to depositors but must also avoid moral hazards. Customer profit-sharing is the bank's obligation to provide compensation or incentives for funds managed by the bank according to the agreement in the contract.

Inflation Variable

Inflation has an effect on the profit sharing provided by Islamic banks, in line with the findings of Arfiani et al. (2017). Inflation data released by BI is expected to create a controlled economy, and especially in the banking sector, healthy competition among banks. In practice, Islamic banks not only compete with fellow Islamic banks but also compete with conventional commercial banks. The inflation rate is often assumed as a factor in determining pricing by Islamic banks which is in line with the test results. Islamic banks are advised to take into account the prevailing inflation rate to increase profit-sharing and compete with conventional banks.

4. CONCLUSIONS

This study examines the factors that are considered to influence the profit-sharing of Islamic

banks in Indonesia in real terms. The criteria for the scope of this study are commercial banks that carry out full sharia business (BUS) and Sharia Business Units of a Conventional Bank (UUS) with a period starting from the first quarter of 2015 to the fourth quarter of 2020. The conclusions of this study are:

Internal factors that influence the profit-sharing provided by Islamic banks are Main Operating Revenue (POU), Financing to Deposit Ratio (FDR), Earning Assets based on Collectability (KAP), Return on Equity (ROE), The ratio of Operating Expenses to Operating Revenue (BOPO), and Net Return (NI). While the internal factors that do not have a significant influence are Return on Assets (ROA) and Depositor Funds (TPF). The management of Islamic banks is advised to keep increasing Main Operating Revenue (POU), improve the quality/collectability of earning assets by always maintaining ratios according to OJK regulations, increase the ratio of Net Returns (NI), Return on Equity (ROE), and keep reducing the BOPO ratio to maximize the level of profit-sharing. The increase in Depositor Funds (DPK) and the high ratio of Return on Assets (ROA) should not be the target of Islamic bank management for increasing their profit-sharing.

External factors that have a significant effect are the three-month deposit interest rate of conventional commercial banks (i) and inflation, while the BI rate (bir) does not affect the profit-sharing provided by Islamic banks. The three-month deposit interest rate for conventional commercial banks (i), as well as inflation data released by BI, can be a reference for the management of Islamic banks if they want to be more competitive with conventional banks. This can be taken into account or become a reference in determining the *nisbah* that will be given by Islamic banks, because in practice Islamic banks must also compete with conventional banks. Meanwhile, Islamic banks do not need to take into account the BI rate (bir) as a reference for determining the *nisbah* of Islamic banks.

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