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JOURNAL OF ISLAMIC ECONOMICS AND FINANCE

Vol. 10 | No. 2 | July - December 2021

FACULTY OF ISLAMIC ECONOMICS AND BUSINESS
UNIVERSITAS ISLAM NEGERI AR-RANIRY

Share

Jurnal Ekonomi dan Keuangan Islam
Vol. 10, No. 2, 2021 P-ISSN 2089-6239, E-ISSN 2549-0648

Alamat Redaksi
Share: Jurnal Ekonomi dan Keuangan Islam
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ISSN: 2089-6239 (P); 2549-0648 (E)
Vol. 10, No. 2, 2021; pp. vi-viii
DOI: 10.22373/share.v10i2.11997

EDITORIAL NOTES

Issues in Islamic Banking and Financial Institutions during the Covid-19 Pandemic

Bismillah. This is the second issue for the 2021 edition (Volume 10, Number 02, July – December 2021). In the past two years, we have witnessed the Covid-19 spreading all around the globe. We have seen its impact on our lives and economy. We also observed the efforts made by many countries in solving the pandemic. As always, our optimism continues to grow as we all have worked very hard to reduce the impact and prevent new variants from coming. Let us pray that all readers, authors, editors, reviewers, and families are always in good health and the protection of Allah SWT.

In this issue, we mostly received manuscripts discussing the challenges of Islamic Banking and Financial Institutions (IBFIs) within the Covid-19 pandemic. Specifically, they discuss various topics within the field, such as institutional and employees' performances, financial stability, waqf institutions, the trend of Islamic economics research, and the relevance of Islamic economics and finance essential components to the modern economy. Approaching the publication deadline, only ten were accepted out of the dozen manuscripts that were reviewed. Nine were ready for publication, while the rest still needed quality improvements.

As for the process, each manuscript will have to pass an initial review from our editor(s) before forwarding it to suitable reviewers. Some manuscripts would have to go through several rounds before being accepted. The reviewers' feedback was taken into consideration to provide the final decisions. Following that, the manuscripts would have to pass the editing stages, including proof-reading and layout, where our editor(s) will intensely communicate with the authors if needed. It is to ensure that each published manuscript has undergone a quality check. Interestingly, of the published articles, five of them discuss the performance issues in Islamic financial institutions, whilst the rest discuss Islamic economics and financial matters in other topics ranging from waqf institutions, the trend of Islamic economics research, to the relevance of Islamic economics and finance essential components to the modern economy.

As I mentioned earlier, the first five articles discuss the performance topics within Islamic financial institutions. It begins with an exciting article by Qudratullah that measured the Islamic stock performance in Jakarta Islamic Index with a modified Sharpe Ratio. The author modified it by replacing the interest rate and testing it with four approaches. He found very high suitability for using these models in other circumstances. He concluded that risk-free returns could be measured using these four approaches, especially inflation and GDP, on the concept of Islamic finance.

In the next row, Purnama et al. discuss the factors affecting collateral valuation performance during the covid-19 pandemic in an Islamic bank in Indonesia. Specifically, the study analyzes the performance of collateral appraisers during the Covid-19 pandemic by using the variables of competence, motivation, and work stress as exogenous variables and satisfaction as mediating variables. They concluded that competence, inspiration, and satisfaction positively and significantly affected performance. In contrast, job stress had a negative and significant effect on the satisfaction and performance of collateral appraisers.

Another performance issue is discussed by Kismawadi et al. as they aimed to determine the effect of the Capital Adequacy Ratio (CAR), Non-Performing Financing (NPF), and Operational Efficiency Ratio (OER) at Islamic Commercial Banks in Indonesia. The authors employed panel data regression with the Random Effect Model (REM) model to analyze the data. They found that the OER variable has a negative and significant effect on Return on Assets (ROA), while NPF and CAR do not significantly affect ROA. Simultaneously, the variables of CAR, NPF, and OER affect ROA. The results suggest that Islamic banks have to be seriously concerned about efficiency.

The discussion on a performance topic continues in Setiawan’s study. He examined the factors that influence financing risk on the financial performance of Islamic banking in Indonesia. Using multiple regression estimation techniques, the author analyzed the data with the Ordinary Least Square (OLS) method. This study revealed that the Islamic banks’ financing risk is significantly influenced by bank capital, financing, economic growth, inflation, and central bank’ rate (BI rates), both negatively and positively. Setiawan found that economic growth is the most influential factor in reducing financing risk, while financing risk is the most significant factor in improving banks’ financial performance.

The last performance topic in this issue is discussed by Hanafi et al. It is fascinating to know the relationship between the characteristics of the Sharia Supervisory Board (SSB) and Good Corporate Governance (GCG) on the performance of Islamic Banks (IBs). The study found that SSB with the academic position as professor shows a significant positive relationship on IBs performance. Meanwhile, SSB with doctoral education has no positive connection with IBs’ performance. They also empirically revealed that educational background significantly affects IBs' performance.

Another interesting topic discussed in this issue is the financial stability determination for Islamic insurance companies in Indonesia. In the study, Hendra et al. found that financial stability is significantly affected by investment, insurance premiums, independent boards, and institutional ownership. In contrast, the capital structure, sharia supervisory board, and board of directors do not affect financial stability. Increasing the number of participant contributions and strategic investments should be the matters that the companies’ managers should focus on.

Among topics that are always interesting to discuss are Islamic social funds, including waqf. In this issue, we published a work by Saidu, Cizakca & Wilson that discusses the challenges of waqf institutions in Nigeria. This study attempts to formulate workable prescriptions for waqf development in that country. Data were gathered from relevant documents, such as related local regulations and the result of previous studies. Considering the normative characteristics for the functionality of the waqf institution, the data were analyzed using documentary inquiry, legal reasoning, descriptions, narratives, and critical studies on the waqf system in Nigeria. The findings indicate a dire need for dedicated legislation for waqf operations in the country to establish a sound and well-functioning waqf system. He urged that the future law on waqf should incorporate the policy briefs contained in this paper.

In the next section, an article by Aminy et al. discusses the trend of Islamic economic studies listed on SINTA, the official Indonesian indexing website. They used 114 published papers and analyzed them using quantitative descriptive with bibliometric analysis. This study found that most papers are published by “Al-Iqtishad: Jurnal Ilmu Ekonomi Syariah”, owned by Syarif Hidayatullah State Islamic University. The qualitative approach is mostly used by research samples, which accounted for 64.91%. The Islamic economic research in Indonesia is dominated by Islamic bank topics: efficiency, profitability, liquidity, and Non-Performing Financing (NPF). They suggested that further researchers should focus on Islamic or Sharia values implemented within Islamic banks and observe broader problems like poverty and its solving problem.

The last article on this issue still discussed the topic of Islamic economics. The author, Soemitra, seeks the relevance of Islamic economics and finance fundamental values to the modern economy based on the Islamic economists’ perspective. This research was conducted with a qualitative design by conducting a structured survey and in-depth interviews with 61 participants. It shows that the Islamic economists perceived the Islamic economics and finance fundamental values to be relevant to the modern economy. The values are also considered better in overcoming economic and financial problems, thus achieving Islamic goals of public prosperity.

Finally, I would like to thank those who have been helpful in organizing the day-by-day operation of the journal, including our editors, reviewers, and administrative staff. We also thank our friends at the Rumah Jurnal UIN Ar-Raniry, who has also been supportive in keeping the journal meet the academic standards. We invite practitioners and academia in the Islamic economics and finance field to submit their original research papers. For questions or inquiries, please contact us at: jurnal.share@ar-raniry.ac.id.

Wassalam,

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Received: 10 August 2021; Revised: 18 November 2021; Accepted: 20 November 2021

MEASURING ISLAMIC STOCK PERFORMANCE IN INDONESIA WITH A MODIFIED SHARPE RATIO

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ABSTRACT - Since the late 1960s, one of the stock performance analysis tools commonly used is Sharpe Ratio. The Sharpe Ratio consists of three components, namely stock return, risk-free returns, and stock risk. Many studies approach risk-free returns with interest rates, including when measuring the performance of Islamic stocks, while interest rates are prohibited in the concept of Islamic finance. Moreover, the stock risk is measured by a standard deviation which assumes returns are normally distributed, while many stock returns are non-normally distributed. This paper intends to measure the performance of Islamic stocks listed on the Indonesian Stock Exchange (IDX) for the period of January 2011 to July 2018 using a modified Sharpe Ratio. The ratio is modified by replacing the interest rate with four approaches: eliminating the interest rate, changing with zakah rates, changing with inflation, changing with the nominal gross domestic product, and replacing the risk measurement from Standard Deviation to Value at Risk (VaR). The findings provide almost the same results as the original measurement and thus, show very high suitability for using these models in other circumstances. Therefore, on the concept of Islamic finance, risk-free returns can be measured using these four approaches, especially inflation and GDP. This study also recommends inflation and GDP to measure risk-free returns in the Sharia's Compliant Asset Pricing Model (SCAPM) or Islamic Capital Asset Pricing Model (ICAPM).
Keywords: Islamic Finance, Islamic Stock Performance, Modification Sharpe Ratio, and Value at Risk

ABSTRAK – Pengukuran Kinerja Saham Syariah di Indonesia menggunakan Sharpe Ratio Modifikasi. Sejak akhir 1960-an, salah satu alat mengukur kinerja saham yang biasa digunakan adalah *Sharpe Ratio*. Model *Sharpe Ratio* terdiri atas tiga komponen, yaitu *return* saham, *return* bebas risiko, dan risiko saham. *Return* bebas risiko diukur mengunakan variabel suku bunga yang digolongkan riba dan dilarang dalam konsep keuangan islam. Sedangkan risiko saham diukur dengan standar deviasi yang mengasumsikan data berdistribusi normal. Paper ini bertujuan untuk mengukur kinerja saham syariah yang terdaftar pada Bursa Efek Indonesia (BEI) untuk periode Januari 2011 sampai Juli 2018 dengan menggunakan Sharpe Ratio modifikasi. Kajian akan memodifikasi model *Sharpe Ratio* dengan mencari variabel alternatif penganti suku bunga dengan empat pendekatan, yaitu: menghilangkan variabel suku bunga tersebut, mengganti dengan *zakat rate*, mengganti dengan inflasi, dan mengganti dengan produk domestik bruto, serta mengganti standar deviasi dengan *Value at Risk* (VaR) sebagai pengukur risiko saham yang selanjutnya diimplementasikan pada pasar modal syariah di Indonesia periode Januari 2011 - Juli 2018. Hasil kajian menunjukkan kesesuaian yang sangat tinggi untuk hasil pengukuran kelima model tersebut. Dilihat dari kedekatan hasil pengukuran kinerja, kelima model tersebut dapat dikelompokkan menjadi dua, yaitu model dengan tingkat suku bunga, inflasi, dan PDB sebagai kelompok pertama, sedangkan model tanpa suku bunga dan tingkat zakat sebagai kelompok kedua.
Kata Kunci: *Keuangan Islam, Kinerja Saham Syariah, Modifikasi Sharpe Ratio, dan Value at Risk*

INTRODUCTION

Investment, according to Islam, is a *muamalah* activity that is highly recommended. By investing, owned assets become productive so they can bring benefits to themselves and others. In general, investment can be divided into real sector investment and financial sector investment. One form of investment rapidly growing financial sector in line with the development of information technology is investing in stocks on the capital market.

The countries that first implemented Islamic principles in the capital market were Jordan in 1978, followed by Pakistan in 1980. Presently, Islamic mutual funds are operating mainly in Saudi Arabia, UAE, Bahrain, Kuwait, Qatar, Pakistan, Malaysia, Brunei, Singapore, Germany, Ireland, the UK, the USA, Canada, Switzerland, and South Africa (Ayub, 2007; Aulia, Ibrahim, & Tarigan, 2020). In Indonesia, the Islamic capital market started on July 3, 2000, when the Jakarta Stock Exchange (JSX) published a list of Islamic mutual funds, stocks, and bonds in the Jakarta Islamic Index (JII).

Since then, the Islamic capital market in Indonesia has experienced significant growth and shows the potential for development from year to year. Based on the State of the Global Islamic Economy (GEI) Report in the last four years (2015/2016, 2016/2017, 2017/2018, and 2018/2019), Indonesia has always been in the top ten countries in the world that have health and development in the field of Islamic Finance. From 2015 - 2018, the number of Islamic stocks in Indonesia increased by 25%, with large capitalization up by around 46%.

Table 1. Indonesian Capital Market 2015 - 2018

Description	**Year**			
	2015	**2016**	**2017**	**2018**
Number of Stock	521	537	566	619
Number of Islamic Stock	331	345	393	414
Large Stock Capitalization*)	4796,80	5753,61	7052,39	7023,50
Large Islamic Stock Capitalization *)	2600,85	3175,05	3704,54	3666,69

*) in Trillion Rupiah

Source: Otoritas Jasa Keuangan - data processed (2019)

Stock investments in the capital market, including Islamic stocks, are investments with high risk but a high level of profit (high risk-high return), whereas markets with higher returns exhibit high volatility (Rejeb & Arfaoui, 2019; Ibrahim & Rahmati, 2017). Careful consideration is needed before deciding to invest. Muslim investors should understand 'How to choose Islamic stocks to be invested?'. They do not only expect to gain maximum returns, but their investments are also in harmony with Islamic principles (Yani et al., 2020; Dimitha, Ibrahim, & Ahmadsyah, 2021). Therefore, before deciding to invest, the investors should analyze the performance of the targeted stocks.

Since the late 1960s, one of the stock performance analysis tools commonly used is Sharpe Ratio. The ratio consists of three components, namely stock return, risk-free returns, and stock risk. Research on the performance analysis of Islamic stocks in Indonesia using the Sharpe Ratio has been done and usually combines with Treynor Ratio and Jansen Index (Utami & Nugraha, 2011; Hasbullah et al., 2013; Setiawan & Oktariza, 2013; Andhyka, 2017; Susilo & Najah, 2018). Some studies compare the performance of Islamic mutual funds (stocks) and conventional mutual funds (stocks) (Hanafi & Hanafi, 2012; Hamzah & Yohanes, 2014; Lestari, 2015; Kusumawati, 2016; Huda, 2017). In these studies, risk-free returns in the Sharpe Ratio model are still approached with interest rates, the rate of Bank Indonesia Certificates, or BI Rate.

The concept of interest rates in Islam is classified as *riba*, which is expressly prohibited in the Qur'an (QS. Ali Imran (130)).

يَا أَيُّهَا الَّذِينَ آمَنُوا لَا تَأْكُلُوا الرِّبَا أَضْعَافًا مُضَاعَفَةً ۖ وَاتَّقُوا اللَّهَ لَعَلَّكُمْ تُفْلِحُونَ

> *'O people who believe, do not eat usury by multiplying and fearing God so that you may have good fortune'* (QS. Ali Imran:130)

Some researchers—such as Kurniawan and Asandimitra (2014), Rumintang and Azhari (2015), Tulasmi and Trihariyanto (2016), Lailiyah and Setiawan (2020)—approaching risk-free returns using Bank Indonesia Syariah Certificates (SBIS) or Bank Indonesia Syariah Wadiah Deposits (SWBI). In contrast, numerous studies from various Islamic countries were still conducted studies using the interest rates from their respective countries, such as the Kuala Lumpur Inter-Bank Offered Rate (KLIBOR) (Mansor & Bhatti, 2011; Albaity & Ahmad, 2008), Saudi Inter-Bank Offered Rate (SIBOR) (Merdad et al., 2010; Ashraf, 2013), Karachi Inter-Bank Offered Rate (KIBOR) (Sheikh, Ismail, Ismail, Shamimi, & Shafiai, 2019). Another approach is the Treasury bill rate (Rakhi et al., 2018; Haroon et al., 2019; Ahmed et al., 2020; Trabelsi et al., 2020; Asutay et al., 2021).

Efforts to find a substitute variable for interest rates with other variables that do not conflict with Islamic financial principles have been carried out by Tomkins and Karim (1987), Sheikh (2009), El-Ashker (1987), and Hanif (2011), all of whom modified the Capital Asset Pricing Model (CAPM). Tomkin and Karim eliminated interest rate, Sheikh replaced GDP, El-Ashker replaced zakah rate, and Hanif replaced inflation. Furthermore, these models are known as Sharia's Compliant Asset Pricing Model (SCAPM) or Islamic Capital Asset Pricing Model (ICAPM). Qudratullah (2019) had applied these approaches in measuring the performance of Islamic stocks in Indonesia using the Treynor Ratio.

In addition, the risk of the stock on the Sharpe Ratio is measured by standard deviations that assume returns that are normally distributed. In fact, many stock returns are abnormally distributed (Borowski, 2018). Because Sharpe Ratio is a reward-to-risk ratio, many studies replace standard deviations with other risk measures, such as Sortino & Price (1994) and Ziemba (2005) substituted standard deviations with downside deviations. Down (2000), Gregoriou & Gueyie (2003), and Alexander & Baptista (2003) used Value at Risk (VaR) to measure risk in the Sharpe Ratio. Aloui & Ben Hemida (2015) stated that VaR took great importance since the recommendation of the Basel Committee in 1996 (Elkamiliati & Ibrahim, 2014; Arabi & Abdelmageed, 2018).

Based on the aforementioned facts, this paper intends to measure the performance of stocks listed on the Jakarta Islamic Index (JII) for January 2011 to July 2018 using a modified Sharpe Ratio. The ratio modification includes changing interest rates with four approaches: eliminating the interest rates, changing with zakah rates, changing with inflation, and changing with GDP; plus and changing risk measurement tool from Standard Deviation to Value at Risk (VaR). The results of this study are expected to shed light on the Islamic capital market, particularly on the suitability for the modification.

LITERATURE REVIEW

Jakarta Islamic Index (JII)

On July 3, 2000, the Indonesia Stock Exchange, in cooperation with PT Danareksa Investment Management (DIM), launched a stock index based on Islamic sharia, the Jakarta Islamic Index (JII). This index is expected to be a benchmark for Sharia-based stocks' performance and further develop the Islamic capital market. JII consists of 30 shares selected from stocks following

Islamic sharia, whose shares are conducted by Bapepam-LK in collaboration with the Dewan Syariah Nasional (DSN) every six months through two stages, namely sharia selection and transaction volume value selection.

Sharia Selection
Emitents do not run gambling/game businesses classified as gambling, and trade that is prohibited
Not producing, distributing, and providing goods/services that are morally damaging and harmful
↓
Sharia Selection
This process filters 60 shares with the highest market capitalist value on the Indonesia Stock Exchange (IDX)
↓
Select Value of Transaction Volume
This process filters 30 shares with the highest daily average transaction value on the Indonesia Stock Exchange (IDX)
↓
EVALUATION PROCESS OF STOCKS EVERY 6 MONTHS AT ONCE

Figure 1. Jakarta Islamic Index (JII) Stock Selection
Source: (Sudarsono, 2003)

Return and Expected Return

The actual return on investment, during a certain period, is the income received during the period together with any change in the value of investment (Henderson, 2003; Mailinda, Ibrahim, & Zainul, 2018; Muarif, Ibrahim, & Amri, 2021). There are several types of returns commonly used in calculations, namely simple net return (r_t) and geometric return or log return (R_t).

$$r_t = \frac{P_t + D_t}{P_{t-1}} - 1 \tag{1}$$

$$R_t = ln\left(\frac{P_t + D_t}{P_{t-1}}\right) \tag{2}$$

where, r_t is the simple net return for period *t*, R_t is the geometric return for period *t*, P_t is the market price at the end period *t*, $P_{t-1}$is the market price at the end period *t-1*, and D_t is the dividends (or interest) received during period *t*. From equations (1) and (2) can be obtained relation log return and simple net return, i.e.: $R_t = ln(r_t + 1)$.

The expected return on investment is merely the weighted average of probably expected return (Sharpe, Investments, 1999). If there is T observation, then expected return ($E(R_t)$) can be expressed as:

$$E(R_t) = \bar{R} = \frac{\sum_{t=1}^{T} R_t}{T} \tag{3}$$

Risk and *Value at Risk* (VaR)

According to Van Horne (2001), the risk is the possibility that the actual return on an investment will be different from the expected return on that investment (Nisak & Ibrahim, 2014); and that it is possible to attach probabilities to these expected outcomes. Rees (1995) further states that: the variability in return is taken to represent the risk of investment to investors since the variability reflects the uncertainty attached to return. Risk can be measured, either by the average (or mean) variance or the standard deviation of returns from their expected values. Standard deviation can be expressed as:

$$\sigma = \frac{\sum_{t=1}^{T}(R_t - \bar{R})^2}{T} \tag{4}$$

But the standard deviations assume returns that are normally distributed, while many stock returns are non-normally distributed.

During the 1990s, a new technology to measure and control financial risk, based on statistical techniques, emerged as the VaR methodology (Allen, 2003). VaR is defined as the maximal loss of a financial position during a given period for a given probability (Jorion, 2006). According to Tsay (2010), VaR is the minimal loss under extraordinary market circumstances.

In formal terms, given a random Loss (L) and a confidence level (α), $VaR_\alpha(L)$ can be defined as the greatest lower bound (infimum) with a probability α on the cumulative distribution function F of any financial position L, expressed as a random variable (BCBS, 2011; Chen, 2014).

$$VaR_\alpha(L) \quad = -inf\{x|F_L(x) \geq \alpha\} \tag{5}$$

As a matter of statistical modeling, parametric VaR is computed as a product of the statistical percentiles/ quantiles of the standard normal distribution function (Z_α), standard deviation (σ), total investment value (v), and the square root of time (Consolacion, 2016), which can be expressed as follows:

$$VaR_\alpha(L) \quad = -Z_\alpha.\sigma.v.\sqrt{t} \tag{6}$$

The VaR estimate is simplified when returns are normally distributed, as shown in equation (6). However, the Cornish-Fisher approach can be used when returns are somewhat close to normally distributed but not too close to normally distributed (Chambers & Lu, 2011). Where S is the coefficient of skewness, the Cornish-Fisher approximation is used by determining a critical value (Z_α^*) to be used in place of Z_α within the VaR formula.

$$Z_\alpha^* \quad = Z_\alpha - \frac{1}{6}\left({Z_\alpha}^2 - 1\right) S \tag{7}$$

The Sharpe Ratio and its Modifications

The Sharpe Ratio

The predicted performance of a portfolio is described with two measures: the expected rate of return $(\bar{R}_t)$ and the predicted variability (risk), expressed as the standard deviation of return (σ) (Sharpe, 1966). The Sharpe Ratio (SR) is computed as shown in equation 8 (Camilleri & Farrugia, 2018).

$$SR \quad = \frac{\bar{R} - R_f}{\sigma} \tag{8}$$

where, R_f is the risk-free return rate.

A higher Sharpe Ratio is good, and a lower one is bad. When choosing between two alternatives, the Sharpe Ratio criterion is therefore, to choose the one with the higher Sharpe Ratio (Down, 2000).

The Modification of Sharpe's Ratio

Based on equation (8), Sharpe Ratio (SR) consists of three components, namely the mean return of portfolio (stock) $(\bar{R})$, risk-free return rate (R_f) which is commonly measured using interest rates and portfolio (stock) variability or risk expressed as standard deviations (σ). Down (2000) used VaR instead of standard deviation as a risk measure. VaR can work when returns are close to normally distributed or not too close to normally distributed. The Modified Sharpe Ratio (MSR) with interest rates can be expressed as:

$$MSR = \frac{\bar{R} - R_f}{VaR_\alpha(L)} \tag{9}$$

Modification of the Sharpe Ratio (MSR_{RF}) in equation (9) still contains interest rates. To avoid conflict with the concept of Islamic finance, the interest rates are replaced by four approaches: eliminating variable interest rates, replacing zakah rates, replacing with inflation, and replacing with the gross domestic product (GDP).

Then obtained four new modifications of the Sharpe Ratio, namely: the modification of Sharpe Ratio without interest rate (MSR_{NRF}) (equation 10), the modification of Sharpe Ratio with zakah rate (MSR_{ZR}) (equation 11), the modification of Sharpe Ratio with inflation (MSR_{INF}) (equation 12), and the modification of Sharpe Ratio with the gross domestic product (MSR_{GDP}) (equation 13).

$$MSR_{NRF} = \frac{\bar{R}_t}{VaR_\alpha(L)} \tag{10}$$

$$MSR_{ZR} = \frac{\bar{R}_t - \bar{R}_{ZR}}{VaR_\alpha(L)} \tag{11}$$

$$MSR_{INF} = \frac{\bar{R}_t - \bar{R}_{INF}}{VaR_\alpha(L)} \tag{12}$$

$$MSR_{GDP} = \frac{\bar{R}_t - \bar{R}_{GDP}}{VaR_\alpha(L)} \tag{13}$$

where,$\bar{R}_{ZR}$ is Zakah Rate which is equal to 2.5% / (1-2.5%) = 2.56%, $\bar{R}_{INF}$ is mean of inflation, and $\bar{R}_{GDP}$ is mean of GDP.

METHODOLOGY

The data used in this study are monthly data from January 2011 - July 2018, which consists of closing prices of stock that are consistently listed in the

Jakarta Islamic Index (JII) during that period, interest rates (BI-Rate), Inflation, and GDP.

There are the following steps for analyzing the data:

1. Calculate the monthly return of selected stock with equation (2).
2. Calculate descriptive statistics of stock returns (mean, standard deviation, skewness, and kurtosis), then calculate the mean of the BI-Rate, Inflation, and GDP.
3. Perform a normality test for stock return data using a 95% confidence level using the Kolmogorov–Smirnov test. If the return is normally distributed, $Z_{0,95} = 1{,}645$, but if the data is non-normally distributed, then $Z_{0,95}$ must be adjusted using Cornish Fisher Expansion.

$$Z^*_{0,95} = 1{,}645 - \frac{1}{6}((1{,}645)^2 - 1)S \tag{14}$$

4. Calculate $VaR_\alpha(L)$ for the next one period with assuming the total investment value are equal to 1 for each stock
5. Calculate the stock performance using five modifications of the Sharpe Ratio with equations (9), (10), (11), (12), and (13), then determine the stock rank of each model.
6. Perform suitability analysis of 5 (five) modifications of Sharpe Ratio using Kendall's W Concordance test. Statistical test (W) can be expressed as (Qudratullah, 2017):

$$W = \frac{12\sum_{i=1}^{n} R_i^2 - 3n^2\, m(n+1)}{n^2\, m(m^2 - 1)} \tag{15}$$

where R_i is the number of ranks of the *i* stock, *n* is the number of stock, and *m* is the number of models.

Then calculate the Spearman correlation coefficient for each pair of modifications of the Sharpe Ratio, which can be expressed as follows (Qudratullah, 2017):

$$r_s = 1 - \frac{6\sum_{i=1}^{n} d_i^2}{n(n^2 - 1)} \tag{16}$$

where, r_s is the Spearman rank correlation coefficient, $d_i = (R_{Ai} - R_{Bi})$, R_{Ai} is the i-stock rank of the first model and R_{Bi} is the i-stock rank of the second model.

7. Perform cluster analysis for five modifications of the Sharpe Ratio. Cluster analysis is a technique to group similar observations into many clusters based on the observed values of several variables for each individual (models).

   Proposed dissimilarity measures can be broadly divided into distance measures and correlation-type measures. The distance measure most commonly used is Euclidean distance (Everitt, Landau, Leese, & Stahl, 2011). The Euclidean distance between these two subjects is given by:

$$d_{AB} = \sqrt{\sum_{i=1}^{n} (x_{Ai} - x_{Bi})^2} \quad (17)$$

   where x_{Ai} and x_{Bi} are respectively the ith stock performance for models A and B. d_{AB} can be interpreted as the physical distance between A and B.

8. Create a chart of stock performance for five modifications of the Sharpe Ratio.

RESULT AND DISCUSSION

Return and Risk of Sharia Stock

Eleven stocks were consistently listed in JII during January 2011-July 2018, namely AALI, ASII, ASRI, INTP, KLBF, LPKR, LSIP, SMGR, TLKM, UNTR, and UNVR.

Based on table 2, eight stocks have a positive return (profit) and three stocks have a negative return (loss). The three stocks that gave the highest gains were UNVR, TLKM, and KLBF, while the three stocks that gave the highest losses were LSIP, LPKR, and AALI. In terms of volatility, the three stocks that have the lowest volatility are UNVR, TLKM, and KLBF, while the three stocks that have the highest volatility are LSIP, ASRI, and LPKR.

This means that UNVR, TKLM, and KLBF are the three most efficient Islamic stocks during that period because they have high returns and low volatility compared to other stocks.

Table 2. Descriptive Statistics of Stock Returns

No.	**Stock**	**Mean**	**Std. Dev**	**Skewness**	**Kurtosis**
1	AALI	-0.00380	0.09258	0.25383	0.22914
2	ASII	0.00579	0.06647	-0.61964	0.35356
3	ASRI	0.00323	0.11692	-0.36251	0.88152
4	INTP	0.00289	0.09266	-0.37337	1.04592
5	KLBF	0.00927	0.06622	-0.10148	0.98370
6	LPKR	-0.00419	0.10645	0.29967	-0.04430
7	LSIP	-0.00450	0.12478	-0.03704	0.23869
8	SMGR	0.00225	0.07788	-0.14287	-0.07650
9	TLKM	0.01065	0.06325	0.03285	0.22968
10	UNTR	0.00727	0.08159	-0.28606	0.36664
11	UNVR	0.01273	0.06176	-0.00093	2.11869

Source: Processed data (2021)

Before calculating VaR with equation 6, the normality test is done for the return of each stock. From table 3, seven shares are normally distributed and three of them have non-normally distribution. This result is in line with findings by Borowski (2018) that the higher the data compression (from daily to yearly), the fewer rejections of Ho hypothesis (return is a normal distribution).

Table 3. Distribution of Return and Value at Risk (VaR) of Stock

No.	Stock	Distribution of Return	$\lvert VaR_{95\%} \rvert$
1	AALI	Normal	0.15229
2	ASII	Abnormal	0.12106
3	ASRI	Abnormal	0.20438
4	INTP	Normal	0.15242
5	KLBF	Normal	0.10893
6	LPKR	Normal	0.17511
7	LSIP	Normal	0.20526
8	SMGR	Normal	0.12811
9	TLKM	Normal	0.10404
10	UNTR	Normal	0.13421
11	UNVR	Abnormal	0.10161

Source: Processed data (2021)

After VaR calculation at a confidence level of 95%, the three stocks with the lowest VaR are UNVR, TLKM, and KLBF, while the three stocks with the highest VaR are LSIP, ASRI, and LPKR.

The Performance Analysis of Sharia Stocks using Modification of Sharpe Ratio

In table 4, five modifications of the Sharpe Ratio, namely MSR, MSR-NRF, MSR-ZR, MSR-INF, and MSR-GDP rank almost the same for all stocks for measuring the performance of Islamic stocks in Indonesia. Four models (MSR, MSR-ZR, MSR-INF, and MSR-GDP) resulted in the same ranking, from the first UNVR, TLKM, KLBF, UNTR, ASII, ASRI, INTP, SMGR, LSIP, LPKR, and lastly AALI. Slightly different is the MSR-NRF model, which places the shares of INTP, SMGR, and ASRI ranked 6th, 7th, and 8th, while the other four models rank 7th, 8th, and 6th.

The five models equally place UNVR, TLKM, and KLBF in the top three sharia stocks with the best performance. This result aligns with the statement above that the three stocks are the three most efficient Islamic stocks. The five models also place AALI, LPKR, and LSIP in the bottom three ranks.

Table 4. Value and Ranking of Stock Performance with Modification of Sharpe Ratio

	MSR		**MSR - NRF**		**MSR - Z R**		**MSR - INF**		**MSR - GDP**	
Stock	**Value**	**Rank**	**Value**	**Rank**	**Value**	**Rank**	**Value**	**Rank**	**Value**	**Rank**
AALI	-0.06165	11	-0.02494	11	-0.03897	11	-0.05284	11	-0.04991	11
ASII	0.00162	5	0.04780	5	0.03015	5	0.01270	5	0.01638	5
ASRI	-0.01154	6	0.01581	8	0.00536	6	-0.00498	6	-0.00280	6
INTP	-0.01770	7	0.01898	6	0.00496	7	-0.00890	7	-0.00597	7
KLBF	0.03374	3	0.08506	3	0.06544	3	0.04606	3	0.05014	3
LPKR	-0.05583	10	-0.02390	10	-0.03610	10	-0.04816	10	-0.04562	10
LSIP	-0.04917	9	-0.02194	9	-0.03235	9	-0.04264	9	-0.04047	9
SMGR	-0.02610	8	0.01754	7	0.00086	8	-0.01563	8	-0.01215	8
TLKM	0.04860	2	0.10234	2	0.08180	2	0.06150	2	0.06578	2
UNTR	0.01252	4	0.05418	4	0.03826	4	0.02252	4	0.02584	4
UNVR	0.07025	1	0.12526	1	0.10424	1	0.08345	1	0.08784	1

Source: Processed data (2021)

These results are similar to Qudratullah's report (2019) which uses the Treynor Ratio to measure the performance of Islamic stocks in Indonesia, explanatory that UNVR, TLKM, and KLBF are the three Islamic stocks that have the best performance and the bottom three are AALI, LSIP, and LPKR. There is a slight difference in the ranking of several stocks such as LPKR which in this study was ranked 10th while the Treynor ratio placed it in 9th.

The Suitability Analysis for the Modification of Sharpe Ratio

The suitability analysis of the measurements of five modifications of the Sharpe Ratio can use Kendall's Concordance test. In table 5, it is found that the suitability coefficient is very high, which is 0.991.

Table 5. The Result of Kendall's Concordance Test

Kendall's Coef. of Concordance	Chi-Square	Asymp. sig	Note
0.991	49.564	0.000	very high

Source: Processed data (2021)

While the suitability between models can be seen from the Spearman correlation coefficient in Table 6, it appears that all pairs have robust (very high) correlation coefficients.

Table 6. Coefficient Correlation between Modification of Sharpe Ratio

Pair	Spearman Coef.	Note
MSR - MSR NRF	0.973*	very high
MSR - MSR ZR	1.000*	very high
MSR - MSR INF	1.000*	very high
MSR - MSR GDP	1.000*	very high
MSR NRF - MSR ZR	0.973*	very high
MSR NRF - MSR INF	0.973*	very high
MSR NRF - MSR GDP	0.973*	very high
MSR ZR - MSR INF	1.000*	very high
MSR ZR - MSR GDP	1.000*	very high
MSR INF - MSR GDP	1.000*	very high

) Significant at 99% confidence level

Source: Processed data (2021)

The statement above proves that the four models (MSR, MSR-ZR, MSR-INF, and MSR-GDP) are in the same ranking (Spearman coefficient = 1.000) and the one with a slight difference is MSR-NRF (Spearman coefficient = 0.973). However, based on the results of Kendall's Concordance Test, the four modified Sharpe ratio models can be used to measure the performance of Islamic stocks.

The Cluster Analysis for the Modification of Sharpe Ratio

Cluster analysis aims to group five modifications of the Sharpe Ratio into several groups, based on the proximity of the measurement results. Looking at the dendrogram in figure 2, the five models can be grouped into two clusters: the first group is MSR, MSR-INF, and MSR-GDP, the second group is MSR-NRF and MSR-ZR. This result is in line with findings by Qudratullah (2019).

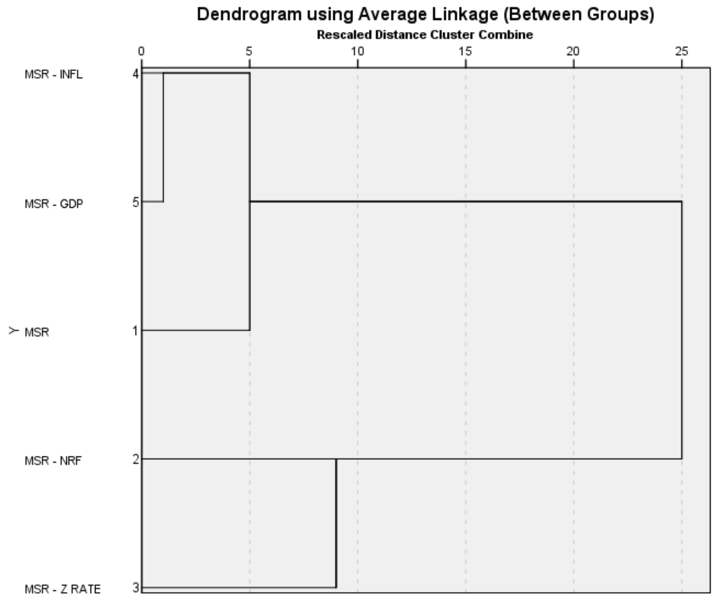

Figure 2. Cluster Analysis Dendrogram for Modification of Sharpe Ratio
Source: Processed data (2021)

This is supported by Figure 3, especially in the measurement results at ASRI, INTP, and SMGR. It appears that MSR, MSR-INF, and MSR-GDP gave a negative performance while MSR-NRF and MSR-ZR gave a positive performance.

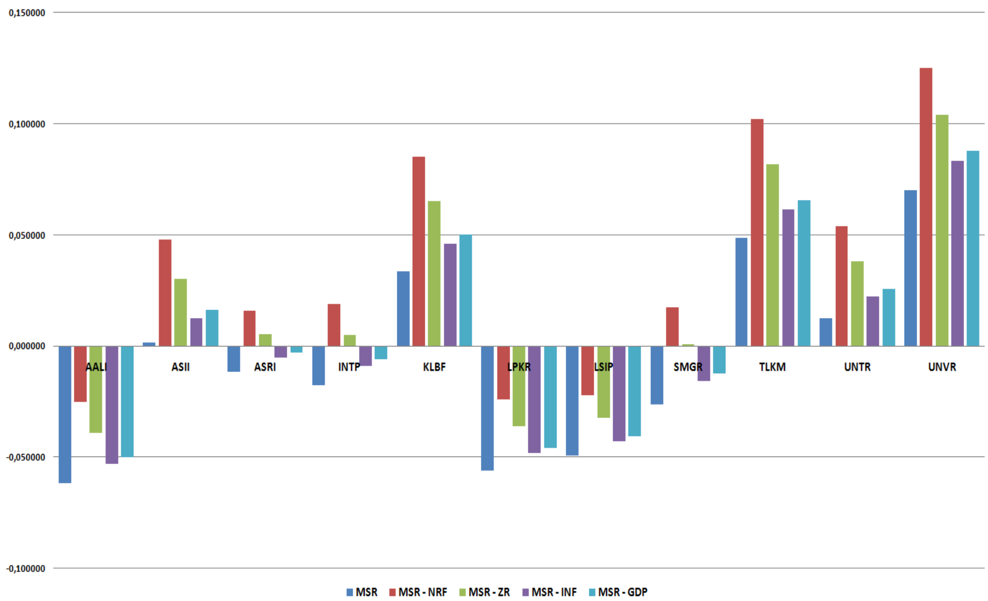

Figure 3. Islamic Stock Performance for Modification of Sharpe Ratio
Source: Processed data (2021)

Based on the results of the cluster analysis, the risk-free return component in the modifications Sharpe Ratio can be replaced with inflation or GDP in measuring the performance of Islamic stocks. This is acceptable because inflation and GDP have values that depend on the economic conditions of a country at a certain period while eliminating the risk-free return component or replacing it with the zakah rate has a constant value. So this result is in line with Hanif (2011) who replaced risk-free return with inflation and Sheikh (2009)who replaced it with GDP in SCAPM.

CONCLUSIONS

The modification of Sharpe Ratio with interest rate and Value at Risk (VaR) (MSR) with four other modifications of Sharpe Ratio, namely models that eliminate interest rates (MSR-NRF), models that replace them with zakah-rate (MSR-ZR), models that replace them with inflation (MSR-INF), and models that replace them with gross domestic products (GDP) (MSR-GDP) gives almost the same results or has a very high level of suitability in measuring the performance of Islamic stocks in Indonesia in the period January 2011 - July 2018.

Judging from the closeness of the results of performance measurement, the five models can be grouped into two, namely models with interest rates, inflation, and GDP as the first group, while models without interest rates and zakah-rate as the second group. This means, on the concept of Islamic finance, risk-free returns can be measured using these four approaches, especially inflation and GDP. Therefore, this study also recommends inflation and GDP to measure risk-free returns in the Sharia's Compliant Asset Pricing Model (SCAPM) or Islamic Capital Asset Pricing Model (ICAPM).

This study used a fairly long period (January 2011 - July 2018), the sample used is Islamic stocks that consistently listed the Jakarta Islamic Index (JII) during that period, and 11 stocks samples were obtained. The sample size of 11 stocks is relatively small, this is a limitation in this study. For further research, a larger sample can be used, such as Islamic stocks that consistently listed Indonesian Sharia Stock Index (ISSI) for a certain period. Further research can also apply this modification Sharpe Ratio by considering special events such as the 2013 economic crisis, 2015 economic crisis, or the 2020 crisis (Covid-19), namely evaluating the performance of Islamic stocks before, during, and after the crisis.

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Received: 14 September 2021; Revised: 30 November 2021; Accepted: 27 November 2021

FACTORS AFFECTING COLLATERAL VALUATION PERFORMANCE DURING THE COVID-19 PANDEMIC: AN EVIDENCE FROM ISLAMIC BANK IN INDONESIA

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ABSTRACT - This study aims to analyze the performance of collateral appraisers during the Covid-19 pandemic by using the variables of competence, motivation, and work stress as exogenous variables and through satisfaction as a mediating variable. Data for this study was collected through an online questionnaire from an Islamic bank in Indonesia. It involved 96 respondents, determined by the census sampling technique. Structural Equation Modeling with PLS version 3.0 was employed as an analysis tool. The results showed that competence, motivation, and satisfaction positively and significantly affected performance. In contrast, job stress had a negative and significant effect on the satisfaction and performance of collateral appraisers. The managerial implications that can be applied in the company are maintaining and increasing competence and motivation, increasing satisfaction, and quickly resolving sources of work stress.
Keywords: Collateral valuation, Performance, Pandemic, Islamic bank

ABSTRAK – Faktor-Faktor yang Mempengaruhi Kinerja Penilai Agunan pada Masa Pandemi Covid-19: Kajian pada Bank Syariah di Indonesia. *Penelitian ini bertujuan untuk menganalisis kinerja penilai agunan selama masa pandemi Covid 19 dengan menggunakan variabel kompetensi, motivasi dan stres kerja sebagai variabel eksogen dan variabel kepuasan sebagai variabel mediasi. Data penelitian diperoleh dari penyebaran kuesioner pada sebuah bank syariah di Indonesia. Responden penelitian ini berjumlah 96 orang yang didapat berdasarkan teknik census sampling. Analisis dilakukan dengan Structural Equation Modeling dengan PLS versi 3.0. Hasil penelitian menunjukkan bahwa kompetensi, motivasi dan kepuasan berpengaruh positif dan signifikan terhadap kinerja, sedangkan stres kerja berpengaruh negatif dan signifikan terhadap kepuasan dan kinerja agunan penilai. Implikasi manajerial yang dapat diterapkan di perusahaan adalah mempertahankan dan meningkatkan kompetensi dan motivasi, meningkatkan kepuasan, dan cepat menyelesaikan sumber stres kerja.*
Kata Kunci: *Kinerja, Penilaian agunan, Pandemi, Bank syariah.*

INTRODUCTION

Covid-19 has triggered the emergence of new trends in various sectors of life and 100 predictions about new-normal situations where new behaviors, new habits, new lifestyles, new cultures, or new mindsets will emerge (Yuswohady, 2020). Covid-19 forces everyone to work, study and play/enjoy entertainment using digital devices and online platforms. In response to the pandemic, many companies are implementing the Work From Home (WFH) policy. In this situation, employees are forced to stay at home and work without direct face-to-face supervision from superiors. Employees are practicing flexible work patterns, where initially the "9-to-5" working hours shift to "3-to-2," i.e., in a week, three days' work in the office (Work Form Office/WFO) and two working days at home (WFH). In addition, the technological transformation resulting from the 4.0 industrial revolution has an impact on business transformation. In this era, the use of digital technology has become commonplace. Amid the period of digital disruption, the entire industry continues to invest and innovate to carry out digital development.

One industry that innovates policies and strategies in running its business is the banking industry, including Islamic banking. PT. Bank Syariah XYZ (actual name is not revealed) is one of the Islamic banks in Indonesia which changes the collateral valuation strategy. PT. Bank Syariah XYZ changed the Standard Operating Procedure (SOP) for collateral assessment, namely at the stage of checking the correctness of the collateral object. Prior to the pandemic, all steps of checking the validity of the guarantee object were required to make a direct visit, called On the Spot (OTS), to the object of the assessment. In the OTS, checking the collateral location and measuring the land area and location are conducted directly in the sites. It intended to assess the legality, such as property rights, building use rights, and other certificates, and measure building area under the city plan/ Building Permit). However, during the Covid-19 pandemic, all OTS stages were carried out online. This process is done by making video calls to customers, sellers, and developers.

With the change in the SOP, PT. Bank Syariah XYZ needs to assess the impact of changing SOP on the performance of the collateral appraiser. The assessment is crucial for the bank as it has potential errors that will cause a substantial risk, such as errors in determining the land location, land area, and building area. This situation will impact the company's performance. In assessing the collateral appraisals, PT. Bank Syariah XYZ chose the variables of competence, motivation, work stress, and satisfaction as the parameters due to their relevance with the current pandemic conditions.

In this case, performance is specified as a person's achievement concerning his assigned tasks. Performance can also be seen as a combination of work results (what is to be achieved) and competence (how one achieves it) (Marwansyah, 2012; Muarif, Ibrahim, & Amri, 2021). Given the importance of the performance of the collateral appraiser in supporting banking operations during the pandemic, every collateral appraiser is required to be adaptive in order to improve its performance (Elkamiliati & Ibrahim, 2014). Various ways can improve performance, ranging from training, education, and compensation to awarding achievements. However, performance is influenced by these factors and theoretically can also be affected by competence, motivation, and work stress.

Meanwhile, competence is described as the knowledge, skills, and abilities mastered by someone in his subject of expertise; so that the person can perform cognitive, affective, and psychomotor behavior at his best (Mulyasa, 2003). Competence is the most important factor that a collateral appraiser must own. To become a competent collateral appraiser, each individual must be given educational or skilled training in appraising collateral objects (Hasanah & Ibrahim, 2003). Motivation is an effort made by employees to improve their performances. Motivation is the individual driving force to carry out certain activities in an effort to achieve goals (Sadirman, 2004).

Based on this understanding, motivation can be generated if someone at work has a sense of responsibility to complete the tasks assigned by the company. A person's motivation can continue to increase if the job done is appreciated by others or given an award for his effort. The Covid-19 pandemic has resulted in changes in work patterns, and employees are required to adapt quickly in the face of these changes. The demands of this rapid change can cause one of the factors that can interfere with employee performance, namely work stress (Ibrahim, 2020). To define job stress as an adaptive response related to individual differences and/or psychological processes, excessive psychological or physical demands on a person (Luthans, 2006). Work stress is a feeling experienced by employees when dealing with work caused by stressors (sources of stress) originating from the work environment, such as environmental factors, organizational factors, and individual factors (Iswanto, 1999; Ibrahim, 2021). Work stress must be overcome by employees who experience it where stress has positive and negative impacts. The positive effect of work stress can trigger employees to work better, while the negative impact can reduce productivity for employees. Job satisfaction shows a match between one's expectations that arise with the rewards provided by the job, so job satisfaction is also closely related to the theory of justice, psychological agreement, and motivation (Robbins, 2006; Ibrahim & Kamri, 2013). Theoretically, as described above, employee performance can be influenced by several variables, including competence, motivation, job satisfaction, and stress. Therefore, the performance of the collateral appraiser at PT. Bank Syariah XYZ can also be associated with these factors.

METHODOLOGY

The research was conducted in the headquarter of Bank Syariah XYZ from March to April 2021. Using a quantitative approach, this study utilized primary data and secondary data. The data was obtained from questionnaires and supported by literature studies of related documents such as internal documents and other relevant information. The population of this study is the collateral appraisers of PT. Bank Syariah XYZ in Indonesia, totaling 96 people. The sample was determined by the census sampling technique, in which all populations were used as research samples (Sugiyono, 2017).

The measuring instrument is the Likert Scale with 26 item statements. The scale represents unfavorable to favorable information, ranging from 1 to 5. It consists of three exogenous (independent) variables: competence (X_1), motivation (X_2), and work stress (X_3), and one endogenous (dependent) variable: performance (Y_5), and one intervening variable (mediator): satisfaction (X_4). The data were analyzed using *Structural Equation Modeling-Partial Least Square 3.0* (SEM-PLS) in three stages: the evaluation analysis of the measurement model *(outer model)*, structural model evaluation analysis *(inner model)*, and hypothesis testing.

The outer model analysis includes checking the *convergent validity*—through *individual item reliability*, *construct reliability*, and *average variance extracted* (Haryono, 2016)—and the *discriminant validity* by examining the value of *loading factor* and *Average Variance Extracted* (AVE). The *Construct Reliability* (CR) and *Cronbach's alpha* were operated to measure the reliability. Meanwhile, *discriminant validity* was analyzed to 1) observe the value of *cross loading* each indicator in a latent construct that has a higher correlation than the correlation of other latent constructs; and 2) observe the value of *Fornell larcker* to compare the correlation value of the latent variable with the root value of AVE. The structural model analysis was conducted to examine the relationship among the latent variables or test the research hypotheses. In this structural model evaluation process, the *path coefficient* was employed to investigate the relationship among the constructs. In addition, the t-test or *critical ratio* (CR) of *bootstrapping* was to examine the relationship significance among the constructs by evaluating the value of R^2 (R-square) with the criteria of 0.67, 0.33, and 0.19 as substantial, moderate, and weak.

Further, data analysis was to measure the robustness influence of satisfaction as the intervening variable between job stress and performance. It measured the total effect of independent variables on the dependent variable. Measurement of the mediation relationship in the SEM-PLS approach of a variable was conducted using the *Variance Accounted For* (VAF) technique. This method was applied to a small sample size, which did not require any assumptions about the distribution of variables, making this method the most appropriate for mediation tests with SEM-PLS analysis tools. The mediation analysis procedure using the VAF method ensured the significance of influence on the direct and indirect effects of the mediation relationship being tested. The next step was to calculate the VAF value and categorize whether the mediation effect was full, partial, or no mediating effect. The following were the steps taken in the VAF method:

1. Tested the direct effect of the independent variable (X) on the dependent variable (Y) without including the hypothesized variable as a mediating variable (M), the rule as follows: if the result is not significant, there is no mediating effect, however, if the result is significant, following steps can proceed.

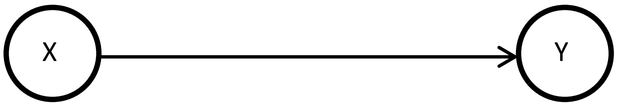

Figure 1. The direct influence between variables

2. Tested the indirect effect of the independent variable (X) on the dependent variable (Y) by including the hypothesized variable as the mediating variable (M), the rule as follows: if *b* and *c* are not significant, there is no mediation effect; in contrast, if *b* and *c* are significant, the VAF value is then calculated. The product of the coefficients *b* and *c* was an indirect effect. The relationship among the tested variables was examined by the

coefficient value of the total influence, which was the sum of the direct and indirect effects. The mediation relationship test will be accepted if the VAF value is 20 percent.

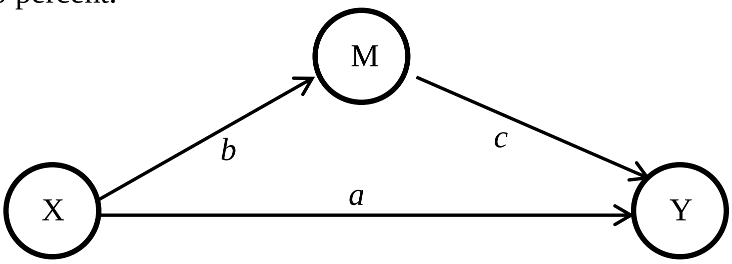

Figure 2. The indirect influence between variables

3. VAF test formula

$$VAF = \frac{Indirect\ influence}{Direct\ influence + Indirect\ influence}$$

Where:
- direct influence = a
- indirect influence = b x c

Criteria:
- VAF > 80% = full mediation
- 20% VAF 80% = partial mediation
- VAF 20% = then there is no mediating effect

RESULT AND DISCUSSION

The respondents of this study were 96 internal employees of Bank Syariah XYZ that diverse with various characteristics. Details can be observed in Table 1.

Table 1. Demographic characteristics of respondents

Characteristics	Quantity (n)	Percentage (%)
1. Work location		
a. RFO Jakarta	20	20,83
b. RFO Bandung	20	20,83
c. RFO Banjarmasin	11	11,46
d. RFO Makasar	11	11,46
e. RFO Medan	12	12,50
f. RFO Palembang	10	10,42
g. RFO Surabaya	12	12,50

Characteristics	**Quantity (n)**	**Percentage (%)**
2. Level of education		
a. Diploma (D3)	0	0
b. Undergraduate	90	93,75
c. Postgraduate	6	6,25
3. Length of Work (Years)		
a. 1 s/d 3	13	13,54
b. 4 s/d 6	50	52,08
c. 7 s/d 10	31	32,29
d. > 10	2	2,08
Total Number of Respondents	96	

Source: Processed data (2021)

Respondents in this study were spread throughout Indonesia. The respondent's domicile or work location is determined based on the respondent's area. The results showed that Regional Financing Operations (RFO) Jakarta and RFO Bandung had the highest number of respondents, each of which was 20.83 percent. Undergraduate levels dominated the education level of respondents by 93.75 percent. The length of service of respondents is generally between 4 to 6 years, which is 52.08 percent.

Measurement Model (*outer model*)

The measurement model evaluation was employed to measure the validity and reliability of the model. There were two stages undertaken: 1) identified the values of *loading factor* and *Average Validity Extracted* (AVE), and 2) identified the values *Cronbach's Alpha* and *Composite Reliability*.

Table 2. Construct Reliability dan Validity Result

Variabel	***Cronbach's Alpha***	**CR**	**AVE**
Competence	0.876	0.915	0.730
Motivasion	0.874	0.909	0.666
Work Stress	0.898	0.919	0.619
Satisfaction	0.883	0.914	0.680
Performance	0.911	0.934	0.739

Source: Processed data (2021)

The measurement applied the following rules: it is valid if the *convergent validity* shows the outer loading meets the value criteria > 0.5 and the *Average Variance Extracted* (AVE) meets the value criteria > 0.5 (Haryono, 2016), while it is reliable if the value of *Cronbach's alpha* and *composite reliability* >

0.7 or meets the requirements of *discriminant validity* (Hair, Hult, Ringle, & Sarstedt, 2016).

Table 3. Loading Factor Result

Variable	**Indicator**	***Loading factor***
Competence	X1.1	0.865
	X1.2	0.802
	X1.3	0.841
	X1.4	0.907
Motivation	X2.1	0.768
	X2.2	0.871
	X2.3	0.799
	X2.4	0.817
	X2.5	0.821
Work Stress	X3.1	0.718
	X3.2	0.832
	X3.3	0.782
	X3.4	0.798
	X3.5	0.841
	X3.6	0.763
	X3.7	0.769
Satisfaction	X4.1	0.880
	X4.2	0.820
	X4.3	0.818
	X4.4	0.823
	X4.5	0.779
Performance	Y5.1	0.894
	Y5.2	0.773
	Y5.3	0.843
	Y5.4	0.893
	Y5.5	0.889

Source: Processed data (2021)

The output test results of *Construct Reliability* (CR) and *validity* results can be seen in Table 2. The table shows all indicators contributing to the validity and reliability of latent variables. The AVE value formed shows > 0.5, indicating the validity of the research instrument.

Furthermore, the value of *Cronbach's alpha* and *composite reliability* in Table 3 shows > 0.7, indicating the reliability of the research instrument. Based on the test results above, it is known that all the *loading factor* values of the research variables are > 0.5. Therefore, it can be concluded that this research instrument is valid.

Structural Model (*Inner Model*)

The testing result of the structural equation model will show the robustness between the tested variables based on *substantive theory* (Ketchen, 2013). The structural model is evaluated using the *inner* model to determine the relationship between latent variables. The *inner* model is determined by the *r-square* value analysis displayed in Table 4. The magnitude of the *r-square value* can explain the effect of the exogenous latent variable on the endogenous latent variable.

Table 4. R-square Result

Variabel	**R-square Value**
Performance	0.686
Satisfaction	0.202

Source: Processed data (2021)

The *r-square* criterion of endogenous latent variables shows how much exogenous variables can explain the diversity of endogenous variables. Grouping the value of R^2 is good (0.67), moderate (0.33), and weaker (0.19). The endogenous variables are satisfaction and performance (Ghozali, 2006). The satisfaction variable obtained an R-Square value of 0.202, which means that the work stress variable can explain the satisfaction variable with a diversity of 20.2 percent (0.202 x 100%). Meanwhile, the performance variable received an R-Square value of 0.686. It indicates that the performance of collateral appraisers construct can be explained by the variability of the constructs of competence, motivation, job stress, and satisfaction of 68.6 percent (0.686 x 100%) while the remaining 31.4 percent (100% - 68.6%) is explained by other variables outside this study.

Table 5. Path Coefficient

	Coefficient Value	**T-Statistic**	**P Value**	**Result**
Competence → Performance	0.162	1.971	0.049	Significant
Motivation → Performance	0.177	2.070	0.039	Significant
WorkStress → Performance	-0.131	2.046	0.041	Significant
WorkStress → Satisfaction	-0.450	6.517	0.000	Significant
Satisfaction → Performance	0.532	6.157	0.000	Significant

Source: Processed data (2021)

The path coefficient estimate evaluates the coefficient value, the actual effect of the value bootstrapping, and the magnitude of the coefficient value.

Bootstrapping is a technique of recalculation of data at random to obtain the value of t-statistics. Hypothesis testing is conducted by comparing the t-test value with the t-table value. The rule is that if the significance level is 5%, the t-test value > 1.96, the hypothesis is accepted. The t-statistic value of the influence coefficient of the latent variable was obtained from PLS Bootstrapping. The parameter coefficient values can be seen in the path coefficient values presented in Table 5.

The goodness of Fit (GoF) is used to validate the combined performance of the measurement model (*outer model*) and structural model (*inner model*), whose values range from 0 to 1 with interpretations of 0 – 0.25 (small GoF), 0.25 – 0.36 (moderate GoF), and above 0.36 (large GoF). GoF test results were obtained by multiplying the value of the average root commonalities (AVE), which is 0,687 with an average value of root r-square of 0.444. From the results of the GoF calculation above, the value of 0.552 is obtained; it can be concluded that this research model has a large GoF, and the greater the GoF value, the more appropriate the model in describing the research sample.

Analysis of the Effect of Competence on the Performance of Collateral Appraisers

Based on the results of the study (Table 5) shows that at the 95 percent confidence level ($\alpha = 0.05$), the competence factor significantly influences the performance of the collateral appraiser with the t-test value of 1.971 > t-table value of 1.96. Thus, the first hypothesis (H_1) is accepted. The latent variable of competence has a positive effect with a path coefficient of 0.162. Based on this, it can be concluded that the higher the competence possessed, the higher the performance of the collateral appraiser. Good competence can produce good performance where aspects that support competence are knowledge, skills, and attitudes (Budiawan, Suarjana, & Wijaya, 2015; Ibrahim & Kamri, 2017; Mailinda, Ibrahim, & Zainul, 2018). This result can be explained that if a collateral appraiser has good competence, it will positively affect the performance of the collateral appraiser itself. This finding supports the research of Sutedjo & Mangkunegara (2018) and Anggara & Yadnyana (2019), which explain that competence positively influences employee performance.

One of the factors that positively influence the competence of the collateral appraiser at PT. Bank Sharia XYZ is a reasonably experienced collateral appraiser. As many as 86.46 percent of collateral appraisers have worked in the same position for more than four years. In addition, the company continues to provide internal and external training to improve competence. For companies, competence for collateral appraisers is a must, considering the duties and responsibilities of a collateral appraiser are pretty crucial in maintaining company assets.

Analysis of the Effect of Motivation on the Performance of Collateral Appraisers

The work motivation factor significantly affects the performance of the collateral appraiser with a t-test value of 2.070 (> 1.96). Thus the second hypothesis (H_2) is accepted. The latent variable of motivation has a positive effect with a path coefficient of 0.177. Based on this, it can be concluded that the higher the motivation to work, the higher the performance of the collateral appraiser. Significant results from the collateral appraiser's motivation can be reflected in behavior at the workplace, such as always having plans and goals at work, being responsive and responsible for assigned tasks, creative and innovative in the workplace, and being ready to carry out any inadvertently assigned task, proven to affect the results of the performance collateral appraiser.

The results of this study are supported by previous studies such as Sutedjo & Mangkunegara (2018), Anggara & Yadnyana (2019), Anwar and Budi (2018), and Dachlan, Said, & Lamo (2020). These studies state that increasing work motivation can improve employee performance both in quantity and quality of work. Furthermore, these studies also reveal that the appreciation made by the company towards employees makes employees more enthusiastic about working and produces the best performance for the organization. One factor that significantly influences motivation on the performance of collateral appraisers is the conducive working atmosphere and career development that many collateral appraisers expect. This result can be observed from the number of respondents who answered these factors positively affected their motivation.

Analysis of the Effect of Work Stress on the Performance of Collateral Appraisers

The data processing results indicate that the work stress factor has a negative effect of -0.131 and is significant on the performance of the collateral appraiser with a t-test value of 2.046 ($p > 1.96$). Thus the third hypothesis (H_3) can be accepted. Based on this, it can be concluded that the higher the perceived work stress, the lower the performance of the collateral appraiser. Work stress is a sign that arises due to an excessive workload that an employee cannot accept. Work stress can affect employees both mentally and physically. It is in line with opinion of Wijono (2015) that work stress is a condition of the results of individual subjective appreciation, which can be in the form of interactions between individuals and the work environment that can threaten physiologically and provide individual physiological pressure. Work stress has a negative effect on employee's performance. The higher the work stress is perceived, the lower the performance of the employees. The results of this study are supported by previous research conducted by Anindrasari (2016), which stated that work stress has a negative and significant effect on employee performance. Excessive workload borne by internal appraisers is the most important factor causing job stress. The growing number of companies affects the number of applications for collateral appraisal, the increasing crackdown targets that must be completed, and the timeliness of making collateral appraisal reports cause stress to the collateral appraisers.

Analysis of the Effect of Job Stress on the Satisfaction of Collateral Appraisers

The work stress factor has a negative effect of -0.450 and is significant on satisfaction with a t-test value of 6.517 ($p > 1.96$). Thus, the fourth hypothesis (H_4) can be accepted. Based on this, it can be concluded that the higher the perceived work stress, the lower the satisfaction of the collateral appraiser. Excessive workload is the essential aspect that affects the work stress of the collateral appraiser. Excessive workload will undoubtedly make an employee feel bored, depressed, and not enthusiastic about his work, so that it will cause a saturation effect with his work environment. Suppose this level of work stress continues to be experienced by the collateral appraiser. In that case, the worst possibility is loss of concentration, unfocused, lazy to work, and resigning. This analysis is supported by previous research conducted by Anindrasari (2016) that stated that job stress is negatively and significantly related to job satisfaction, and job satisfaction itself is vital for the success of an organization. The lack of satisfaction can be a source of stress for employees, while high satisfaction can relieve stress, which means that job stress and job satisfaction are interrelated (Bhatti, Hashmi, Raza, Shaikh, & Shafiq, 2011).

Analysis of the Effect of Satisfaction on the Performance of Collateral Appraisers

Lastly, the satisfaction variable has a positive effect of 0.532 and is significant on employee performance with a t-test value of 6157 (p > 1.96). Thus the fifth hypothesis (H_5) can be accepted. Based on this, it can be concluded that the higher the satisfaction obtained at work, the higher the performance of the collateral appraiser. According to Davis and John (1985), job satisfaction is a feeling of pleasure or displeasure relatively different from objective thinking and behavioral desires. A mortgage appraiser will express their expression as feedback on everything they do. The criteria for job satisfaction also vary between collateral appraisers. When a collateral appraiser feels satisfied and follows their job satisfaction criteria, there will be enthusiasm in working so that the performance of the collateral appraiser will increase.

Several studies are in keeping with this research conducted by Anwar and Budi (2018), Anindrasari (2016), and Akmal, Musa, and Ibrahim (2020). They stated that satisfaction has a positive and significant effect on employee performance. Dissatisfied employees will impact disappointment so that they lose work motivation, decrease performance or end up employees leaving their jobs. The decline in the performance of employees can be seen from the level of absenteeism on a scale of moderate to severe scale is the level of *turnover*.

The competence of the collateral appraiser is currently outstanding, as evident from the research results where competence has a positive and significant effect on the performance of the collateral appraiser. Based on this, it can be concluded that the higher the competence possessed, the more the performance of the collateral appraiser will improve. The effect of work motivation on the performance of the collateral appraiser shows a positive and significant relationship. This result is inseparable from the company's continuous efforts to provide comfort, security, and guarantees for the collateral appraiser and his family to focus on working and improving its performance. Job stress can negatively and significantly affect the performance and satisfaction of the collateral appraiser, so it can be concluded that the higher the perceived job stress, the lower the satisfaction and performance of the collateral appraiser. The most influential work stress factor is because they feel they have a high workload. The collateral appraiser is challenging to complete the collateral appraisal report (LPA) on time. The satisfaction felt by the collateral appraiser has a positive and significant effect on the performance of the collateral appraiser itself. Based on this, it can be concluded that the higher the satisfaction obtained at work, the higher the performance of the collateral appraiser. The performance of the collateral appraiser during the current Covid-19 pandemic can be said to be very good and not affected by the changes in the SOP. Collateral appraisers can maintain the quality of their performance because they have good competence and motivation to work. Despite having reasonably high work stress, this can be balanced with the satisfaction felt by the collateral appraiser.

Based on the results, there are several managerial implications that PT. Bank Syariah XYZ can do to improve the collateral appraiser's performance. The collateral appraisal uses a virtual collateral appraisal method, making *video calls* to customers or prospective customers. In terms of competence, PT. Bank Syariah XYZ must continue to improve the expertise of collateral appraisers by providing further education from MAPPI (Indonesian Appraisal Profession Society) up to level 2 appraiser advanced education (PLP 2), which is a certification of ability as a collateral appraiser. In terms of motivation, PT. Bank Syariah XYZ must continue to provide health facilities and a sense of security at work as they currently get. Further, the company needs to give awards or promotions to employees who excel, which will increase motivation for a collateral appraiser. In terms of work stress, PT. Bank Syariah XYZ must quickly overcome the impact of work stress by evaluating the amount of work completed with the number of existing collateral appraiser personnel. Lastly, in terms of satisfaction, providing facilities that support the current pandemic conditions, such as system improvements and internet and intranet network connections, will improve performance.

CONCLUSION

First, competence, motivation, satisfaction have a positive and significant effect on the performance of the collateral appraiser, and job stress has a negative and significant impact on the satisfaction and performance of the collateral appraiser. Second, job stress has a negative and significant indirect effect on the performance of the collateral appraiser through the satisfaction variable. Third, the valuation of collateral using a virtual method has proven to be effective during the pandemic because it can speed up making collateral appraisal reports. Fourth, PT Bank Syariah XYZ should overcome the current level of work stress of the collateral appraiser to not adversely affect the performance of the collateral appraiser and the company. Besides that, PT.

Bank Syariah XYZ must mitigate the risk of this policy by conducting quality control on the object of assessment that has become collateral at PT. Bank Syariah XYZ from the beginning this policy change was enforced and stated in the Standard Operating Procedure (SOP). Lastly, PT. Bank Syariah XYZ should immediately improve the quality of the system and internet and intranet networks to improve the performance of the collateral appraiser. Fifth, other researchers who study the performance of collateral appraisers are advised to add other variables, such as compensation variables and sampling the appraisal object assessed using this virtual method.

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Received: 10 March 2021; Revised: 08 September 2021; Accepted: 12 November 2021

WHAT DETERMINES THE FINANCIAL PERFORMANCE OF ISLAMIC BANKS IN INDONESIA?

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ABSTRACT - This study aims to determine the effect of the Capital Adequacy Ratio (CAR), Non-Performing Financing (NPF), and Operational Efficiency Ratio (OER) at Islamic Commercial Banks in Indonesia for the 2010-2019 period. The test was carried out using panel data regression with the Random Effect Model (REM) model, tested using the t-test and f test with a significance of 5%. Based on the results of the t-test, partially, OER has a negative and significant effect on Return on Assets (ROA), whilst NPF and CAR do not significantly affect ROA. Moreover, the results of the F-test show that CAR, NPF, and OER simultaneously affect ROA. The results of this study indicate that to maximize the financial performance of Islamic banking in Indonesia, the Islamic banks must pay attention to the OER variable.
Keywords: Financial Performance, Islamic Bank, ROA, CAR, NPF, OER

ABSTRAK – Determinan Apa yang Mempengaruhi Kinerja Keuangan Bank Syariah di Indonesia? *Penelitian ini bertujuan untuk menganalisis pengaruh Capital Adequacy Ratio (CAR), Non-Performing Financing (NPF), dan Beban Operasional terhadap Pendapatan Operasional (BOPO) pada Bank Umum Syariah di Indonesia periode 2010-2019. Pengujian dilakukan menggunakan regresi data panel dengan model Random Effect Model (REM) yang pengujiannya menggunakan uji t dan uji f dengan signifikansi yaitu 5%. Berdasarkan hasil uji t, secara parsial BOPO berpengaruh negatif dan signifikan terhadap Return on Asset (ROA), sedangkan variabel NPF dan CAR tidak memiliki pengaruh yang signifikan terhadap ROA. Selanjutnya, hasil uji F menunjukkan bahwa CAR, NPF, dan BOPO secara simultan berpengaruh terhadap ROA. Hasil penelitian ini memberikan rekomendasi kepada Bank Syariah di Indonesia agar memberikan perhatian yang lebih serius terhadap variabel BOPO jika ingin memaksimalkan kinerja keuangannya.*
Kata Kunci: *Kinerja Keuangan, Bank Umum Syariah, ROA, CAR, NPF, BOPO*

INTRODUCTION

The growth and development of Islamic banking in Indonesia are increasing as evidenced by the establishment of Islamic-based businesses, where Islamic Banking consists of Islamic Commercial Banks *(Bank Umum Syariah - BUS),* Islamic Business Units *(Unit Usaha Syariah - UUS),* and Islamic Rural Bank *(Bank Pembiayaan Rakyat Syariah - BPRS)*. The BUS is a group of full-fledged Islamic banks operated independently as a single sharia entity. The UUS is a sharia unit of a conventional bank, while the BPRS is a group of relatively small Islamic banks operated independently in a relatively small scope (Aulia, Ibrahim, & Tarigan, 2020; Ichsan, Suparmin, Yusuf, Ismal, & Sitompul, 2021)

The tight competition with the conventional banks requires the Islamic banking industry to continually improve its performance to compete in the national banking market (Nadia, Ibrahim, & Jalilah, 2019). In the service industries, including the banking industry, performance is an essential aspect of maintaining. It plays a vital role in setting the trusted image in its customers' minds. The more positive image grows, the more trusted the banks are. Financial performance is an assessment analysis of the extent to which banks carry out activities by financial implementation rules (Famhi, 2013). It affects the increasing number of third-party funds *(Dana Pihak Ketiga – DPK)*. Banks distributed the DPK in the financing scheme and subsequently increased their profitability (Dimitha, Ibrahim, & Ahmadsyah, 2021). Profitability can be regarded as one of the most appropriate indicators to measure a company's performance because the company's ability to generate profits can be a benchmark of the company's performance. The higher the profitability, the better the company's financial performance (Kusumastuti & Alam, 2019; Mailinda, Ibrahim, & Zainul, 2018). Profitability is often proxied by the bank's ability to maximize its assets through variable Return on Assets (ROA).

One indicator in measuring the overall performance of banking activities is the ability to maintain its capital adequacy. Capital is one of the crucial factors for a bank to develop its business and accommodate the risk of loss. A bank's capital must principally be sufficient to cover the entire business risks that it faces. A bank's capital is represented by the Capital Adequacy Ratio (CAR), which is used as an indicator of the ability of the bank's assets to cover the potential risks financed by its capital. CAR is generally utilized to measure a bank's financial performance.

Like its conventional counterparts, Islamic banking is also facing risks in its operations, including financing/credit risk proxied by Non-Performing Financing (NPF). It is an indicator for assessing the performance of a bank's functionality as an intermediary institution that arises because banks cannot get back loans that have been given or invested (Nisak & Ibrahim, 2014). NPF is a financial ratio related to the amount of financing risk experienced by a bank. The higher the NPF of a bank, it means that the bank has a financing risk that the bank bears. So that the greater the NPF of a bank, the lower the profitability of the bank.

Another indicator in measuring financial performance is efficiency. Each bank must be efficient in its activities to reduce costs to increase profitability. It is usually measured through the Operational Efficiency Ratio (OER). According to the financial dictionary, OER is a ratio group that measures companies' operational efficiency and effectiveness by comparing lines one against the other (Buchanan, 1997). Various numbers income and expenditure from the reported profit and loss to numbers on the balance sheet (Abeler, Altmann, Goerg, & Wibral, 2011). The OER provides a comparison between operating expenses and operating income (Elkamiliati & Ibrahim, 2014). With a bigger OER, the bank's ROA gets smaller because the profit earned by the bank also gets smaller.

Several studies on the financial performance of Islamic banks have been conducted recently. Safitri, Nadirsyah, and Darwanis (2016), for instance, studied the internal and external factors affecting the performance of Islamic banking in Indonesia for the period of 2009-2013. Similarly, Istan and Fahlevi (2020) studied the effect of external and internal factors on the financial performance of Islamic banking in Indonesia. The assessed variables included GDP, inflation, interest rates, FDR, OER, and ROA. Furthermore, Mukhibad and Khafid (2018) examined financial performance determinants of Islamic banking in Indonesia, particularly the impact of GCG, number of SSB, FDR, PLS, PSR, and temporary *syirkah* fund ratio on the performance of NPF and ROA. They found relatively similar results.

However, the above studies differ from this study. The studies did not examine bank profitability to differentiate between big and small banks. The differences between the studies and the current study lay in the investigated variables, which comprise almost all financial factors. In addition, as the present study includes most Islamic banks as the object, the previous studies limited only to one or two Islamic banks. Therefore, it is important to re-examine the said variables in a larger entity and more relevant variables.

This study aims to determine the influence of Islamic banking performance. In specific, it examines the impact of the Capital Adequacy Ratio (CAR), Non-Performing Financing (NPF), and Operating Efficiency Ratio (OER) on Return on Assets (ROA) of five Islamic commercial banks operating in Indonesia during the period 2010-2019. The findings of this study are expected to enlighten customers about the financial performance of Islamic Commercial Banks in Indonesia so that they can obtain maximum investment returns.

LITERATURE REVIEW

Generally, the high burden of bank operating costs will be borne by the income earned. Operating Efficiency Ratio (OER) compares operating costs and operating income in measuring the level of efficiency and the ability of a bank to carry out its operations (Ijaiya, Jimoh, Attah, Abdulmumin, & Nafiu, 2021). The bank carries out operational efficiency to determine whether the bank in its functions related to the bank's primary business is carried out correctly and is used to show whether the bank has used all its production factors appropriately and effectively (Ismaulina & Zulfadhli, 2017). The lower the OER means, the more efficient the bank controls its operational costs. With the efficiency of operating expenses, the benefits obtained will be maximum (Buchanan, 1997).

The increased ratio reflects the inability of banks to reduce operating costs and increase income which can cause losses because banks are less efficient in managing their business (Pimada, Mawardi, & Herianingrum, 2017). ROA is used to measure management's ability to earn an overall profit (Gultom, Manurung, & Sipahutar, 2020). The greater a bank's ROA, the larger the profit it will make and the better its position regarding the use of assets. A high ROA indicates the excellent performance of an organization to generate high income (Juwita, Raga, Prasetyo, & Rimawan, 2018). A high ROA in an Islamic bank shows the ability of the bank to optimize its financing in gaining profits (Habibi & Rusgianto, 2021). The following parts discuss previous related studies that led the researchers to draw the hypotheses.

Effect CAR on Islamic Banks' Performance (ROA)

As previously mentioned, CAR is used as the performance indicator in measuring the ability of a financial institution to handle the depreciation of its assets (Kusumastuti & Alam, 2019). Conventional wisdom suggests that the riskiness of a bank is determined by its ability to absorb unforeseen losses. Past studies show the significance of CAR in influencing the banks' performance (Zulifiah & Susilowibowo, 2014). Given that capital is viewed as a buffer against losses, a high capital asset ratio (CAR) tends to be associated with lower profitability (Juwita et al., 2018; Kusumastuti & Alam, 2019). Meanwhile, Zulifiah and Susilowibowo (2014) found that the CAR variable positively affects profitability (ROA). Based on the facts, the first hypothesis can be drawn as follows:

H1: Capital adequacy ratio positively affects Islamic banks' performance (ROA)

Effect NPF on Islamic Banks' Performance (ROA)

Previous studies showed that NPF has a negative effect on the profitability of Islamic commercial banks (Kusumastuti & Alam, 2019; Purbaningsih & Fatimah, 2014), especially on its ROA component. The financing risk occurs if the process of giving finance is not accompanied by the prudential principle (Chabachib, Windriya, Robiyanto, & Hersugondo, 2019). The financing/credit risk, measured by the non-performing financing/loan (NPF/L) or variable, will reduce the bank's profit. The research results of Abduh and Alias (2014), and Abdillah, Hosen, and Muhari (2016) showed that NPL has a significant negative effect on bank performance. Meanwhile, the findings of Mahmud, Mallik, Imtiaz, and Tabassum (2016), and Milhem and Istaiteyeh (2015) showed an insignificant effect. Non-performing financing has a significant and negative impact on asset returns and total asset growth (Setyawati, 2016). The larger the ratio of non-performing financing, the more bank is exposed to the associated risk. The higher the risk, the more possibility the bank can decrease its profit-sharing from the channeled funding. Earlier researches such as Mawardi (2015), Bilal, Saeed, Gull, and Akram (2013), Petria, Capraru, and Ihnatov (2015), Putranto, Herwany, and Sumirat (2012), Mokni and Rachdi (2014) showed that NPF negatively affected profit. Thus, the aforementioned studies drive to the second hypothesis:

H2: Non-performing financing negatively affects Islamic banks' performance (ROA)

Effect of OER on Islamic Banks' Performance (ROA)

Return On Assets (ROA) as a proxy for measuring the performance of Islamic banks has identified several influencing factors, both internally and externally, that affect performance. It showed that liquidity risk, operating costs, and inflation have a significant negative impact on the performance of Indonesian Islamic banks (Insani & Muflih, 2019). Operating expenses to the total asset ratio have a significant negative effect on asset returns and total asset growth (Setyawati, 2016). As mentioned earlier, Operational Efficiency Ratio (OER) is a financial ratio used to measure efficiency and effectiveness in carrying out its operational activities. A high OER means an organization's operating costs are greater than its income. The findings of past studies showed an opposite relationship between OER and the level of profitability (ROA) in the banking industry (Zulifiah & Susilowibowo, 2014). Based on the information, the third hypothesis is concluded:

H3: Operating Costs to Operating Income (OER) affects Islamic banks' performance (ROA)

RESEARCH METHOD

The population in this study were all Islamic commercial banks operating in Indonesia. The samples were Bank Rakyat Indonesia Syariah, Bank Negara Indonesia Syariah, Bank Syariah Mandiri, Bank Muamalat Indonesia, and Bank Mega Syariah. The sample was selected using purposive sampling, with the following criteria: 1) categorized as big ten Islamic banks; 2) listed on the Indonesia Financial Service Authority (OJK); and 3) have published the financial statements when this study is conducted. The data was collected from the report for the 2010-2019 period, resulting in 200 observations.

The financial performance is proxied by Return on Assets (ROA). The Generalized Least Square analysis panel was adopted and estimated using the E-Views statistical software. The data regression panel analysis was adopted because the data used in this study is a combination of time series data for ten years (2010-2019) and a cross-section of 5 Islamic commercial banks. Before data estimation, the classical assumption tests—normality, multicollinearity, autocorrelation, and heteroscedasticity—were performed. Following the steps, hypothesis testing was carried out through this equation:

$$ROA_{it} = a + b_1CAR_{1it} + b_2NPF_{2it} + b_3OER_{it} + \mu_{it}$$

Where: the ROA is a proxy for financial performance; CAR is the capital adequacy ratio; NPF is a ratio that shows the efficiency of the comparison between operating costs and operating income; b_1 is an estimated variable, a constant term; and *μit* is an error term.

Two common models are often used to estimate panel regression: the fixed effect model and the random effect model (Kanter & Brinkerhoff, 1981). The Hausman test will be employed to determine which of the two models is more appropriate to use in the study. This test follows the statistical distribution of Chi-square, with the degree of freedom is equal to the number of independent variables. If the Hausman statistic value is greater than the critical value of Chi-square statistics, it indicates that the fixed effect model is more appropriate to adopt. On the other hand, if the Hausman statistic value is smaller than the critical value of Chi-square statistics, then the random effect model is a more appropriate model to be used. The fixed-effect model uses dummy variables to capture intercept differences as the following equation:

$$ROAit = a + b_1CAR_{1it} + b_2NPF_{2it} + b_3OER_{it} + \mu_{it}$$

Meanwhile, the random effect model assumes that the intercept coefficient differs between individuals and time (random effect). The random effect model is estimated as the following equation:

$$ROAit = a + b_1CAR_{1it} + b_2NPF_{2it} + b_3OER_{it} + e_{it} + \mu_{it}$$

The normality test was conducted by referring to the asymptotic probability. If its probability value is greater than 0.5, the data is normally distributed. A multicollinearity test uses the Variance Inflation Factor (VIF). The data is free from multicollinearity problems if the VIF value is below 10. Durbin Watson's (DW) value was employed for the autocorrelation test. Data is free from the autocorrelation problem if the DW statistical value is around 2. Finally, the heteroscedasticity test is performed by referring to the Bruesch-Pagan (BP) test. If the value of the BP Chi-square is greater than its p-value, the data is concluded to be free from the heteroscedastic problem.

RESULT AND DISCUSSION

Result

Table 1 illustrates the descriptive statistics of investigated variables. The descriptive statistics describe trends of the variables, covering their minimum, maximum, and mean values and the dispersion of variables (standard deviations).

Table 1. Descriptive Statistics of the Variables

Variable	Minimum	Maximum	Mean	Standard Deviation
ROA	-12.020	92.450	1.553	6.690
CAR	10.120	30.070	16.303	4.524
NPF	1.350	7.230	3.757	1.320
OER	67.980	304.600	91.461	21.746

The table display that the minimum value is -12% recorded by Bank Negara Indonesia Syariah in 2010, while the maximum value was 92.4% recorded by Bank Muamalat Indonesia in 2011. The average ROA of Islamic Commercial Banks in the said period was 1.5%, above the minimum requirement of 1.26%. It indicates that the average ROA of Islamic commercial banks in Indonesia is on track.

Further, the minimum CAR value of 10% was recorded by Bank Muamalat Indonesia in 2010. While the maximum CAR value was recorded by Bank Rakyat Indonesia Syariah in 2018, and the average CAR of Islamic Commercial Banks in Indonesia for the 2010-2019 period was 16%, above the provisions of Bank Indonesia, which is 8%. It indicates that Islamic Commercial Banks in Indonesia are in good condition with capital above the standards set by Bank Indonesia.

Moreover, the minimum NPF value was 1.3% which Bank Muamalat Indonesia recorded in 2013, while Bank Muamalat Indonesia recorded the maximum NPF in 2016. The average NPF of Islamic Commercial Banks in Indonesia for the 2010-2019 period was 3.7 %, below the provisions of Bank Indonesia, which is 5%. It indicates that Islamic Commercial Banks in Indonesia are in good condition regarding financing problems from the standards set by Bank Indonesia.

In addition, the minimum OER value for Islamic commercial banks was 68% recorded by Bank Negara Indonesia Syariah in 2011, while the maximum OER was recorded by Bank Negara Indonesia Syariah in 2010. The average OER of

Islamic Commercial Banks for the 2010-2019 period was 91%. This value is above Bank Indonesia provisions, 85% at maximum. Thus, the Islamic Commercial Banks are not operating efficiently.

Discussion

Based on the Hausman test, this study found that the random effect model is the most appropriate Generalized Least Square model compared to the fixed effect model to estimate the effect of CAR, NPF, and OER's effect on the performance of Islamic banking in Indonesia in the period of 2010-2019. This information is illustrated in Table 2, where the p-*value* of the Hausman test is above the probability value of 0.05. Table 2 also provides an estimate of the regression coefficient based on the Generalized Least Square Panel analysis.

Table 2. Regression Coefficient based on GLS Panel

Variable	**Coefficient**	**t-Statistics**
Constants	7.574	2.829
CAR	0.134	0.327
NPF	-0.024	-0.193
OER	-0.067	-2.816
Hausman Test (p-value) = 0.517, F-statistic (p-value) = 0.002, Adj R2 = 0.029, KS-test (p-value) = 0.790 VIF= 1,371 DW= 2.094 and BP (p-value)= 0.463		

Note: *shows significance at the 1% level, the Hausman test is performed to select a proper model between fixed and random effect models, Adj. R2 is the Adjusted R-squared, KS is the Kolmogorov-Smirnov test for normality, VIF is the variance inflation factor criteria for multicollinearity, DW is the Durbin-Watson test for autocorrelation, and BP is the Bruesch-Pagan test for heteroscedasticity.

The estimates of the General Least Square model also meet the requirements of the classical assumptions. As shown above, Kolmogorov-Smirnov (KS) was found to be insignificant with a *p-value* of 0.792, indicating the normality of the variable, Variance Inflation Factor (VIF) with a value of less than 10 (VIF = 1.371), indicating an independent variable independent of the multicollinearity problem. The Durbin-Watson (DW) autocorrelation test is a 2.094, suggesting no autocorrelation problem. Meanwhile, the Bruesch-Pagan (BP) test for heteroscedasticity results in a 0.463 value, which indicates that the variable is homoscedastic. This finding further confirms that our forecast model is quite suitable to measure the effect of CAR, NPF, OER, and ROA on Islamic Commercial Banks in Indonesia during the period 2011-2019.

Table 2 reported that of the three variables studied, only OER significantly affects financial performance as proxied by ROA. In contrast, CAR and NPF have no significant impact on financial performance. In particular, this study finds that an increase in OER of 1% will reduce financial performance by 0.6%. Thus, to improve the financial performance of Islamic commercial banks, they must ensure that their operational activities are carried out efficiently, which is reflected in the low OER value. The lower the OER ratio, the better the operational activities of Islamic commercial banks. This empirical evidence is supported by research by Zulifiah and Susilowibowo (2014) and Havidz, Jianmu, Aima, and Ali (2017) which showed that OER negatively affects the ROA of Islamic commercial banks.

On the other hand, CAR and NPF were found to have no significant effect on Islamic financial performance. This conclusion is made with an insignificant probability value of the estimated independent variables. Thus, the results of this study find that CAR and NPF do not have a significant role in determining the financial performance of Islamic commercial banks. However, to maintain the company's existence, the company needs to preserve the minimum CAR and NPF allowed by the Financial Services Authority. The insignificant effect of NPF and CAR on the performance of Islamic commercial banks is in line with empirical evidence from Mahmud et al. (2016), and Milhem and Istaiteyeh (2015). However, this finding contradicted the research results by Abduh and Alias (2014), and Abdillah et al. (2016) showed a significant negative effect of NPL on bank performance.

The results also found a negative and significant effect of OER on financial performance, as shown by the significance of probability value. This finding suggests that Islamic banking needs to improve company efficiency to increase its profits. This output shows an opposite relationship between OER and profitability (ROA) in the Islamic banking industry in Indonesia, which is supported by the research of (Zulifiah & Susilowibowo, 2014). The findings show that reporting the company's operational activities in each period in financial statements is very important for stakeholders, especially for investors or customers of the bank. Most importantly, if the public also owns the shares of the banks. The financial performance report can be used as a reference for the current and inbound investors to become part of the Islamic commercial bank or vice versa.

The findings have implications for various parties. For the banking institution, it can be used for decision-making concerning the elements that should be focused on in increasing efficiency and, thus, profitability. For customers, it is a reference for investing in specific products. As for the regulator, the findings provide an insight into a better understanding of Islamic banking so that regulations can be created accordingly (Aulia et al., 2020).

In relation to the current digital era, this study suggests that Islamic banking institutions should maximize the use of information technology in reducing operational costs. The opening of physical branches/offices should be reduced and replaced digital offices. Many researchers have predicted that future banking is more focused on digital matters Abbasov, Mamedov, and Aliev (2019), Deorukhkar and Xia (2015), Mamadiyarov (2020), and Sloboda and Demianyk (2020). Thus, the use of technology should be the topmost concern for Islamic banking management.

CONCLUSION

This study examines CAR, NPF, and OER and their impact on Islamic banking performance in Indonesia. The findings conclude that operating efficiency (OER) significantly influences financial performance (ROA). Other variables, CAR and NPF, show insignificant effects in boosting the performance of Islamic banking. In specific, the CAR variable shows a positive impact on performance but is insignificant. Meanwhile, the NPF demonstrates a negative but insignificant effect on the performance variable. This finding suggests that Islamic banking needs to improve company efficiency to increase its profits.

This study has provided empirical evidence on the impact of CAR, NPF, and OER variables on the financial performance of Islamic banking in Indonesia as proxied by the ROA variable. It also supports several previous studies, and at the same time, contradicts some others. As this study only focused on Islamic Commercial Banks, the subsequent studies are encouraged to extend to all components of the Islamic banking sector in Indonesia, including the Islamic Business Units (IBU) and the Islamic Rural Banks (IRB).

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Received: 15 April 2021; Revised: 14 June 2021; Accepted: 18 August 2021

THE IMPACT OF FINANCING RISK ON ISLAMIC BANKING PERFORMANCE IN INDONESIA

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ABSTRACT - The financing risk is a significant issue in the Islamic banking industry that affects its performance. This research aims to examine the factors that influence financing risk on the financial performance of Islamic banking in Indonesia. This study utilized time-series data quarterly from 2009 to 2020 collected from three types of Islamic banking in Indonesia: Islamic Commercial Bank (ICB), Islamic Business Unit (IBU), and Islamic Rural Bank (IRB). It was analyzed using multiple regression estimation techniques with the Ordinary Least Square (OLS) method. This study revealed that the Islamic banks' financing risk is significantly influenced by bank capital, financing, economic growth, inflation, and central bank rate (BI rates), both negatively and positively. In detail, the increase of bank capital, financing, and economic growth will reduce the financing risks, whilst inflation and BI rate increase the financing risks. The findings also disclosed that Islamic banks' financial performance is influenced by bank capital, operating costs, financing risks, inflation, and BI rates. Thus, the decrease in bank capital, operational costs, and financing risks will subsequently decrease the financial performance, while the increase in Inflation and BI rates will increase the financial performance of Islamic banks. Economic growth is the most influential factor in reducing financing risk, while financing risk is the most significant factor in improving banks' financial performance. The government's efforts to boost economic growth are crucial to reducing financing risks and improving the financial performance of Islamic banks.
Keywords: Economic Growth, Financing to Deposits Ratio, Non-Performing Financing, Profitability

ABSTRAK – Dampak Risiko Pembiayaan terhadap Kinerja Bank Syariah di Indonesia. *Risiko pembiayaan merupakan persoalan utama bagi industri perbankan termasuk perbankan syariah. Tujuan dari penelitian ini adalah untuk menganalisis faktor-faktor yang mempengaruhi risiko pembiayaan dan pengaruhnya terhadap kinerja keuangan perbankan syariah di Indonesia. Objek penelitian meliputi Bank Umum Syariah, Unit Usaha Syariah dan Bank Perkreditan Rakyat syariah. Model analisis menggunakan teknik estimasi regresi berganda dengan menggunakan metode Ordinary Least Square (OLS). Penelitian ini menggunakan data time-series periode kuartalan dari 2009-2020. Hasil penelitian ini menunjukkan bahwa risiko pembiayaan bank syariah dipengaruhi oleh modal bank, pembiayaan, pertumbuhan ekonomi, inflasi dan BI Rate. Hasil ini mengindikasikan bahwa peningkatan modal bank, pembiayaan, dan pertumbuhan ekonomi akan mengakibatkan penurunan risiko pembiayaan, sementara peningkatan inflasi dan BI Rate akan meningkatkan risiko pembiayaan. Selain itu, hasil kajian juga mendapati bahwa kinerja keuangan bank syariah dipengaruhi oleh modal bank, biaya operasional bank, risiko pembiayaan, inflasi dan BI Rate. Secara detil, penurunan modal bank, biaya operasional dan risiko pembiayaan akan meningkatkan kinerja keuangan bank syariah, sementara peningkatan inflasi dan BI Rate akan meningkatkan kinerja keuangan. Faktor yang berpengaruh paling terhadap penurunan risiko pembiayaan adalah pertumbuhan ekonomi. Penurunan risiko pembiayaan merupakan faktor yang berpengaruh paling besar terhadap peningkatan kinerja keuangan perbankan syariah. Upaya pemerintah untuk mendorong pertumbuhan ekonomi merupakan langkah yang sangat strategis mengurangi risiko pembiayaan dan meningkatkan kinerja keuangan perbankan syariah di Indonesia.*
Kata Kunci: *Keuntungan, Pembiayaan bermasalah, Pertumbuhan Ekonomi, Rasio Pembiayaan terhadap Simpanan*

ISSN: 2089-6239 (P); 2549-0648 (E) *DOI: 10.22373/share.v10i2.9400*

INTRODUCTION

The Covid-19 pandemic that spread almost all over the world resulted in the economy contracting and triggered a global recession. The impact of various restrictions and economic policies reduces economic activity and growth (Ozili & Arun, 2020). According to Koju, Koju, and Wang (2018), declining economic growth increases the risk of uncertainty and affects the ability to pay the obligations of businesses (Ibrahim, 2018). Slow economic growth will affect the credit risk and lead to high non-performing loans in banks. Das, Moutushi, and Tofa (2020) stated that providing loans is the main activity of the conventional banking sector, and non-performing loans (NPL) are the most considerable problems faced by banks. The bank's inability to manage credit risk will possibly increase the NPL and decrease its profitability.

Indonesia's economy contracted and experienced an average growth of -1.99% per quarter during the Covid-19 pandemic in 2020. The decline in economic growth reflects the reduction in the economic capacity, as shown by fluctuation and decreased inflation in 2020. In the third quarter of 2020, inflation decreased by minus 0.20% compared to the previous year. Declining economic activity and fluctuations in inflation have an impact on the activities and quality of the banking sector. Bank Indonesia responded to the decline in economic activity and banking activities by lowering the BI rate to 4.5%, 4.25%, 4.00%, and 3.75% in the first quarter, 2nd, 3rd, and 4th quarters of 2020 (Figure 1). The decrease in BI rate is expected to boost credit/financing and increase banking sector profits.

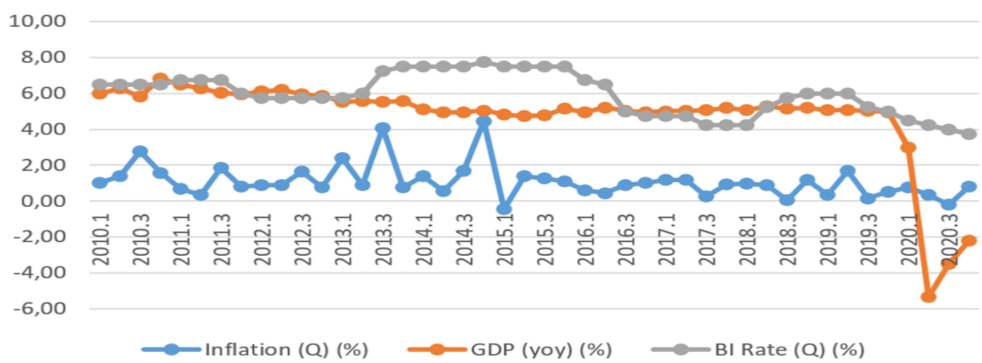


Figure 1. Economic Growth, Inflation and Interest Rates Policy Period 2010-2020 (quarter, in %)
(Source : Central Bureau of Statistics & OJK, processed)

During the pandemic, loans from conventional banks and financing of Islamic banks experienced different development trends. The loan of conventional banks decreased by an average of 1.99% (yoy), whilst Islamic bank financing increased by an average of 10.57% (yoy) (Table 1). The high growth of Islamic bank financing is not in line with the profits generated (1.55%), which is lower than the conventional bank's average profit (2.15%). Financing/credit is the main activity that should provide banks with a high potential profit level. In line with it, Das et al. (2020) revealed that the increase in LDR (Loan to Deposit Ratio) positively impacted bank rentability. The contradictory fact of financing that is not in line with Islamic bank profits is questionable.

The relationship is not in line between financing and profit levels predicted to be related to macroeconomic and internal conditions of Islamic banks (Mailinda, Ibrahim, & Zainul, 2018; Muarif, Ibrahim, & Amri, 2021). The decrease in economic activity impacts increasing credit risk (İncekaraa & Cetinkaya, 2019). The unstable inflationary developments indicate poor economic conditions and adversely affect banking activity; it affects Islamic banking non-performing financing (NPF) (Mahdi, 2019). The study from Kuswahariani, Siregar, & Syarifuddin (2020) reveals that management's inability to respond to macroeconomic/government policy changes can increase risk and problematic financing and reduce Islamic bank profit levels. During the Covid-19 pandemic, the NPF of Islamic banks shows an average of 3.33%, higher than the average of conventional banks' NPL (3.11%). The high level of non-performing financing (NPF) indicates low performance and problems in financing in Islamic banks.

Table. 1 Growth of Financing & Credit, ROA, and NPF-L

Years-Months		**Growth (%)**		**ROA (%) Bank**		**NPF-L**	
		Fin	**Crd**	**Sharia**	**Convent.**	**NPF**	**NPL**
2019	Nov	10.21	1.64	1.67	2.47	3.47	2.91
	Des	11.29	0.63	1.73	2.47	3.23	2.66
2020	Jan	11.43	0.58	1.88	2.70	3.46	2.91
	Feb	11.22	0.50	1.85	2.49	3.38	2.91
	Mar	10.91	2.49	1.86	2.57	3.43	2.89
	Apr	9.75	0.35	1.55	2.34	3.41	3.02
	May	9.28	-2.26	1.44	2.06	3.35	3.14
	Jun	9.55	-3.84	1.40	1.94	3.34	3.26
	Jul	10.56	-3.82	1.38	1.90	3.31	3.38
	Aug	10.48	-4.33	1.36	1.90	3.30	3.39
	Sep	10.30	-5.21	1.36	1.76	3.28	3.30
	Oct	10.89	-5.82	1.35	1.70	3.18	3.31
	Nov	11.52	-6.81	1.35	1.64	3.22	3.34

Average	10.57	-1.99	1.55	2.15	3.33	3.11

Source: OJK (2021)

Based on the picture of economic development conditions, it was revealed that the problem is not optimal, and a high risk of Islamic bank financing in Indonesia. Improving the quality and decreasing financing risk is essential to enhance the performance of Islamic banks and help economic recovery. According to Hasan et al.. (2021), Islamic banking can serve as an alternative financial system that provides relief to the community and business sector in the recovery period after Covid-19. A study from Mifrahi & Tohirin (2020) for cases in QISMUT countries revealed the vital role of Islamic bank financing in economic growth through investment and consumption.

This research aims to study the factors that influence financing risk and its effect on the financial performance (profit) of Islamic banking in Indonesia. The study includes an overview of internal and macroeconomic conditions. Internal aspects include capital elements, allocation of third-party funds in the financing, and bank operating costs. Macroeconomic factors include economic growth, inflation, and the central bank's monetary policy. The results of this study are essential information for banks to control financing risks and increase profits. The government/ policyholders can be a reference to focus more on the right policies to boost the economy and quality banking activities.

LITERATURE REVIEW

Financing is the main activity of the bank. The added value obtained from financing is in line with the risks faced by and has an impact on the financial performance of Islamic banks. Financing risk is a problem Islamic banks face when financing disbursed to customers cannot be returned in the after-term agreement (Syamlan & Jannah, 2019). The amount of financing represents the step of risk-taking by the bank; the greater the risk, the greater the expected profit expression (Alam & Tang, 2012). Banking is an economic sector affected by Covid-19. Financing risk in banking is increasing and resulting in non-performing financing. The solution to anticipate financing risk is carried out through restructuring measures by expanding the bank's reserve capital (Rasbin, 2020).

Various studies have been conducted to study financing risks and the factors that affect them. In general, financing risk is influenced by the internal bank and macro-economic (external) conditions. The results of the study from Iriani &Yuliadi (2015), Radivojevic & Jovovic (2017), and Wood & Skinner (2018) revealed that the bank's internal and macroeconomic variables significantly affect non-performing financing (NPF). Different studies reveal that the bank's decision to take risks by increasing the value of financing is influenced by changes in macroeconomic variables in the long term. Medium and small groups of Islamic banks bear greater risk than large groups due to macroeconomic (external) shocks (Fakhrunnas, 2019). Research from Damanhur, Ghazali, & Muhammad (2017) in the case of Aceh Islamic banks revealed that asset values (internal variables) and external variables (Inflation & economic growth) had a significant effect on non-performing financing' (NPF). In the face of a crisis, the risk management performance of Islamic banks is better than conventional banks (Akram & Rahman, 2018).

Changes in economic activity have an impact on banking activities. Banks have the opportunity to raise and distribute funds. Lending has the potential to provide benefits as well as risk challenges for banks. Credit risk is a significant problem in the banking sector. A study revealed that economic growth (GDP), bank profits, and third-party funds directly impact the increase in non-performing loans (Rahman & Armina, 2020). Economic growth and the inflation rate resulted in a decrease in non-performing loans. Declining economic growth and the global financial crisis increased non-performing loans (Rajha, 2017). Other studies reveal that apart from economic growth and inflation, the unemployment rate, exchange rate, and borrowing rate are the factors that affect non-performing loans (NPL). Unemployment has a proportional impact on underperforming credit, and the exchange rate has a negative effect on the NPL. Credit interest rates positively impact non-performing loans (NPLs) at conventional banks (Szarowska, 2018).

Research from Effendi, Thiarany, & Nursyamsiah (2017) for Islamic banking cases reveals that inflation has a negative impact and GDP positively affects non-performing financing (NPF). The bank's profit, capital, and size negatively impact, and operational costs positively impact non-performing financing. Another study revealed that public deposits positively impact the amount of financing in Islamic commercial banks in Indonesia. Problematic financing (NPF) affects the volume of financing through the mediation role of public deposit funds (DPK) collected by Islamic banks (Permantaningayu & Mahdaria, 2019). There is a mutually affecting interaction between the value of financing and financing risk (NPF) faced by Islamic banks in Indonesia. The results of other studies revealed that in addition to capital and profit, the increase in financing to deposit ratio (FDR) impacts the decrease in the value of Islamic bank non-performing financing (Ningrum, Samrotun, & Suhendro, 2019).

Tarchouna, Jarraya, & Abdelfettah (2017) revealed that credit/financing is the main activity directly related to credit risk, capital, income, and banking assets. Each bank tries to implement good business governance in the face of various crises and reduce credit/problematic breeding. Small banks are more successful than big banks in corporate governance and reduce non-performing loans/financing. According to Irawati et al.. (2019), banks need to make capital and liquidity adjustments to minimize the negative impact on the bank's overall profit and performance. Non-performing loans (NPLs) have a negative but insignificant effect on the bank's financial performance.

The other studies for the Islamic banking case revealed that the musyarakah financing scheme impacts the increasing risk of Islamic banking financings, such as Aprilianto (2020) and Nisak and Ibrahim (2014) studies. Moreover, Warninda, Ekaputra, & Rofik (2019) and Wardiah and Ibrahim (2013) discovered that Mudarabah financing has a linear effect on Islamic bank financing risk, while Musharakah financing provides a non-linear impact. The highest financing risk occurs when the portion of Musharakah financing reaches 37–39% of the total financing in Islamic banks. According to the study by Hasan, Rabbani, and Abdullah (2018), credit risk and inflation negatively affect banking liquidity risk. This study revealed that Islamic banks have better capabilities than conventional banks in credit/financing risk management.

Credit risk and non-performing loans affect the stability of the banking sector. Banking stability in emerging economies is determined by profitability, solvency, market share, and interest rate differences in deposits. Interest rate margins directly impact non-performing loans (NPL) (Kumar, 2015). Another study for Islamic banking cases revealed that efforts to increase profits through increased Financing Asset Ratio (FAR) are faced with the high risk of credit financing. The size and age of the bank contribute to the direction of the risks faced by the bank. Debt burdens and competition levels have the same impact on bank risk. Efforts to reduce risk can be made by diversifying risks through new products that refer to the financing of Mudharabah Muqayyadah (Syamlan & Jannah, 2019).

In addition, Santoso et al. (2019) revealed that each type of financing has different levels of risk and influencing factors. Bank health and inflation levels are the dominant factors affecting non-performing financing (NPF) for all kinds of Islamic banking financing agreements. The other study explains that Islamic banks preferred funding to various investments with debt financing schemes to avoid risk. Islamic banks can effectively regulate risk and improve efficiency and profit (Abusharbeh, 2014). The findings of Budiman, Achsani, & Rifki (2018) disclosed that internal bank factors have more influence than macroeconomic conditions on problematic financing (NPF). The quality of risk management, profit, and capital is important to reduce problematic financing in Islamic banking. Another finding from Aspirantia et al.. (2019) revealed that profit is the determining factor in the growth of banking assets. In the long term, the increase in the financing-to-deposit ratio (FDR) has a significant impact on non-performing financing (NPF) in Islamic banking (Ibrahim & Rahmati, 2017).

Financial Performance (Profit)

Credit/financing risks adversely affect financial performance if the bank cannot manage them properly. The increased risk has resulted in a decrease in the bank's overall profit and financial performance. Bitar, Pukthuanthong, and Walker (2018) exposed the effect of credit/financing risk on bank performance. The bank's inability to manage credit risk results in an increased obligation of the bank to provide spare capital. Capital ratio improvement policy negatively impacts the efficiency and profitability of banks. According to Adelopo, Lloydking, and Tauringana (2018), bank size, cost management, and liquidity management have significant relationships with bank profitability. Internal factors (capital, credit risk, and market forces) and sensitive macroeconomic factors (GDP and Inflation) affect bank profits in conditions before, during, and after the financial crisis. Research from Ozili (2021) for South Africa and the United States found that the value of efficiency, problematic loans, and overhead costs determine the banking sector's profitability. The study of Saleh and Afifa (2020) for large banks divulged that an increase in funding cost directly impacts increasing bank profitability (ROE). Various risks, credit or liquidity risks, and bank capital, affect bank profits.

The bank's financial performance (profitability) and being influenced by internal factors are also affected by macroeconomics. Several studies have revealed the effect of macroeconomic variables on bank profitability. Internal factors (bank size, capital ratio, risk value, cost, and productivity), industry characteristics, and macroeconomic indicators affect bank profitability (Batten & Vinh, 2019). Studies for Islamic banking reveal that problematic financing (NPF) and macroeconomic variables (economic growth, central bank benchmark interest rates, inflation) have a significant effect on Islamic bank profits (Amzal, 2016). The study for the BPR Syariah case revealed that capital and assets positively influence profitability. Problematic financing and operating costs have a negative impact on profitability. Macro-economic variables (Inflation) have no significant effect on profitability. Internal bank variables have more influence on the profitability of Islamic BPR than macroeconomic variables (Sanusi & Zulaikha, 2019). Increased costs represent an increase in managed productive assets and provide opportunities to increase profits for banks. The bank's inability to manage risks, as reflected by the increasing problematic financing, impacts the bank's declining financial performance (profit).

Referring to the problems revealed in the direction, the concept of theory, and previous research, the research process that will be conducted is described in the following research framework follows:

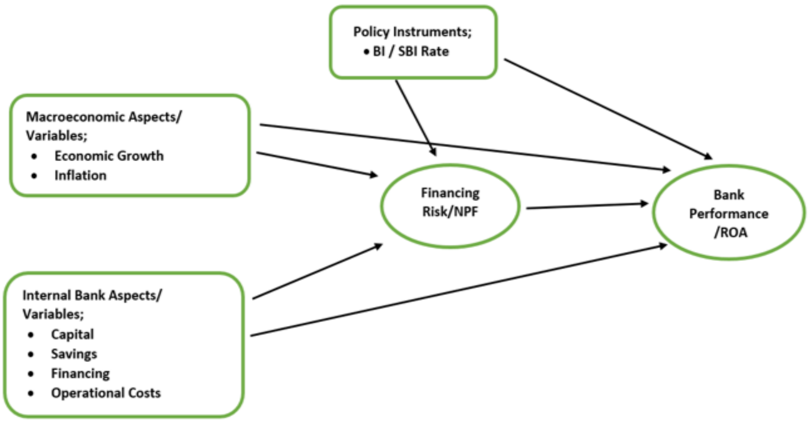


Figure 2. Research Thought Framework
(Source: Processing Result)

Financing risk and financial performance (profit) of Islamic banks are influenced by 1) Internal aspects, including the capital, deposits, financing, and operating costs, 2) Macroeconomic aspects that include elements of economic growth and inflation, and 3) Policy aspects, include elements of monetary policy instruments.

RESEARCH METHOD

The object of this research is the Islamic banking industry in Indonesia, including Islamic Commercial Banks, Islamic Business Unit, and Islamic Rural Bank. The analysis method used in this study is qualitative and quantitative analysis methods that try to explain the phenomenon of problems through time series secondary data collection. In this study, statistical and econometric testing will be conducted to obtain the research conclusion. The analysis model in this study uses multiple regression estimation techniques using the Ordinary Least Square (OLS) method. This relevant analysis model is used for social studies to see, measure, and test relationships between variables. This analysis model is also suitable for research directed at testing hypotheses.

This study employs secondary data in time series for the quarterly period 2009-2020. Research data includes deposit data, bank capital, financing, operational costs, problematic financing, monetary policy instruments, inflation data, economic growth, and bank profits. The data was obtained through library research and computerized search. All data is expected to be obtained from the publications and websites of Bank Indonesia, the Central Bureau of Statistics, and the Financial Services Authority.

The structural equations of this research model are as follows;

$$Npf_t = \alpha_0 + \alpha_1 Fdr_t + \alpha_2 Car_t + \alpha_3 Bopo_t + \alpha_4 Cpi + \alpha_5 Grw + \alpha_6 Int_t + \varepsilon_1 \quad (1)$$

$$ROA_t = \beta_0 + \beta_1 Fdr_t + \beta_2 Car_t + \beta_3 Bopo_t + \beta_4 Cpi + \beta_5 Grw + \beta_6 Int_t + Npf_t + \varepsilon_2 \quad (2)$$

Where:

NPF = Non-Performing Financing (%)
ROA = Rentability of assets (%)
FDR = Financing to deposit ratio (%)
CAR = Capital adequacy ratio (%)
OER = Operating cost ratio (%)
CPI = Consumer price index (%)
INT = Instrument certificate of Bank Indonesia (%)
GRW = Economic growth (%)

The structural equation of the Problematic Financing model (equation 1) and the Profit model (equation 2) are assumed to have linear relationships to qualify for linear regression models. The research model will conduct hypotheses testing, statistics, and econometrics. Draft hypothesis test to determine problematic financing and bank profits through the influence of internal Islamic bank conditions, policy instruments, and macroeconomic conditions.

RESULT AND DISCUSSION

Descriptive Statistics

In the 2009-2020 period, Islamic banking activities in Indonesia, concerning the value of the Financing to Deposit ratio (FDR), decreased. The highest value of FDR occurred in 2013, and the lowest value occurred in 2020. The decline in banking activity was in line with the decline in economic growth. The highest economic growth occurred in 2010, and the lowest economic growth occurred in 2020. The decline in banking activity and economic growth in 2020 coincided with the Covid-19 pandemic.

Table 2. Descriptive Statistics of the Variables (in %)

Variable	CPI	Grw	BI Rate	FDR	CAR	OER	NPF	ROA
Min	1,70	-2,20	3,75	76,36	14,13	74,75	2,22	0,41
Maks	8,13	6,81	7,75	100,32	21,64	97,01	4,76	2,14
Mean	4,39	4,77	5,89	86,55	17,15	87,50	3,42	1,29
St. Dev	2,22	2,38	1,36	8,24	2,62	7,95	0,85	0,64

Source: Processing Results (2021)

The central bank's efforts to encourage Islamic banking activities were demonstrated by a decrease in the BI rate and supported by a reduction in prices (CPI). Internally, the bank increases the minimum capital (CAR) and reduces operational costs to anticipate increasing financing risk and improve financial performance (ROA). The highest financing risk (NPF) occurred in 2017 and declined, although it did not yet reach the lowest NPF value in 2012. The most deficient financial performance (ROA) appeared in 2014 and increased even though it did not yet reach the highest ROA in 2012. The Covid-19 pandemic resulted in the ROA increasing trend being corrected. In 2020 the financial performance (ROA) was only 1.4%.

Research Data Processing Results

Based on the data processing process, the results of the Non-Performing Financing Model and Profit Model are presented in the table as follows:

Table 3. Non-Performing Financing Model for Islamic Banking

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	54.24627	13.68848	3.962914	0.0003
CAR	-0.175168	0.057924	-3.024114	0.0043
FDR	-0.046954	0.015953	-2.943283	0.0053
OER	0.014139	0.018327	0.771466	0.4449
LGRW	-7.265956	2.237155	-3.247855	0.0023
INT	0.298210	0.099766	2.989102	0.0047
CPI	0.069557	0.020208	3.442034	0.0013
R-squared	0.717248	F-statistic		17.33388

Dependent Variable: NPF
Method: Least Squares
Date: 03/08/21 Time: 08:00
Sample: 2009Q1 2020Q4
Included observations: 48

Source: Processing Results (2021)

Table 3 displays the Non-Performing Financing (NPF) model's estimated result, showing a determinant coefficient value (R^2) of 0.7172. This value reveals that 71.72% of dependent variable change variations (NPF) are due to independent variable changes. 28.28% variation in Islamic banking financing changes in Indonesia due to variations in other factors outside the model. The estimated parameters of the Non-Performing Financing model through simultaneous testing (Test F) showed the figure of 17.33388 was above the F-table (3,425) at a significance level of one percent and df1=5; (k-1=6-1), df2=43 ; (n-k=48-5). The model is considered capable of explaining all variables independent of dependent variable changes. All independent variables jointly affect Non-Performing Financing Islamic banking in Indonesia. Based on the results of the t-test, independent variable for capital (CAR), financing-to-deposit ratio (FDR), economic growth (LGRw), inflation (CPI), and policy interest rate (INT) have a significant influence on dependent variables non-performing financing (NPF) and have a sign in accordance with the hypothesis determined at the confidence level of 95% and 99%.

As displayed in Table 4, the estimated profit model (ROA) showed a determinant coefficient (R^2) of 0.9507. This result revealed that 95.07 variations of dependent variable changes (ROAs) resulted from variations in independent variable changes. There is only a 4.93% variation in Islamic banking profit change in Indonesia due to other factors outside the model. The estimated parameters of the Profit model through simultaneous testing (Test F) show a number of 110.25, above the F-table (3,205) at a significant rate of one percent and df1=6 (k-1=7-1), df2=44 ; (n-k=48-4).

Table 4. Financial Performance (Profit) Model for Islamic Banking

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	10.34543	4.666379	2.217014	0.0324
CAR	-0.042816	0.018569	-2.305785	0.0264
FDR	-0.002702	0.005090	-0.530909	0.5984
OER	-0.080933	0.005351	-15.12525	0.0000
LGRW	-0.395873	0.727143	-0.544422	0.5892
INT	0.088080	0.031915	2.759820	0.0087
CPI	0.014857	0.006650	2.233921	0.0311
NPF	-0.139491	0.045271	-3.081274	0.0037
R-squared	0.950722	F-statistic		110.2464

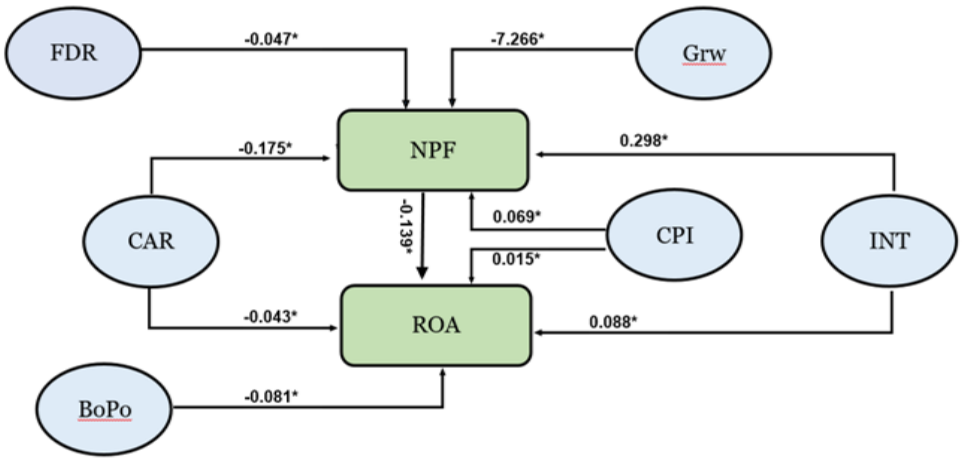
Dependent Variable: ROA
Method: Least Squares
Date: 03/08/21 Time: 08:03
Sample: 2009Q1 2020Q4
Included observations: 48

Source: Processing Results (2021)

The model can explain all variables independent of dependent variable changes. All independent variables jointly affect the Profit of Islamic banking in Indonesia. Based on the results of the t-test, independent variables for capital (CAR), the ratio of operating costs to operating income (OER), inflation (CPI), problematic financing (NPF), and policy interest rates (INT) have a significant influence on dependent variables (Islamic banking profits, ROA) and have a sign in accordance with the specified hypothesis. F and t-tests were conducted at 95% and 99% confidence levels.

Discussion

In general, the relationship between research variables of the Non-Performance Financing and Financial Performance (Profit) models for Islamic Banking in Indonesia is presented in Figure 3. Through the relationship between variables in the "Non-Performing Financing" model, the increase in the ratio of capital to the value of risk-weighted assets (CAR) decreased non-performing financing in Islamic banking in Indonesia. The increasing capital ratio can reduce the risk of financing. For the 1% increase in CAR, non-performing financing (NPF) decreased by 0.175%. The bank's capital ratio can support the main financing activities for reducing the emergence of non-performing financing in Islamic banking. This research is in line with a study from Effendi et al. (2017), which revealed that the increase in CAR resulted in a decrease in non-performing financing in Islamic banking. The results of this study are different from the study of Kuswahariani et al. (2020), which revealed that CAR has a positive effect on NPF, increasing the capital ratio resulting in increased non-performing financing in Islamic banks, especially for the micro-segment.



Description : Significant on *critical value* *)=5%,

Figure 3. The relationship between the research variables of the NPF and ROA models for Sharia Banking in Indonesia
(Source ; processing results)

FDR describes the value of financing supported by public deposits in Islamic banking. Increasing 1% FDR can reduce Islamic banking non-performing financing (NPF) by 0.047%. The decrease in non-performing financing in line with the increasing FDR shows that Islamic banking has implemented risk management in financing well. This study is in line with the research results of Akram and Rahman (2018) and Kuswahariani et al. (2020), which revealed that financing management has a good impact on reducing Islamic bank financing risk. The results of this study are different from the results of studies by Rahmah and Armina (2020) and Aprilianto (2020), who revealed that FDR and financing with musyarakah profit-sharing schemes affect the increased risk of financing.

Economic Growth (GRW) is another variable that can influence the decline of non-performing financing (NPF) in Islamic banking. Each 1% increase in economic growth impacts the decrease in non-performing financing in Islamic banking by 7.266%. Economic growth is the leading and most significant factor influencing the reduction of problematic financing. This study is in line with the research results of Fakhrunnas (2019) and Kuswahariani et al. (2020), which revealed that economic growth is related to Islamic banking risk management in the long term. Economic growth can increase the ability of debtors to meet their obligations, thus lowering problematic financing in

Islamic banking in Indonesia. The results of this study are different from the results of the study by Rahman and Armina (2020). The increase in economic activity followed by the increasing portion of financing without implementing good risk management has an impact on the occurrence of non-performing financing (NPF) in Islamic banks

In the non-performing financing (NPF) model, the inflation rate (CPI) positively affects Islamic bank non-performing financing (NPF). The movement of economic activity resulted in an increase in inflation due to the rise in the ratio of Islamic banking's non-performing financing. Each 1% increase in inflation resulted in non-performing financing (NPF) increase of 0.07%. The value of its influence is not very large, but inflation is a macroeconomic variable that significantly affects Islamic banking's non-performing financing growth. Inflation can increase the burden on businesses and reduce the ability to pay debts, resulting in increased non-performing financing in Islamic banking in Indonesia. This study is in line with the research results of Damanhur et al. (2017), Mahdi (2019), and Kuswahariani et al. (2020). The ability to control inflation from the government is critical for managing risk and non-performing financing for Islamic banking.

Through changes in the instrument of central bank interest rates (INT), central bank policy provides a positive impact on Islamic bank problematic financing (NPF). Each 1% increase in the BI policy rate increased problematic financing in Islamic banks by 0.298%. The Central Bank's efforts to maintain monetary stability by increasing policy rates have increased deposit and credit rates. In the dual banking system, interest rates are still a reference for determining Indonesia's Islamic banking revenue share ratio. Rising policy rates result in increased debtor-borne expenses and potentially increased problematic financing. The results of this study are in line with a study from Santoso et al. (2019), which revealed that the increase in the central bank's benchmark interest rate resulted in increased problematic financing, especially in the financing scheme of the trade agreement (murabahah). The results of this study are different from the results of a review from Mahdi (2019), which revealed that the interest rate of the central bank's monetary policy instrument does not affect the condition of problematic financing in Islamic banks.

Through the relationship between variables in the "Profit" (ROA) model, it was revealed that the increase in capital ratio to risk-weighted assets (CAR) resulted in a decrease in the profit (ROA) of Islamic banking. Each 1% increase in capital ratio (CAR) resulted in a decreased yield of -0.043%—efforts to increase the capital ratio related to increased financing risk impact the decrease in Islamic bank profits. The effect is small, but CAR is one of the variables that significantly impact the profits of Islamic banks. This study is in line with the research results of Sanusi and Zulaikha (2019). The CAR's increase illustrates the bank's internal efforts to increase financing capacity and anticipate the occurrence of problematic financing impacts the long-term decline in Islamic bank profits. The results of this study are different from the studies of Bitar et al. (2018) and Saleh and Afifa (2020). Efforts to increase the risk-based capital ratio cannot reduce risk but boost efficiency and increase bank profits. The increase in CAR can increase banking profits, especially in developing countries.

The variable of the Operating Efficiency Ratio (OER) of Islamic banking negatively affects the profits of Islamic banks. Each increase of 1% OER resulted in a decrease in Islamic banking profit by 0.08%. OER's increase illustrates the reduction in efficiency, resulting in a decline in Islamic banking profits. The effect is relatively small but is a significant variable effect and deserves attention to increase the profits of Islamic banks. This study is in line with the research results of Adelopo et al. (2018), Sanusi and Zulaikha (2019), and Saleh & Afifa (2020). Increased costs will reduce bank profits in pre-crisis conditions, during the crisis, and after the financial crisis. In the long run, the increase in operational expenses affects the decrease in profits at Islamic banks.

Variable non-performing financing (NPF) negatively influences Islamic banking (ROA). Every 1% increase in the value of non-performing financing resulted in a decrease in Islamic banking profits by 0.139%. The increase in non-performing financing illustrates the increasing risks and costs that banks must bear, thus impacting the decrease in Islamic bank profits. This study is in line with the results of studies from Amzal (2016), Sanusi and Zulaikha (2019), and Saleh and Afifa (2020). Increased bank risk indicated by the increasing value of non-performing financing (NPF) will reduce bank revenues and impact profit reduction for Islamic banks.

Inflation (CPI) has a positive impact on bank profits. Each 1% increase in inflation resulted in a 0.015% increase in bank profits. Rising inflation indicates increased purchasing power and economic capacity, resulting in increased demand for goods and services. Conditions increase the chances of banks increasing financing and gaining additional profits. The effect of rising inflation is not significant, but these macroeconomic variables significantly affect the benefits of Islamic banking. This study aligns with Amzal's (2016) research results and Sanusi and Zulaikha's (2019). Rising inflation is an opportunity for businesses to increase business activity. Inflation provides a chance to improve quality financing to provide additional profit for Islamic banks in Indonesia.

BI rates (INT) have a positive impact on bank profits. Any 1% increase in policy rates resulted in bank profits increasing by 0.088%. An increase will follow the rise in policy rates, credit interest rates, and income from various instruments in financial markets. If economic activity decreases, the financing channeled to the community decreases. Increased policy rates can buy financial tools that allow Islamic banks to increase profits. The effect of variable BI rates on gains is not significant, but these policy variables significantly affect the advantages of Islamic banking. The results of this study are in line with the study results by Omer (2019). The excess liquidity of Islamic banks is used for investment in various financial market instruments. Islamic banks invest in interest-based securities issued by the government indirectly by utilizing cooperation with conventional banks. Amzal's (2016) results showed different results, in which an increase in the central bank's policy rate resulted in a decrease in profits for the bank. The rise in interest rates will increase the interest rate on deposits and banking loans. In the dual banking system, Islamic banks must respond to changes in interest rates in conventional banking so as not to lose customers. Bank Syariah will adjust the profit-sharing ratio to reduce revenues and profits potentially.

CONCLUSION

Based on the objectives and results of the research, the conclusion can be drawn as follow:

1. Financing risk in Islamic banking, which was proxied by NPF, is influenced by FDR, CAR, growth (GRW), inflation (CPI), and interest rates (INT). It indicates that the NPF would decrease when capital, financing, and economic growth increase. In contrast, the increase in inflation and BI rates contributed to the rise of NPF. The findings also reveal that economic growth is the most influential factor in NPF in Islamic banking.
2. The financial performance proxied by ROA is influenced by the OER, CAR, NPF, CPI, and INT. It shows that the increase in OER, CAR, and NPF resulted in a decrease in the financial performance (ROA). In comparison, the increase in inflation and BI rate have contributed to increased financial performance (ROA). Among the tested factors, the NPF

ratio in Islamic banks is mainly influenced by the financial performance (ROA) ratio.

The findings suggest that Islamic banking institutions in Indonesia should pay attention on reducing the financing risk by improving risk management quality and increasing the CAR. Simultaneously, the government should encourage economic growth, maintain price stability, and keep the BI rate low. Internally, Islamic banking institutions should increase the efficiency ratio and improve the quality of risk management. As previously mentioned, good risk management has a significant influence on reducing the NPF and increasing the CAR. In addition, the findings also propose utilizing the inflation momentum—as a result of the increased purchasing power—by fostering the financing quality. Islamic banks can adjust portfolios and diversify their assets following the increasing BI rates as a stabilizer in monetary aspects.

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Received: 23 October 2021; Revised: 29 November 2021; Accepted: 03 December 2021

HOW DO SHARIA SUPERVISORY BOARD AND GOOD CORPORATE GOVERNANCE RELATE TO ISLAMIC BANKS PERFORMANCE?

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ABSTRACT - This study aims to investigate the relationship between the characteristics of the Sharia Supervisory Board (SSB) and Good Corporate Governance (GCG) on the performance of Islamic Banks (IBs). Data were collected from 14 IBs listed on the Financial Services Authority (OJK) from 2013 to 2019. The multiple regression results empirically show that SSB with the academic position as professor shows a significant positive relationship on IBs performance. Meanwhile, SSB with doctoral education has no positive relationship with IBs performance. Although it is not positively correlated, doctoral education is still needed but with a background in law or sharia education, economics, including finance or accounting, and muamalah. Educational background is proven to have a significant positive relationship with IBs' performance. Meanwhile, SSB, which only has a finance or accounting background, does not positively affect IBs' performance. In addition, GCG shows a very significant positive relationship with the IBs' performance. It indicates that effective and efficient governance by the Board of Directors, Board of Commissioners, and SSB through implementing better GCG and sharia principles will improve IBs performance.

Keywords: Sharia Supervisory Board, GCG, education, Islamic banks, performance.

JEL Classification: G21, G39

ABSTRAK – Bagaimana Kaitan Dewan Pengawas Syariah dan Good Corporate Governance dengan Kinerja Bank Syariah? *Penelitian ini bertujuan untuk mengetahui hubungan antara karakteristik Dewan Pengawas Syariah (DPS) dan Good Corporate Governance (GCG) terhadap kinerja Bank Syariah (BS) di Indonesia. Data dikumpulkan dari 14 BS yang terdaftar di OJK selama periode 2013-2019. Berdasarkan hasil regresi berganda secara empiris menunjukkan bahwa DPS yang memiliki jabatan akademik sebagai profesor menunjukkan hubungan positif yang signifikan dengan kinerja BS. Sedangkan DPS dengan pendidikan doktor tidak memiliki hubungan positif dengan kinerja BS. Walaupun tidak berkorelasi positif, pendidikan doktor tetap diperlukan tetapi dengan latar belakang pendidikan hukum atau syariah, ekonomi termasuk keuangan atau akuntansi, dan muamalah. Karena latar belakang pendidikan tersebut terbukti memiliki hubungan positif yang signifikan dengan kinerja BS. Sedangkan DPS yang hanya berlatar belakang keuangan atau akuntansi tidak menunjukkan hubungan positif dengan kinerja BS. Selain itu, GCG menunjukkan hubungan positif yang sangat signifikan dengan kinerja BS. Hal ini menunjukkan bahwa tata kelola yang efektif dan efisien oleh Dewan Direksi, Dewan Komisaris, dan DPS melalui penerapan prinsip-prinsip GCG dan syariah yang lebih baik akan meningkatkan kinerja BS.*

Kata Kunci: *Dewan Pengawas Syariah, GCG, Pendidikan, Bank Syariah, Kinerja.*

INTRODUCTION

The corporate governance of Islamic banks has attracted attention recently. Islamic banks (IBs) have different corporate governance from conventional banks (CBs) called Sharia Supervisory Board (SSB). SSB and sharia compliance are the main features of Islamic bank governance (Mollah & Zaman, 2015). SSB as a control body is an additional layer that can monitor and limit the board of directors and management in aggressive lending and major risk-taking activities (Mollah & Zaman, 2015; Ahmed et al., 2013). They can approve and report IBs compliance. It is a form of moral responsibility of managers and members of the board of directors (Beekun & Badawi, 2005; Belal et al., 2015; Abdelsalam et al., 2016).

IBs must ensure that the products and daily operations comply with sharia principles so that customers remain loyal (Grais & Pellegrini, 2006). SSB must guarantee that the operations are under sharia principles (Zulkafli et al., 2010; Ahmed et al., 2013; Alsartawi, 2019). SSB must ensure that the governance of IBs is built based on sharia governance. It is crucial because sharia governance can build stakeholder trust and contribute to financial stability and bank performance (Ismail et al., 2016; Ibrahim, 2015). Thus, the success of the IBs governance system highly depends on the effectiveness of the SSB (Nathan, 2010) which is reflected in the principles of Good Corporate Governance (GCG) including independence and transparency (Alsartawi, 2019).

The SSB and GCG of IBs guarantee more for stakeholders that IBs are managed under sharia principles. It can maintain the credibility of the Islamic finance industry and increase stakeholder confidence in the products and activities offered by IBs (Khan & Zahid, 2020; Maulana, 2014). The question is, "Do the public or consumers feel guaranteed or believe in SSB and GCG at this time?" The indicator is how much the community entrusts their funds to be managed by IBs or utilizing funds distributed by IBs.

The number of Muslims in Indonesia is 229 million people, or 87.2 percent of the total population of Indonesia (Barus, 2020). With this vast potential, IBs should grow faster and more extensively than conventional banks (CBs) because there are opportunities and Muslim trust in IBs. Based on OJK (financial services authority) data as of December 2020, the market share ratio between IBs and CBs is 6.51: 93.49 percent (OJK, 2020). It is not comparable to the number of Muslims in Indonesia. In addition, from 2016 to 2020, IBs tend to decline in terms of assets, disbursed financing (PYD), and third-party funds (DPK) (see Table 1). It indicates that the involvement of Muslims in IBs is still not maximized.

Table 1. Asset Growth, PYD, and DPK

Name	**2016**	**2017**	**2018**	**2019**	**2020**
ASSET	20.28%	18.97%	12.57%	9.93%	13.11%
PYD	16.41%	15.27%	12.17%	10.89%	8.08%
DPK	20.84%	19.89%	11.14%	11.93%	11.88%

Source: OJK (2020)

As mentioned above, the critical role played by the SSB is still questionable, whether or not the members of the SSB can carry out their functions effectively. It indeed depends on the characteristics of the SSB members themselves. Previous studies have investigated the relationship between SSB characteristics (such as SSB members, educational qualifications, expertise, reputation, double SSB, and meetings) and Islamic bank performance (Rahman & Bukair, 2013; Mollah & Zaman, 2015; Almutairi & Quttainah, 2017; Nurkhin et al., 2018; Nomran et al., 2018). These characteristics can be grouped into four main variables: the number of SSB members, educational background (education qualifications, expertise), double positions (reputation, double SSB), and the number of meetings.

In this study, the educational background becomes the focus variable in the research because education is the starting point and the primary strategy to build quality human beings (Yusuf, 2018). Second, higher education has better analytical skills (Almutairi & Quttainah, 2017) and is rich in experience (Rahman & Bukair, 2013). Therefore, this study will further explore SSB education from the level of education and type of education.

In addition to the role of SSB, the IBs' performance is influenced by other boards, such as the Board of Directors, Board of Commissioners, and Audit Committee. This role is captured through GCG because it reflects the effectiveness of the boards in managing IBs. If GCG is appropriately implemented, the decision-making process will be optimal and efficient, and create a healthy work culture to impact company performance (Dwiridotjahjono, 2009). Based on the problems of IBs, the market share is smaller than conventional banks (Nadia, Ibrahim, & Jalilah, 2019); and performance tends to decline (see Table 1). This study aims to investigate the effectiveness of SSB, particularly the educational characteristics of SSB and GCG, on the performance of Islamic banks.

LITERATURE REVIEW

SSB Educational Qualifications and the Performance of Islamic Banks

Education is a basic human need for self-development. The higher the level of education, the easier it is to accept and develop knowledge and technology that can increase productivity. Educational qualifications board members with a good level of education can handle each new act in a good way (Hambrick & Mason, 1984). Thus the educational qualification reflects the quality of the board (Kakabadse et al., 2010), which will increase the company's competitiveness (Gabrielsson & Huse, 2005). Accordingly, SSB qualifications are essential for decision making, where higher education has better analytical skills and is rich with innovative ideas and policy development (Almutairi & Quttainah, 2017).

Previous studies have shown that the level of education is positively correlated with a person's ability to impact company performance (Wardana, 2016; Ratnasari, 2018). In the banking sector, it also shows that the education and performance of IBs are positively correlated (Almutairi & Quttainah, 2017). SSB members with doctoral degrees are expected to have more experience in Islamic banking finance (Farook et al., 2011; Rahman & Bukair, 2013; Nomran et al., 2018). Likewise, SSB members with the position of professor will be more experienced because they must at least have a doctoral education. Thus, a higher level of SSB education leads to higher profitability (Musibah & Alfattani, 2014). The proposed hypotheses are as follows:

H_{1a}: There is a positive relationship between SSB with doctoral education and the performance of Islamic banks.

H_{1b}: There is a positive relationship between SSB with the academic position as a professor and the performance of Islamic banks.

SSB Educational Background and the Performance of Islamic Banks

SSB's educational background is essential for their knowledge and competence in IBs, so they effectively carry out their duties as sharia supervisors. According to Harel & Baruch (1993), different types of education and training can influence some individual outcomes to the organization. It shows that if an individual's type of education and training is under the requirements of Islamic banking, then the individual is valuable for banking.

Universities with graduates in finance and banking completed by fiqh, economics, management, and accounting will be well accepted in the job environment (Hasan, 2008; Suryanti, Ibrahim, & Ayumiati, 2019). It can happen because those fields of study are closely related to the Islamic banking sector. Likewise, SSB members must have adequate education and knowledge in the area of Sharia and Islamic banking to carry out their duties effectively (Salin et al., 2012). Supervising the Islamic banking industry requires Islamic law, economics, finance, and accounting practices. Moreover, SSB members with financial knowledge and experience are more effective in their performance than those without this ability (Rahman & Bukair, 2013).

The reality is that not all SSB members have accounting, banking, economic and financial expertise (Abdullah et al., 2014); thus, it can affect their credibility related to financial products and activities (Ginena & Hamid, 2015). However, the knowledge of SSB members in this field is beneficial for them in dealing with IBs problems. Several studies have shown that SSB members with expertise in accounting, finance, and Sharia law can improve the performance of IBs (Matoussi & Grassa, 2012; Grassa, 2015; Nomran et al., 2018). Therefore, based on the above reasoning, the following are proposed hypotheses:

H_{2a}: There is a positive relationship between SSB with expertise in finance or accounting and the performance of Islamic banks.

H_{2b}: There is a positive relationship between SSB with background academic in law, economics, *muamalah* education, and the performance of Islamic banks.

Good Corporate Governance and the Performance of Islamic Banks

GCG is a process of supervision and control to ensure that company management acts in line with the interests of shareholders (Parkinson, 1995; Solomon et al., 2002). Meanwhile, Syakhroza (2002) suggested that GCG is a system used by the board to direct, control, and supervise the management of organizational resources efficiently and effectively under the principles of transparency, accountability, responsibility, independence, and fairness.

GCG practices are more unique in the banking industry than in other sectors. In general, the GCG mechanism aligns shareholders and managers, but in banking, managers manage and secure funds provided by various parties, including depositors (Darmadi, 2013). Sharia GCG assures sharia compliance (Elamer et al., 2020), which is carried out by the Sharia Supervisory Board (SSB) (Alnasser & Muhammed, 2012). SSB can advise the Board of Directors to ensure that operational activities are under sharia principles.

In agency theory, an effective SSB can reduce agency conflicts and information asymmetry between management and shareholders by providing valuable and independent oversight of sharia-compliant products and operations (Safieddine, 2009). Minimizing conflict will encourage healthier banking management, increasing the trust of shareholders, customers, and other stakeholders. Additionally, it leads to better performance improvements. It aligns with GCG objectives, namely to increase added value, improve financial performance, and better stakeholder perceptions of future performance (Maradita, 2014). Therefore, management must apply the principles of GCG to create an effective and efficient performance (Indra & Yustiavandana, 2008) to positively impact company performance (Riandi & Siregar, 2011).

Several previous studies have shown a positive relationship between GCG and the performance of Islamic banks. Ausat (2018) proved that GCG with board size and CEO duality affects the performance of Islamic banks. Helmi & Mulyany (2019) demonstrated that SSB and the Board of Directors, as representatives of Islamic GCG, affect the Islamic banks' performance. Darwanto & Chariri (2019) used SSB, Board of Directors, and Board of Commissioners for CG, which shows a positive influence on the performance of Islamic banks. Maulidar & Majid (2020) found that GCG, as measured by 11 indicators of Indonesian banks, has a positive effect on the Islamic banks' performance. Based on the various proxies for measuring corporate governance, GCG generally shows a positive relationship with IBs' performance. Therefore, the third hypothesis is as follows:

H_3: There is a positive relationship between good corporate governance and the performance of Islamic banks.

METHODOLOGY

Sample

This study uses a sample of all Islamic commercial banks in Indonesia from 2013 to 2019. Until 2019 there were 14 banks listed on the Financial Services Authority (OJK). The year 2013 was used as the initial period of observation because, since 2013, Islamic commercial banks' regulatory and supervisory functions have shifted from Bank Indonesia to OJK. The year 2019 is used as the final observation period because there has not been a Covid-19 pandemic crisis. Covid-19 pandemic becomes a factor outside the variables of this study, which possibly dominate the impact on the performance of Islamic banks. The total data are 98 banks based on panel data over seven years. Sharia bank annual report data is obtained from the website of each Islamic bank.

Measurement Variables

Measurement of the Islamic banks' performance in this study used Return on Assets (ROA) because it is considered the most common measure of company performance (Schendel et al., 1991; Alsartawi, 2019). Meanwhile, the independent variable used SSB and GCG characters. SSB character is mainly related to SSB educational qualifications and background. Academic qualifications use the number of Doctors (Nomran et al., 2018), whereas Professors are development variables in this study because previous researchers have not observed these variables. The educational background used the number of SSB members with finance or accounting backgrounds and law, economics, muamalah (Matoussi & Grassa, 2012; Grassa, 2015; Nomran et al., 2018). Furthermore, GCG used self-assessment analysis (Nugroho & Bararah, 2018). Overall measurement of independent, dependent, and control variables can be seen in Table 2.

Control Variables

The control variable is designed to control the company's characteristics that can affect the dependent variable. This study used firm size, leverage, and age variables as control variables. Firm size is in accordance with previous studies (Al-Saidi & Al-Sammari, 2013; Hadriche, 2015; Nomran et al., 2017; Alsartawi, 2019). Large Islamic banks can invest financial resources in various instruments to diversify risks based on sharia principles to offer products and services at lower costs and higher profits (Bukair & Rahman, 2015). Second, leverage follows the study of Bukair & Rahman (2015) dan Alsartawi (2019). IBs with significant assets tend to use internal resources to finance their investments before using external funds. Therefore, IBs that have many assets and low debt will increase investment, which will impact their performance (Bukair, 2013). Third, firm age, the longer the age of the IBs, the more experience they have in managing the IBs (Aulia, Ibrahim, & Tarigan, 2020). Accordingly, their performance is getting better. Meanwhile, the firm age measurement follows Matoussi & Grassa (2012), Hamza (2016), and Nomran et al. (2018).

Table 2. Measurement of Variables

Name of Variables	Operational	Measurement
Dependent Variables:		
IBs Performance	IBs Performance (ROA)	Net profit / total assets
Independent Variables:		
SSB Characters:		
DR	SSB members with Doctoral education	The proportion of Doctoral from SSB members
PROF	SSB members with the academic title Professor	The proportion of Professors from SSB members
FA	SSB members with expertise in finance or accounting	The proportion of SSB members with finance or accounting education
HEMA	SSB members with expertise in law/ sharia, economics including finance/ accounting, muamalah.	The proportion of SSB members having law education/ sharia, economics including finance/ accounting, muamalah.
GCG	GCG uses self-assessment analysis based on the provisions of 62 PBI No. 11/33/PBI/2009.	Using score: Excellent (rating 1) = 5; Very good (rank 2) = 4; Good (rank 3) = 3; Fair (rank 4) = 2; Poor (rank 5) = 1
Control Variables:		
LEV	Leverage	Total Debt / Total Assets
FSIZE	Firm Size	Ln of Total Assets
FAGE	Firm Age	$\text{Year}_t - \text{Year}_0$

Model and Estimation

This study used a multiple regression model, which was developed to investigate the relationship between the characteristics of SSB education and GCG with the Islamic banks' performance. The following is the model used to test the hypotheses.

$$\text{Perf\_IBs}_{i,t} = \beta_0 + \beta_1 \text{ Char\_E}_{i,t} + \beta_2 \text{ GCG}_{i,t} + \beta_3 \text{ Control}_{i,t} + \mathcal{E}_{i,t}$$

Where,

$\text{Perf\_IBs}_{i,t}$ = performance of Islamic banks *i* at time *t*;

$\text{Char\_E}_{i,t}$ = SSB character with qualifications and educational background (DR, PROF, FA, HEM) at IBs *i* at time *t*;

$\text{GCG}_{i,t}$ = good corporate governance rating at IBs *i* at time *t*;

$\text{Control}_{i,t}$ = LEV, FSIZE, FAGE at IBs *i* at time *t*;

$\mathcal{E}_{i,t}$ = error term;

β_0 = constant;

$\beta_1, \beta_2, \beta_3$ = vectors of coefficient estimates.

RESULT AND DISCUSSION

Descriptive Statistics

The results of descriptive statistics for the variables are shown in Table 3. The dependent variable of the average ROA of Islamic banks is 1.12 percent, which ranges from -0.20 to 0.14 percent. This result is relatively low compared to conventional banks, 2.47 percent (OJK, 2019). Several studies in Indonesia show that Islamic banks' performance (ROA) is lower than conventional banks (Rosiana & Triaryati, 2016; Thayib et al., 2017**;** Rinawati & Santoso, 2019**;** Prihatin, 2019**;** Rachman et al., 2019). It might be caused by regulations that limit IBs, where high cash savings characterize IBs due to a more conservative investment decision-making approach (Alsartawi, 2019). Furthermore, the average number of SSB members with doctoral education (DR) is 51.7 percent, and Professor (PROF) 34.3 percent. The average number of SSB members with expertise in finance or accounting (FA) is 14.7 percent. In the fields of law, economics, muamalah (HEMA), the average is 43.3 percent.

Table 3. Descriptive Statistics

Variable	N	Min.	Max.	Mean	Std. dev
ROA	98	-0.20	0.14	0.0112	0.04139
DR	98	0.00	1.00	0.5167	0.29790
PROF	98	0.00	1.00	0.3432	0.35654
FA	98	0.00	0.50	0.1472	0.20083
HEMA	98	0.00	1.00	0.4332	0.33165
GCG	98	3.00	5.00	3.9694	0.59990
LEV	98	0.10	0.97	0.8255	0.15414

FSIZE	98	12.61	18.54	16.0704	1.24316
FAGE	98	0.00	27.00	8.8571	5.92043

Source: Processed data (2020)

In comparison, Islamic banks' GCG has a minimum score of 3 percent and a maximum of 5, with an average of 3.97. It explains that the assessment of governance or GCG of this Islamic bank is good.

Correlation

Table 4 presents the Pearson correlation coefficients between the independent variables. The highest correlation is between FSIZE and FAGE (r = 0.670), while the lowest correlation is between FSIZE and HEMA (r = -0.003). DR shows significant correlation with PROF, HEMA, FAGE ($\rho = 0.01$) and Lev ($\rho = 0.05$). PROF is significantly correlated with HEMA ($\rho = 0.01$). FA is significantly correlated with HEMA and FAGE ($\rho = 0.05$). LEV is significantly correlated with FSIZE and FAGE ($\rho = 0.01$). Subsequently, FSIZE is significantly correlated with FAGE ($\rho = 0.01$).

Table 4. Correlation Pearson

Independent Variable	DR	PROF	FA	HEMA	GCG	LEV	FSIZE	FAGE
DR	1							
PROF	0.695**	1						
FA	-0.072	-0.062	1					
HEMA	0.578**	0.492**	0.249*	1				
GCG	0.111	-0.038	0.153	0.030	1			
LEV	0.212*	0.174	-0.049	-0.053	-0.027	1		
FSIZE	0.096	-0.045	0.169	-0.003	0.067	0.478**	1	
FAGE	0.279**	0.107	0.206*	0.198	-0.085	0.275**	0.670**	1

* The correlation is significant at the 0.05 level (2-tailed), ** significant at the 0.01 level (2-tailed)

Source: Processed data (2020)

Based on table 4, no correlation coefficient exceeds 0.90; therefore, collinearity between variables is not a problem (Hair, 2009; Tabachnick et al., 2001). The multicollinearity and inflation variance (VIF) as the indicator of multicollinearity was checked to diagnose the collinearity problems. Based on table 5, there is no multicollinearity problem between variables because the VIF of the variables does not exceed 10 (Gujarati & Porter, 2009). Thus, all independent variables were included in the regression model.

Hypothesis Testing

Table 5 presents the regression analysis of the research model. These results indicate that the value is less than 5 percent. This finding statistically supports the significance of the regression model. Furthermore, the regression results show that PROF, HEMA, and GCG are significantly positively related to the performance of Islamic banks (ρ = 0.05; 0.05; 0.01) so that H1b, H2b, and H3 are supported. Meanwhile, DR and FA are negatively related to the performance of Islamic banks (ρ = 0.01), so that H_{1a} and H_{2a} are rejected.

This study found that SSB members who have the academic position of Professor (PROF) have a significant positive relationship with the performance of IBs (ROA). Professors are believed to have influence, fame, experience, and extensive knowledge so that they are able to supervise effectively, which has a positive impact on the IBs' performance. On the other hand, SSB members with Doctoral education (DR) are negatively related to the IBs' performance. This is in contrast to H_{1a}, which is expected to have a positive relationship. This study is in accordance with Nomran et al. (2017) and Nomran et al. (2018) that Doctoral education qualifications are negatively related to Islamic banks in Malaysia and Indonesia.

Table 5. Multiple Regression

Variables	**Beta**	***t*-test**	**Significance**	**VIF**
DR	-0.092	-4.492	0.000***	2.794
PROF	0.030	1.998	0.049**	2.127
FA	-0.056	-2.713	0.008***	1.289
HEMA	0.038	2.426	0.017**	1.896
GCG	0.023	3.483	0.001***	1.158
LEV	-0.033	-1.132	0.261	1.479
FSIZE	0.010	2.278	0.025**	2.437
FAGE	-0.001	-0.865	0.390	2.217
R^2	0.307			
F	4.939			
Sig (F)	0.000			

*Significant at 10%; **significant at 5%; ***significant at 1%

Source: data processed (2020)

According to Nomran et al. (2017), doctoral education is still important for SSB members, but certain education is required, such as law or sharia, economics, including finance or accounting, and muamalah. A study shows that SSB with a background in law or sharia, muamalah, economics, including finance or accounting (HEMA), have a significant positive relationship with the performance of IBs. Meanwhile, SSB, which only has a finance or accounting (FA) background, does not have a positive relationship. From this finding, it is not enough for SSB to only know about finance or accounting. They must complement other fields, including Islamic law and economics. Rahman & Bukair (2013) demonstrated that SSB must have adequate knowledge and skills in banking, such as Islamic law, economics, finance, and accounting practices.

Furthermore, this study determines a significant positive relationship between GCG and the IBs' performance. Based on table 3, the average GCG is 3.97, or close to point 4 with a good score (see table 2). It indicates that if IBs are managed by implementing better GCG and sharia principles, the IBs' performance will be better, and vice versa. These results are consistent with the studies of Ausat (2018), Helmi & Mulyany (2019), Darwanto & Chariri (2019), and Maulidar & Majid (2020).

CONCLUSIONS

This study aims to investigate the relationship between SSB characteristics, particularly regarding the education of SSB members, and good corporate governance with the performance of Islamic banks. This study found that SSB members with the academic position of professor show a significant positive relationship with the IBs' performance. On the other hand, SSB members with doctoral education do not positively correlate with the IBs' performance. Furthermore, SSB members with a law or sharia educational background, economics including finance or accounting, and muamalah positively correlate with the IBs performance. On the other hand, SSB, which only has a finance or accounting background, does not positively affect the IBs' performance. Finally, good corporate governance (GCG) shows a significant positive relationship with the IBs' performance. In other words, the Islamic banks' performance improves if they are managed effectively and efficiently by the board of directors, commissioners, and SSB by implementing better GCG and sharia principles.

Based on these findings, it is suggested that SSB members should have adequate knowledge in banking, not only finance or accounting but also knowledge in the fields of law or sharia, economics, and muamalah. Thus, this knowledge can strengthen SSB's insight into supervising good corporate governance, and sharia carried out by the board of directors and commissioners of IBs.

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Received: 05 March 2021; Revised: 29 June 2021; Accepted: 04 August 2021

DETERMINANTS OF FINANCIAL STABILITY OF ISLAMIC INSURANCE COMPANIES LISTED ON INDONESIA FINANCIAL SERVICES AUTHORITY

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ABSTRACT - Islamic insurance is an Islamic financial service that guarantees a participant's life, health, education, asset, and business. Some of them experienced a decline in their financial stability. This study aims to analyze the determinants of financial stability of Islamic insurance companies registered at the Indonesian Financial Services Authority *(Otoritas Jasa Keuangan - OJK)* from 2014 to 2018. Thirty-eight data observations were acquired from eight full-fledged Islamic insurance businesses' financial reporting and analyzed using panel data regression. The dependent variable is financial stability, whilst investment, capital structure, insurance premiums, independent board of commissioners, sharia supervisory board, board of directors, and institutional ownership are the independent variables. The results show that financial stability is significantly affected by investment, insurance premiums, independent boards, and institutional ownership. The capital structure, sharia supervisory board, and board of directors do not affect the financial stability. Increasing the number of participant contributions and strategic investments should be a concern of Islamic insurance managers. The role of an independent board and Institutional owners supervisory could strengthen the financial stability of Islamic Insurance. Research on Financial stability is supporting the development of Islamic insurance companies.
Keywords: Financial Stability, Investment, Capital Structure, Insurance Premiums, Good Corporate Governance, Islamic Insurance

ABSTRAK – Determinan Stabilitas Keuangan Perusahaan Asuransi Syariah yang Terdaftar pada Otoritas Jasa Keuangan. *Asuransi syariah adalah salah satu jasa keuangan Syariah untuk menjamin jiwa, kesehatan, pendidikan, aset dan bisnis. Beberapa perusahaan tersebut mengalami penurunan stabilitas keuangannya. Penelitian ini bertujuan untuk menganalisis determinan stabilitas keuangan perusahaan asuransi syariah yang terdaftar pada Otoritas Jasa Keuangan (OJK). Sebanyak 38 observasi diperoleh dari laporan keuangan 8 perusahaan asuransi syariah periode 2014-2018. Analisis dilakukan menggunakan regresi data panel. Variabel yang dipilih dalam penelitian ini adalah stabilitas keuangan sebagai variabel dependen, investasi, struktur modal, premi asuransi, dewan komisaris independen, dewan pengawas syariah, dewan direksi dan kepemilikan saham institusi. Hasil penelitian menunjukkan bahwa variabel investasi, premi asuransi, dewan komisaris independen dan kepemilikan saham institusi berpengaruh terhadap stabilitas keuangan perusahaan asuransi. Variabel struktur modal, dewan pengawas syariah dan dewan direksi tidak berpengaruh terhadap stabilitas keuangan. Peningkatan jumlah iuran peserta dan investasi strategis harus menjadi perhatian pengelola asuransi syariah. peran dewan independen dan pengawasan pemilik institusi dapat memperkuat stabilitas keuangan asuransi syariah. Penelitian stabilitas keuangan pada perusahaan asuransi memberikan dukungan terhadap pengembangan perusahaan asuransi syariah.*
Kata Kunci: *Stabilitas Keuangan, Investasi, Struktur Modal, Premi Asuransi, Tata Kelola Perusahaan Yang Baik, Asuransi Syariah.*

INTRODUCTION

Indonesia is the most prominent Muslim majority country with a vital role in globally developing the Islamic financial system. This country can become an Islamic finance global hub supported by the awareness increase of most Muslims on Islamic finance. Islamic banking was developed in 1992 under Islamic banking Government Regulation No. 72 of 1992. In addition to Islamic Banking, other Islamic financial institutions such as Islamic Insurance services, Islamic capital markets, Islamic hotels, Islamic tourism, and Islamic microfinance have also been developed. These developments were very well-received and positive responses from the Muslim society in Indonesia.

Islamic insurance companies also have an essential role in supporting the development of the Islamic financial system. These companies have almost the same activities as Islamic banking in providing financial services and investment with Islamic contracts, including *Murabaha, Salam, Istishna, Mudharabah, Musyarokah, Ijarah*, and other contracts. However, the difference is that Islamic insurance companies do not provide savings and deposit services as practiced in Islamic banking. Instead, the source of funds comes from participant contribution (premium payment) and investments (in shares). In 2020, the total asset of Islamic insurance experienced a decrease to Rp. 44.44 trillion compared to its total asset in 2019 Rp. 45.40 trillion (Ardianto, 2021). There are 62 Islamic insurance companies in Indonesia, consisting of 30 Islamic life insurance, 29 Islamic general insurance, and 3 Islamic reinsurance (Sari, 2018).

Based on PSAK 108, Islamic Insurance companies can act as agents or fund managers of insurance participants where the insurance companies allocate a portion of the funds received from participants to be invested to generate profits, increasing the participant's funds. When the company acts as an agent, the contract between the participant and the company is a *wakalah* contract, so the company gets a fee (*ujrah*). Whereas when the company acts as a manager, the contract used is the *mudharabah* contract, so that the company receives the profit-sharing from the managed funds.

Islamic insurance companies must be selective in allocating funds for investment and try as optimal as possible to avoid losses. Therefore, the companies can allocate a portion of participant funds to finance or invest with contracts in Islamic banking. The allocation of funds for financing and investment is intended to maintain the company's financial stability. Hence, when getting profits from financing and investment, these benefits can increase the funds of participants. Some insurance companies experienced a decrease in their financial stability; one of them is Mubarokah Islamic Insurance. The company was reported by the Financial Services Authority (OJK) for bankruptcy (Pradana, 2016). Likewise, BPJS insurance also has faced a deficit fund (Anwar, 2018). PT. Asuransi Takaful Umum also experienced a decrease in financial stability (Fitri & Arifin, 2013), decreasing total assets to 38% in 2017 and experiencing a deficit of IDR9.69 billion in 2016 and IDR8.03 billion in 2017.

The number of participant contributions (premium) plays a vital role in maintaining the financial stability of Islamic insurance. Due to the contribution of the participants' funds, the company can carry out potential investment and financing activities and generate profits which can improve the company's performance. In addition, the proportion of liabilities to capital can also affect the company's financial stability. With strict supervision by the independent board, Sharia supervisory board and board of directors, and institutional ownership support are expected to affect the level of financial stability of the company.

This study aims to determine the effect of investment and financing, capital structure, insurance premiums, independent board, sharia supervisory board, board of directors, and Institutional ownership on the financial stability of Islamic insurance. This study involves Islamic insurance companies' financial characteristics and governance to maintain the company's financial strength. Research on financial stability has been carried out by previous researchers, including Elbadry (2018), Lassoued (2018), Korbi & Bougatef (2017), Kobayashi (2017), Kay (2018), Ozili (2018), Mat Rahim et al. (2012) and Rashid, et al. (2017). However, their studies were conducted in banking companies. This study also measures financial stability in Islamic insurance companies using the Altman Z score.

LITERATURE REVIEW

Conventional Insurance Vs. Islamic Insurance

Financial institutions in the insurance sector have been operating since 1912 with the establishment of PT. BNI Life Insurance, followed by Boemi Poetra Life Insurance in Indonesia. In contrast, PT. Syarikat Takaful Indonesia established the first Islamic-based insurance company in 1994. This financial service aims to facilitate the community in facing financial difficulties to cover hospital costs, accidents, schools, vehicles, electronic equipment, business losses, and others. However, there is a differentiation between conventional insurance and Islamic insurance. Including investments, placement of funds, financing to customers, the status of participant funds, rights and obligations between participants, and management must be under Islamic principles.

The conventional insurance system uses a risk transfer basis, while the Islamic insurance system uses a risk-sharing basis. Risk transfer means that participants, who pay insurance contributions, transfer risk to the insurance company. The company owns the fund paid by participants. When a participant makes a claim, the company covers the costs borne by the participant. However, if there are no claims from participants, the funds will be the company's profits or shareholders. Therefore, the relationship between participants and established insurance companies is buying and selling insurance services. Conventional insurance companies put their funds in conventional banks based on a usury scheme. Also, there are no restrictions on investing or financing in either halal or unlawful products. The priority is how to maximize the profit.

Islamic Insurance System

The Islamic Insurance system uses the Islamic principles to help others as recited in the Al Qur'an chapter Al Maidah verse 2 as follows:

> "And please help you in (doing) virtue and piety, and do not help in committing sins and transgressions. And fear Allah, verily Allah is severely tortured".

Insurance in Islamic terms is *takaful, tadhamun, taawwun, and ta'min,* which means to bear one another, guarantee each other, and help each other look after one another. Islamic insurance aims to increase relationships *(ukhuwah)* among Muslims with mutual help, security, and convenience for problems faced by fellow Muslims.

The definition of Islamic Insurance according to the National Sharia Council Fatwa No. 21 / DSN-MUI / X / 2001:

> Islamic insurance *(Takmin, Takaful,* or *Tadhamun)* is a business that supports each other and helps other people or parties through

> investments in the form of assets and or *tabarru* that provides a pattern that can help to fix certain problems through aqad (engagement) that is in accordance with Islamic rules.

The insurance company acts as a representative of the participants to manage the participant's funds. Some percentage of participant funds are allocated to a potential investment using Islamic principles. The company's role can act as a representative with a contractual agreement. In addition, the company can play a role as a *mudharib* (manager) to generate profit-sharing from the management of participant funds (Ibrahim, 2010). When there is a claim from the participant, the company pays the costs borne by the participant, and if there is no claim, then the funds are allocated to *tabarru* funds, not owned by the company.

Financial Stability

Financial stability can be defined as the level of profitability fluctuations of a company (Wardiah & Ibrahim, 2013). Companies with lower profit swings indicate a higher level of financial stability. Previous researchers have researched the company's financial stability, including Lassoued (2018) and Korbi & Bougatef (2017). Both studies use the Boyd and Runkle (1993) model to develop a model to measure the financial stability of a company. In addition, Elbadry (2018) measures financial stability using the capital adequacy ratio (CAR), leverage, liquidity, and loan to deposit ratio.

Factors affecting financial stability include the board of directors (Lassoued, 2018), capital ratios (Chattha and Archer, 2016), intermediation margins, total assets, liquidity, credit risk, inflation, economic growth (Korbi & Bougatef, 2017), insurance sector development (Ihejirika & Ehiogu, 2018), interest rates (Kay, 2018), efficiency, foreign banks, bank concentration, bank size, government effectiveness, political stability, regulator quality, investor protection, corruption, and unemployment control (Ozili, 2018).

Tabarru' (Premium) Fund

Tabarru funds are the number of funds paid by participants as contribution payments to Islamic insurance companies. This fund can be obtained from the profit-sharing of the fund's management by the Islamic insurance management. It is also received from the remaining funds of participants after deducting insurance participant claims. Puspitasari (2016) found that claims, reinsurance activities, commission fees, and general administrative expenses significantly affected the proportion of *tabarru* funds. In addition, Safitri & Suprayogi (2017) examines the effect of *Tabarru* funds on the financial health of insurance companies. They found that risk-based capital has a significant impact on financial stability.

Capital Structure

Capital structure in a company is a component of capital that consists of a proportion between debt and equity. Some researchers use the term debt to equity ratio (DER). The higher the DER level, the higher proportion of total debt to capital. Korbi & Bougatef (2017) and Chattha & Archer (2016) found that capital adequacy has a significant effect on financial stability in banks. Other studies measure capital structure using total equity divided by total assets.

Investment and Financing

Investment of financing funds allocated for developing the funds through investment in a company, the purchase of securities in the form of bonds or shares in the capital market. While financing is funds allocated to meet customer needs in *murabahah, istishna, salam, mudharabah, musyarakah,* and *ijarah* contracts. Elbadry (2018) found that the loan to deposit ratio has a significant effect on credit risk.

Good Corporate Governance

Corporate governance is the managerial framework of a company in the form of an organizational structure consisting of independent and non-independent commissioners, boards of directors, president directors, audit committees, sharia supervisory boards, and others. Governance has a controlling role in the company's operations. This framework was formed to protect the company's stakeholders, specifically shareholders. Other interested parties are employees, the community, government, non-government organizations, and others. Lassoued (2018) examines the relationship between governance and financial stability. The result concluded that the independent board of commissioners had a significant effect on financial stability.

Previous Studies

The financial stability was measured by several previous researchers using the Z score model. One of them was conducted by Bakhtiar, Munir, and Qasas

(2018), which estimated Islamic insurance companies' financial stability in Indonesia. Two factors affect financial stability, namely micro and macro factors. Similarly, other studies found that some micro factors that affect the financial stability of companies include corporate governance (Lassoued, 2018), financial performance (Elbadry, 2016; Rashid, Yousaf & Khaleequzzaman, 2017), human resources performance (Djafri, Noordin & Mohammed, 2018; Piaralal et al., 2016), market control (Husin & Rahman, 2016; Rashid, Yousaf & Khaleequzzaman, 2017), audit opinion (Foster & Zurada, 2013) and excellent service (Piaralal et al., 2016). Meanwhile, macro factors that affect financial stability are political stability (Ozili, 2018), government regulations and policies (Kay, 2018; Berkem, 2014), level of corruption (Korbi & Bougatef, 2017; Ozili, 2018), government supervision (Kobayashi, 2017; Yusuf & Babalola, 2009), level of competition (Ozili, 2018) and level of productivity or unemployment (Din, Regupathi & Abu-Bakar, 2017).

Research Framework

Financial stability can be influenced by many factors, including the board of directors (Lassoued, 2018), capital ratios, intermediation margins, total assets, liquidity, credit risk, inflation, economic growth (Korbi & Bougatef, 2017), Insurance sector development (Ihejirika & Ehiogu, 2018) interest rates (Kay, 2018), efficiency, foreign banks, bank concentration, bank size, government effectiveness, political stability, regulator quality, investor protection, corruption, unemployment control (Ozili, 2018), and Capital Adequacy Ratio (Chattha & Archer, 2016). In this study, several factors predicted to influence and improve a company's financial stability are total investment and financing, insurance premiums, capital structure, and corporate governance.

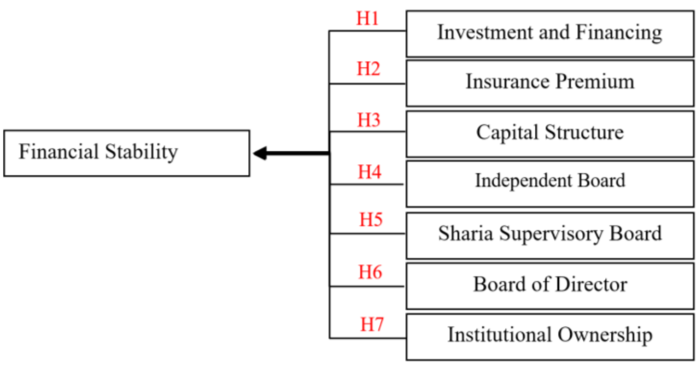

Figure 1. Research Framework

Hypothesis Development

The Effect of Total Investment and Financing on Insurance Financial Stability

Insurance financial institutions allocate some of the funds raised from participants for financing and investment to get profit. The assumption is that the higher the investment and financing fund, the higher the yield gained. Hence, these benefits can back up the participant's claims which may exceed a predetermined limit. Therefore, insurance companies that obtain higher profits will avoid financial deficits/instability (Elbadry, 2018). From this explanation, the first hypothesis is as follows:

> H1: Total investment and financing have a positive effect on the financial stability of insurance companies

The Effect of Capital Structure on Insurance Financial Stability

The composition of capital structure has a significant role in a company. The company is claimed as bankrupt if the company's debt is greater than the total assets. The higher the debt ratio to the company's equity shows that the company is not productive because the company cannot generate profits that can increase the equity value. Therefore, it affects the company's financial stability; the study is also conducted by Korbi & Bougatef (2017) and Chattha & Archer (2016). From this explanation, the second hypothesis is as follows:

> H2: Capital structure has a positive effect on the financial stability of insurance companies

The Effect of Insurance Premiums on Insurance Financial Stability

One source of funds obtained by insurance companies is participant contributions. The higher the level of the participant in contributing premiums, the greater the company's ability to pay claims. Besides, funds obtained from participants are allocated for investment and financing. The higher the level of insurance participant claims affects the proportion of tabarru funds and insurance companies' financial stability (Puspitasari, 2016; Safitri & Suprayogi, 2017). From this explanation, the third hypothesis is as follows:

> H3: Insurance premiums have a positive effect on the financial stability of insurance companies

The effect of Independent Board on Insurance Financial Stability

Each company has a board of commissioners to provide oversight and control of the company's operations. The board of commissioners consists of independent and non-independent. The independent board of commissioners has a neutral position towards the company, and they cannot own the shares. Therefore, the more influential the company's independent board of commissioners, the higher the potential profit obtained. As a result, the governance framework can significantly impact corporate financial stability (Lassoued, 2018). According to the explanation, the fourth hypothesis is as follows:

> H4: The Independent Board has a positive effect on the financial stability of insurance companies

The Effect of the Sharia Supervisory Board on Insurance Financial Stability

The sharia supervisory board (SSB) is part of the corporate governance component in Islamic institutions. Therefore, they can legalize Islamic compliance with Islamic financial institution products. Hendra (2017) concluded that the number of SSB members affected the company's earnings quality. Therefore, financial stability is also the responsibility of SSB to ensure that the company's finances are well managed and under Islamic rules. From this explanation, the fifth hypothesis is as follows:

> H5: The Sharia Supervisory Board has a positive effect on the financial stability of insurance companies

The Effect of the Board of Directors on Insurance Financial Stability

The board of commissioners appoints the board of directors to run the company's operations. They are given a target to generate profits. In addition, they must follow company policies that the company's board of commissioners has formulated. Therefore, the board of directors is expected to influence its financial stability because they are the primary key to the operation of company activities. Tornyeva & Wereko (2012) concluded that the number of boards of directors affected the company's performance. Based on the explanation, the sixth hypothesis is as follows:

H6: The Board of Directors has a positive effect on the financial stability of insurance companies

The Effect of Institutional Ownership on Insurance Financial Stability

Institutional share ownership is almost found in all companies. First, this is because institutional shareholders are more stringent in overseeing the company's operations. Second, they manage institutional funds owned by the investment companies with a higher portion of funds. As a result, these investments benefit institutional stockholders. Previous research conducted by Hidayat & Firmansyah (2017); Gugong & Dandago (2014) concluded that institutional ownership has a significant effect on the performance of insurance companies. Based on the explanation, the seventh hypothesis is as follows:

H7: Institutional Ownership has a positive effect on the financial stability of insurance companies

METHODOLOGY

This study employs a quantitative approach using analysis in which data is statistically examined and then descriptively interpreted. The research sample was determined using a purposive sampling technique, with the following criteria: full-fledged Islamic life insurance and general insurance companies listed on the Indonesia Financial Services Authority (Otoritas Jasa Keuangan - OJK). The research period is five years, starting from 2014 to 2018.

Table 1. List of Full-Fledged Islamic Insurance

No	Nama Perusahaan
1	PT. Asuransi Takaful Keluarga
2	PT. Asuransi Jiwa Syariah Al-Amin
3	PT. Asuransi Jiwa Syariah Amanahjiwa Giri Artha
4	PT. Asuransi Jiwa Syariah Jasa Mitra Abadi
5	PT. Asuransi Syariah Keluarga Indonesia
6	PT. Asuransi Takaful Umum
7	PT. Jaya Proteksi Takaful
8	PT. Asuransi Sonwelis Takaful

The dependent variable in this study is the financial stability of Islamic insurance companies, which is measured using the Boyd and Runkle (1993) model as follows:

$$Z_{i,t} = \frac{E(ROA)_{i,t} + (\frac{eq_{i,t}}{ta_{i,t}})}{\sigma \mathrm{ROA}_{i,t}} \text{.....................} (1)$$

Description:

Z	: Financial Stability
E(ROA)	: Return on Asset
σROA	: Standard of Deviation of Return on Aset (ROA)
eq	: Total Equity
ta	: Total Asset

If the Z value approaches 0, the company has high financial stability. In other words, the greater the value of Z indicates the higher the level of risk or the level of bankruptcy. This model is also used by Korbi & Bougatef (2017), Mat Rahim, Mohd Hassan & Zakaria (2012), and Lassoued (2018). The theory behind this model is that financial stability can be measured by profitability and the ratio of capital to total assets. If the level of profitability is high and the ratio of capital to total assets shows that the company's ability to pay liabilities is relatively high. This measurement of financial stability is used based on having the same characteristics between banks and insurance companies, namely financial service companies.

Meanwhile, the independent variables include:

a. Investment and Financing - This variable is measured by dividing the total financing and investment in the insurance company by total assets.
b. Capital Structure - This variable is measured by total debt divided by total equity.
c. Insurance Premium (Tabarru' Fund) - This variable is measured by the total insurance premium funds divided by the insurance company's total assets.
d. The Good Corporate Governance (GCG) - This variable is measured based on regulations set by the financial services authority (OJK) number: 73 / POJK.05 / 2016 concerning good corporate governance for insurance companies.
e. Independent Board - This variable is measured by the percentage of the independent board member to the total of the board member.
f. Sharia Supervisory Board - This variable is measured by the total of the sharia supervisory board member.
g. Board of Director - This variable is measured by the total of the board of directors members.

h. Institutional Ownership - The percentage of institutional share ownership measures this variable to total share ownership.

Table 2. Variables Measurement

Variable	Measurement	Scale
Financial Stability	Altman Z-Score $Z_{i,t} = \dfrac{E(ROA)_{i,t} + (\frac{eq_{i,t}}{ta_{i,t}})}{\sigma ROA_{i,t}}$	Ratio
Investment and Financing	$\dfrac{Total\ Investment\ and\ Financing}{Total\ Asset}$	Ratio
Capital Structure	$\dfrac{Total\ Debt}{Total\ Owner\ Equity}$	Ratio
Insurance Premium	$\dfrac{Total\ insurance\ premium}{Total\ Asset}$	Ratio
Independent Board	$\dfrac{Numbers\ of\ Independent\ Board}{Total\ Board\ Member}$	Ratio
Sharia Supervisory Board	Numbers of Sharia Supervisory Board	Nominal
Board of Director	Numbers of Boards of Directors	Nominal
Institutional ownership	$\dfrac{Total\ Intitutional\ Ownership}{Total\ Shares}$	Ratio

The research model as follow:

$$FS_{it} = \beta_0 + \beta_1\ INV_{it} + \beta_2\ DER_{it} + \beta_3\ PRE_{it} + \beta_4\ BIND_{it} + \beta_5\ SSB_{it} + \beta_6\ BOD_{it} + \beta_7\ OWN_{it} + \varepsilon_{it} \ldots\ldots\ldots\ldots (2)$$

Description:

FS : Financial Stability
INV : Investment and Financing
DER : Capital Structure
PRE : Insurance Premium
BIND : Independent Board
SSB : Sharia Supervisory Board
BOD : Board of Director
OWN : Institutional Ownership

Data were obtained from the annual financial reporting of insurance companies registered at the Financial Services Authority by downloading the financial statements from each company's website. Before analyzing the data, classical assumptions such as normality, multicollinearity, heteroscedasticity, and autocorrelation tests are performed. Besides, the best model is selected in panel data regression using the Chow test, Hausman test, and Lagrange multiplier test. The data were analyzed using panel data regression with STATA software. Then the results are described and supported by the results of previous studies.

RESULT AND DISCUSSION

Descriptive Statistics

The Islamic insurance companies registered at the Financial Services Authority (OJK), 38 out of 40 financial reports from 2014 to 2018 are used as observations in this study. Two Islamic insurance companies did not provide financial reports in 2014, namely PT. Asuransi Syariah Keluarga Indonesia (Asyki) and PT. Asuransi Sonwellis Takaful. This is because Asyki only began operating in 2015, and the financial statement of PT. Asuransi Sonwellis Takaful year 2014 is not accessible. From the data observation, panel data regression is run using STATA software. Table 3 displays the descriptive statistics of the variables.

Table 3. Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
FS	38	47.37	56.60	0.40	212.54
INV	38	0.64	0.23	0.10	0.93
DER	38	1.28	1.23	0.00	4.43
PRE	38	0.28	0.20	-0.14	0.75
BIND	38	0.40	0.20	0.00	0.67
SSB	38	2.03	0.59	1.00	3.00
BOD	38	2.79	0.53	1.00	3.00
OWN	38	0.83	0.32	0.00	1.00

The financial stability variable (FS) has a minimum value of 0.40, a maximum of 212.54, and an average of 47.37. This result shows that they mostly have good financial stability. Financial stability is measured following the Boyd and Runkle (1993) model; if the value is close to 0, then the company has a high level of financial stability and vice versa. The investment and financing (INV) variable have a minimum value of 0.10, a maximum of 0.93, and an average of 0.64. This shows that most Islamic insurance companies put their funds on customers' investments and financing. This policy increases Islamic insurance companies' profits and maximizes benefits from the insurance participant's fund. The income of the investment is shared between the company and *Tabarru* (participant) funds. Therefore, participants will get more benefits from the investment income.

The capital structure variable (DER) has a minimum value of 0.00, a maximum of 4.43, and an average of 1.28. This result shows that almost all Islamic insurance companies have debts that exceed the equity. At the same time, the insurance premium variable (PRE) has a minimum value of -0.14, a maximum of 0.75, and an average of 0.28. This shows that most Islamic insurance companies have low insurance premium income. GCG Variables consist of the independent board of commissioners (BIND), the sharia supervisory board (SSB), the board of directors (BOD), and institutional ownership (OWN) have an average value close to the maximum.

Regression

From the above data, running panel data regression uses three models, namely Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM); the results are as follows:

Table 4. Result of Regression

FS	CEM		FEM		REM	
	Coef.	P>t	Coef.	P>t	Coef.	P>z
C	146.7365	0.0010	177.2500	0.0000	146.7365	0.0000
INV	-44.8704	0.2060	-89.9511	0.0260*	-44.8704	0.1960
DER	-6.3955	0.1560	-2.0930	0.6440	-6.3955	0.1460
PRE	-79.4941	0.0170*	-130.7665	0.0010*	-79.4941	0.0120*
BIND	23.0356	0.3860	63.3432	0.0390*	23.0356	0.3790
SSB	15.7272	0.1440	10.9987	0.3190	15.7272	0.1340
BOD	5.0285	0.6040	1.4085	0.8850	5.0285	0.6010
OWN	-114.4351	0.0000*	-101.5036	0.0000*	-114.4351	0.0000*

*significant 5% (0.05)

Panel data regression analysis using CEM and REM model shows two significant variables (under 0.05), namely the insurance premium variable (PRE) and Institutional Ownership (OWN). On the other hand, according to the results of panel data regression using the FEM model, four variables are significant: investment and finance variables (INV), insurance premiums (PRE), independent board (BIND), and institutional ownership (OWN).

Model Selection Test

A model selection test using the Chow, Lagrange Multiplier (LM), and Hausman tests is required to discover the best model among the three CEM, FEM, and REM models. Then the result of Chi2 value and Chi2 probability is as follows: (see Table 5).

Table 5. Model Selection Test

	Chow	**Hausman**
Chi2	126.320	3.750
Prob>Chi2	0.000	0.008

Table 5 shows the results of the model selection tests that determine the best panel data regression model: the Fixed Effect Model (FEM). This can be seen in the probability value at Prob> Chi2. The result of the Chow test shows significantly under 5% (0.05), so the FEM regression model is good. While the Hausman test also shows significant results, it indicates that the FEM is the best panel data regression model in this study. Langrange Multiplier test is not performed because the Chow and the Hausman test show that the best model is the Fixed Effect Model.

Classical Assumption Tests

The classic assumption test is performed to ensure that the variable data used for panel data regression analysis is free from regression problems. So it needs to be tested for normality, multicollinearity, heteroscedasticity, and autocorrelation. Data can be used for panel regression analysis if free from the four classic assumption tests. The results are as follows:

Normality test

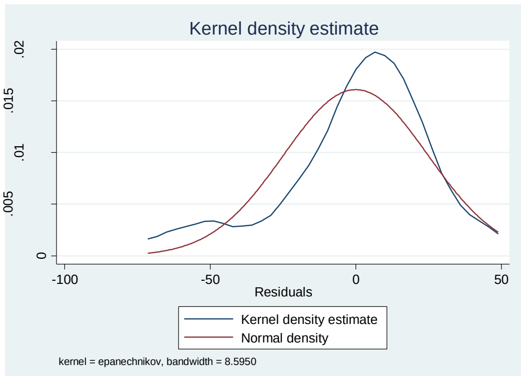

Figure 2. Normality Test

Figure 2. shows that customarily distributed data can be seen from the shape of lines that resemble reverse bells. As a result, the data in this study are dispersed in a usual manner.

Multicollinearity

Table 6 shows that the data in this study are free from multicollinearity problems. It can be seen from the VIF value on each variable that it does not exceed 10.

Table 6. Multicollinearity Test

Variables	VIF	1/VIF
INV	3.07	0.3256
DER	2.39	0.4180
PRE	1.94	0.5167
BIND	1.89	0.5305
SSB	1.44	0.6945
BOD	1.36	0.7346
OWN	1.25	0.7969
Mean VIF	1.91	

Heteroscedasticity

Figure 3 shows that the data does not form a specific pattern, so this research data is free from heteroscedasticity problems.

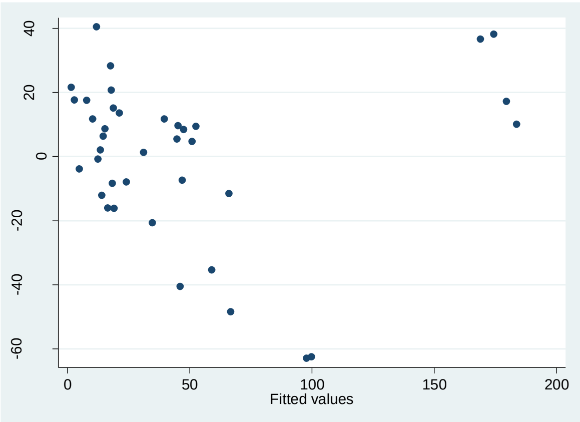

Figure 3. Heteroscedasticity Test

Autocorrelation

Table 7 shows the results of the autocorrelation test, which indicates that there is no strong correlation between variables. The correlation value does not reach 80% (0.80), as seen in Table 7. As a result, the data in this investigation is devoid of autocorrelation issues.

Table 7. Autocorrelation Test

	FS	**INV**	**DER**	**PRE**	**BIND**	**SSB**	**BOD**	**OWN**
FS	1.0000							
INV	-0.5596	1.0000						
DER	-0.4368	-0.0283	1.0000					
PRE	-0.1662	-0.4314	0.3105	1.0000				
BIND	0.2210	-0.4385	-0.0869	0.3196	1.0000			
SSB	0.0563	-0.4506	0.2642	0.6098	0.2566	1.0000		
BOD	0.2384	-0.3570	-0.0569	0.2835	0.1907	0.3640	1.0000	
OWN	-0.6537	0.5734	0.3791	0.0919	-0.1307	0.0305	-0.1871	1.0000

R Square and F Test

The R square test shows that 76% of the independent variables can explain its effect on the insurance company's financial stability. The results of the F test also support this; the probability value of prob> F is significant because it is under 5%.

Table 8. R square and F test

Adj R square	0.7673
Prob > F	0.0000

T-Test

From the selection model test of panel data above, the FEM model is the best panel data regression. Accordingly, the FEM model results explain the determinants of financial stability in Islamic insurance companies.

Table 9. T-Test of Fixed Effect Model

FS	**FEM**	
	Coef.	**P>t**
C	177.2500	0.0000

INV	-89.9511	0.0260*
DER	-2.0930	0.6440
PRE	-130.7665	0.0010*
BIND	63.3432	0.0390*
SSB	10.9987	0.3190
BOD	1.4085	0.8850
OWN	-101.5036	0.0000*

* significant at 5%

The results of panel data regression using FEM models can be interpreted as follows:

Investment and Financing. The investment (INV) variable has a negative coefficient (-89.2500) and a significant probability level (0.0260). As a result, the variable is a beneficial and considerable impact on Islamic insurance businesses' financial stability.

Capital Structure. The Capital Structure (DER) Variable has a negative coefficient (-2.0930) and an insignificant probability level (0.6440). As a result, the variable is said to have a non-favorable effect on the financial stability of Islamic insurance businesses.

Insurance Premium. The insurance premium (PRE) Variable has a negative coefficient (-130.7665) and a significant probability level (0.0010). As a result, the variable is said to have a negative and severe impact on Islamic insurance businesses' financial stability.

Independent Board. The Independent Board of Commissioners (BIND) variable has a negative coefficient (-63.3432) and a significant level of probability (0.0390). As a result, the variable is said to have a negative and severe impact on Islamic insurance businesses' financial stability.

Sharia Supervisory Board. The Sharia Supervisory Board (SSB) variable has a positive coefficient (10.9987) and an insignificant probability level (0.3190). As a result, the variable has been certified to have no substantial impact on the financial stability of Islamic insurance businesses.

Board of Directors. The Board of Directors (BOD) variable has a positive coefficient (1.4085) and an insignificant level of probability (0.8850). As a result, the variable does not affect the financial stability of Islamic insurance businesses.

Institutional Ownership. Institutional Share Ownership (OWN) Variable has a negative coefficient (-101.5036) and a significant level of probability (0.0000). As a result, the variable has a negative and considerable impact on Islamic insurance businesses' financial stability.

Hypothesis Test

The Effect of Investment and Financing on Financial Stability

The first hypothesis states that "The total investment and financing positively affect insurance companies' financial stability" is accepted. As a result, the greater the magnitude of the company's investment and financing, the greater the company's financial stability. This is because the level of profitability of Islamic insurance companies is influenced by the total investment and financing made by the company. Besides, companies with an increasing profit trend can increase the value of the company's equity. Therefore, the profit can be generated from investment and financing income. The results of this study are consistent with Elbadry (2018), who concluded that companies with high profits could avoid financial instability (bankruptcy).

The Effect of Capital Structure on Financial Stability

The second hypothesis states that "The capital structure has a positive effect on insurance companies' financial stability," is rejected. Therefore, the proportion of debt to capital does not affect financial stability because most of the company's debt has no impact on profits. The debt consists of an allowance for claims that have not yet been paid and contribution payment of total premiums for one period in the beginning. The fund is not managed for investment or financing. The results of this study contradict the results of Korbi & Bougatef (2017) and Chattha & Archer (2016). They concluded that the magnitude of the company's equity value could affect the level of financial stability of the company.

The Effect of Insurance Premium on Financial Stability

The third hypothesis states that "The insurance premium has a positive effect on insurance companies' financial stability," is accepted. As a result, the more the insurance premium payment funds acquired from participants, the better the organization's financial stability. This is because the company's financial stability can be increased by obtaining participants' funds (*tabarru'*), investment, and financing income. Although most insurance companies are concerned about insurance premium funds paid by participants, this must be supported by an increase in the efficiency of operating expenses; then, the company will experience good financial stability. The result is consistent with Safitri and Suprayogi's (2017) study, which concluded that the number of insurance premiums obtained from participants could increase financial stability. However, the results of this study contradict the Markonah et al. (2017) study, which concludes that insurance premiums do not affect profitability.

The Effect of Independent Board on Financial Stability

The fourth hypothesis, which states that "The independent board has a positive effect on insurance companies' financial stability," is rejected. The direction of the coefficient values of the independent board of commissioners shows a positive sign. This indicates that the independent board of commissioners has a significant adverse effect on the company's financial stability. The more significant the proportion of independent commissioners on the board of directors, the lower the level of corporate financial stability. This is because the independent board of commissioners is more likely to convey company conditions in line with reality in the field. In addition, the board of independent commissioners has no interest in the company except to carry out their duties to oversee its operations. In contrast, the non-independent board of commissioners prioritizes company performance, providing a loophole for earnings management. This is consistent with Najjar and Salman (2013), who concluded that the size of the board of commissioners affects the performance of insurance companies.

The Effect of Sharia Supervisory Board on Financial Stability

The fifth hypothesis, which states that "The sharia supervisory board has a positive effect on insurance companies' financial stability," is rejected. The number of SSB does not affect the company's financial stability. In terms of SSB authority, they do not intensively monitor the company's financial condition. The authority of SSB is more considered on the legalization of companies' products with Islamic principles. This is contrary to the research results conducted by Hendra (2017) that the number of SSB affects the level of earnings quality.

The Effect of Board of Directors on Financial Stability

The sixth hypothesis, "The Board of Directors has a positive effect on insurance companies' financial stability," is rejected. The number of board of directors members does not affect the company's financial stability. This is because the board of directors' authority is to carry out policies determined by commissioners. The board of directors is conducting what has been instructed by the board of commissioners. Therefore, they have limited influence on company policies. This result supports Fekadu (2015) and Aribaba & Lateef (2017), who conclude that the number of boards of directors does not affect company performance.

The Effect of Institutional Ownership on Financial Stability

The seventh hypothesis states that "The institutional ownership has a positive effect on insurance companies' financial stability," is accepted. The more significant the proportion of institutional ownership, the higher the level of corporate financial stability. This is because institutional shareholders have a decisive control role. Also, they have a great responsibility for the funds which is under their management. The funds invested do not belong to individuals but agencies that expect to generate more profits from the investment activities. The results of this study support Hidayat & Firmansyah (2017); Gugong & Dandago (2014), who concluded that institutional ownership has a significant effect on the performance of insurance companies.

CONCLUSIONS

Islamic insurance companies are one of the foundations of Islamic economic development. Many benefits can be obtained from Islamic insurance companies, including life protection and family health insurance. In addition, some of the funds collected from participants can be invested to drive the wheels of the community's economy. Therefore, insurance companies' financial stability must be a genuine concern for practitioners and researchers to ensure that Islamic insurance companies can develop in providing financial services in Islamic insurance. This study aims to identify the determinants that affect the financial stability of Islamic insurance companies. Eight full-fledged Islamic insurance companies registered at the Financial Services Authority (OJK) are employed as samples for the financial reporting period from 2014 to 2018. The results show that total investment and financing, insurance premiums, independent board of commissioners, and institutional ownership have a positive and significant effect on the financial stability of Islamic insurance companies.

Meanwhile, the capital structure, sharia supervisory board, and the board of directors do not affect the financial stability of Islamic Insurance companies. From the result, the Islamic insurance companies should concern about the findings to enhance their financial stability. However, the financial report of Islamic insurance companies mainly presents limited information. As a result, the financial report provides little information. The implication is that an increase in participant contributions and strategic investments and financing should be a concern for Islamic insurance fund managers. In addition, operational supervision by independent parties and the role of institutional shareholders can strengthen the financial stability of Islamic insurance companies. Further research, direct interview with Islamic insurance managers, and the variables can be developed with more relevant measurements

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Received: 30 September 2021; Revised: 21 December 2021; Accepted: 26 December 2021

REMOVING THE COG IN THE WAQF WHEELS: A POLICY FORMULATION FOR NIGERIA

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ABSTRACT - The Nigerian state is the most populous African nation with a sizeable number of Muslims. While other countries with a significantly fewer number of Muslims benefit from the visible dividends of a thriving waqf institution, the same cannot be said of Nigeria. The institution of waqfs in the country is almost non-existent or, at best, described as comatose. Therefore, this study attempts to formulate workable prescriptions for waqf development in Nigeria. Data were gathered from relevant documents, such as related local regulations and the result of previous studies. Considering the normative characteristics for the functionality of the waqf institution, the data were analysed using documentary enquiry, legal reasoning, descriptions, narratives, and critical studies on the waqf system in Nigeria. The findings indicate a dire need for dedicated legislation for waqf operations in the country that will expedite establishing a sound and well-functioning waqf system. This future law should incorporate the policy briefs contained in this paper.
Keywords: Waqfs in Nigeria, waqf policy, waqf law, endowments, Islamic trusts, enhancing waqfs.

ABSTRAK – Menghilangkan Hambatan Perputaran Wakaf: Analisis Kebijakannya untuk Nigeria. *Nigeria adalah negara di Afrika yang terpadat dengan jumlah Muslim yang cukup besar. Tidak seperti negara-negara lain yang bahkan jumlah penduduk Muslimnya jauh lebih sedikit, Nigeria hampir tidak mendapatkan keuntungan apapun dari adanya sistem wakaf dalam Islam. Eksistensi lembaga wakaf hampir tidak terlihat di negara ini, atau, dapat dikatakan sedang mati suri. Oleh karena itu, kajian ini berupaya untuk menghilangkan hambatan-hambatan operasionalisasi wakaf dengan merumuskan formulasi yang dapat diimplementasikan untuk Nigeria. Data penelitian dikumpulkan dari studi dokumentasi seperti undang-undang dan peraturan terkait serta hasil-hasil kajian yang relevan. Dengan pertimbangan karakteristik normatif fungsi lembaga wakaf, analisis dokumen dilakukan dengan penalaran hukum, telaah deskriptif, naratif, dan studi kritis terhadap fungsi wakaf di Nigeria. Hasil kajian menyimpulkan bahwa ada kebutuhan mendesak bagi Nigeria untuk membentuk undang-undang khusus wakaf yang dapat mempercepat pembentukan sistem wakaf yang sehat dan fungsional. Formulasi policy brief dari kajian ini dapat digunakan sebagai bahan pembentukan aturan dimaksud.*
Kata Kunci: *Wakaf di Nigeria, kebijakan wakaf, hukum wakaf, dana kebajikan Islam, peningkatan wakaf.*

INTRODUCTION

Waqf enlists as one of the essential phenomena in today's voluntary redistribution and wealth management discourse. While its ascendancy permeates countries with a majority Muslim population, such as Malaysia, Turkey, Indonesia, etcetera, the same cannot be said about Nigeria, with a teeming Muslim population of about 100 million people. Waqf as an institution is almost non-existent in Nigeria. While there are endowments (albeit negligible and size-petty) that might be (after a closer look) approximately or somewhat technically classified as Waqfs in states like Bauchi, Borno, and chiefly Zamfara; such purported "Waqfs" usually are not consciously and adequately done, endowed or rendered (which makes it mere charity) or are primarily dysfunctional or inoperable (Chesworth & Kogelmann, 2014).

Preliminary investigation suggests that the necessary paraphernalia for Waqf functionality in Nigeria is amiss. Indeed, the foray into the Nigerian case indicates that the reason for the unfavourable absence of Waqfs in the country is due to the virtually non-existent legal infrastructure cum operational framework necessary for the smooth functioning of such a formidable institution of Waqfs. It was also discovered that the inherited trust laws from the British colonial "masters" subsist in the country, which might have contributed to Waqf's absence as some Muslims might think it sufficient to set up trusts in place of Waqf. This action is, however, fraught with religious and technical weaknesses as the English trusts are not the same as the classical Waqfs (at least within the Nigerian context). Equally problematic are the provisions of the Nigerian constitution, which somewhat grant conflicting powers to Shari'ah courts and High courts on issues bordering on land, which is pertinent as far as real-estate Waqfs are concerned. The researcher seeks to ultimately establish how to do Waqfs in Nigeria by suggesting workable policies. Against this backdrop, the study focuses on the operability of Waqfs in Nigeria in a bid to lay the foundations for the maximisation of its potential.

To this end, the author explains waqfs, gives a rationale for its discussion, presents the country Nigeria within the waqf context, distinguishes between the conventional trusts and waqfs, analyse the state of charitable giving in Nigeria, investigates the laws in place for potential full-blown Waqf functioning in the country including existing trust laws and further, examines the adequacy of such laws. Nigeria-centric Waqf policies are then prescribed for smooth waqf operation and institutionalisation in the country. The object of this study is thus seminal as it somewhat precludes all further progressive researches on functional Waqfs in Nigeria.

LITERATURE REVIEW

Waqfs Explained

In what appears to be a "license to be part of the inhabitants of heaven," Prophet Muhammad (Peace be upon Him, henceforth PBUH) sanctioned the (real estate) waqfs when Umar bin Khattab got some land in Khaibar. He went to the Prophet (PBUH) to consult him about it, saying, "O Allah's Messenger (PBUH), I got some land in Khaibar better than which I have never had; what do you suggest that I do with it?" The Prophet (PBUH) said, "If you like, you can give the land (corpus) as endowment and give its fruits in charity." So `Umar gave it in charity as an endowment on the condition that it would not be sold nor given to anybody as a present and not to be inherited, but its yield would be given in charity to the poor people, to the Kith, and kin, for freeing slaves, for Allah's Cause, to the travellers and guests; and that there would be no harm if the guardian of the endowment ate from it according to his need with good intention, and fed others without storing it for the future (with a view to becoming rich)" (Al-Bukhari, 1997).

Waqf, originally an Arabic word, has found its way into the English dictionary, where it is defined as "An endowment made by a Muslim to a religious, educational, or charitable cause" (Dictionaries, 2015). More rigorously, it is an inter-generational purposive religious, charitable quest borne out of a non-coercive process (Noipom & Hassama, 2017). Whereby a donor earmarks a particular definitive corpus instructing that its fruits or dividends (including its use) be channelled to a specified "Islamically" permissible course wholly for the sake of Allah, the Supreme Being (Saidu, 2018a). Running through the waqf literature is a trend and tendency to bifurcate waqfs into family and charitable waqfs. As the name implies, family waqfs connote waqfs to benefit the founders' direct family members. In contrast, charitable waqfs refer to that Waqf for other beneficiaries other than the families usually stipulated by the founder. Although, Cizakca (2011) has rightly noted that such protruding distinction is a western concept and not tenable in Islamic law, which treats both as more or less ideologically the same.

Pragmatically, waqfs work as follows; a Muslim who wishes to set up a waqf puts aside an original property and donates its benefits to intended beneficiaries for the sake of Allah. The original property or corpus (now Allah's property) is something from which benefit may be derived whilst its essences remain, such as houses, shops, gardens, and others. Benefits are beneficial outputs or proceeds that emanate from the original property, such as crops produce, rents, usufruct or provision of shelter, and others. So long as the Waqf remains in existence, i.e., the essence or corpus remains, the founder continues to accrue the (spiritual) rewards even in death which ultimately plunges the concerned to Paradise (Majah, 2007). The aforementioned is the primary motive for setting up the Waqf in the first place.

From the foregoing, it is clear that Waqfs is, of course, a charitable institution. However, it differs from other forms of charity in that it is ongoing, i.e., perpetual, intergenerational, or operates in a continuum or continuous fashion. Ongoing charity may include designating a house or a place as Waqf. Its income is spent on education or health for orphans/poor welfare, building mosques or buying Qurans in mosques, and so forth.

Background on Nigeria

The Nigerian state is the most populous African nation. Based on the 2006 census in Nigeria, the total population stood at 140,431,790 (NPC, 2006). Considering the country's annual population growth rate of 3.2%, the population now stands at a little above 200million. This data invariably means the country alone accounts for about 2.4% of the world's total population. A little above 50% of the population profess Islam, about 3% are traditional worshipers, and the rest are Christians (PEW, 2009). Ethnically and culturally diverse, the country has over 250 ethnic groups (Grimes, 1996), and over 500 identified indigenous spoken languages and English language as the lingua franca (Blench, 2011). The country has a total land area of 923,768 km^2 composed of 37 states, including the federal capital territory, and is bounded to the; east by Chad, west by Benin, south by Cameroon, and north by Niger. The country runs a presidential system with three arms of government; executive, judiciary and a bi-camera legislature. The country is somewhat a federalist.

The Creator blesses Nigeria with a vast amount of natural resources ranging from good weather, climate, arable land, minerals, and humans, the majority of which remain underexplored; however, petroleum resource serves as the mainstay of the economy. Before the commercial discovery of oil, agriculture served as the main foreign exchange earner, but this position has changed since the 1970s. The contribution of crude oil to the value of total domestic export trade was to the tune of 69.2% in 2012 (NBS, 2012a). The monolithic oil sector also accounts for about 20% of gross domestic product, 95% of foreign exchange earnings, and about 65 percent of a budgetary benchmark (CBN, 2012). The country and the rest of sub-Saharan Africa had an impressive growth (1.6% per capita income growth) rate throughout the '60s and the 70's, comparable to that of today's rich countries during the industrial revolution of the early 19^{th} and 20th centuries (OPEC, 2012). Nevertheless, in the '80s, the reverse was the case; perhaps particularly suspect were the IMF stabilisation and structural policies imposed on these countries (Saidu, 2014). Nevertheless, the Nigerian economy has maintained an appreciable real GDP growth rate since 2008. The country grew in real terms by 5.98%, 6.96%, 7.98%, 7.43%, 6.61%, 6.75 in 2008, 2009, 2010, 2011, 2012, 2013 respectively and is projected to grow by 7.27%, 6.93% , 6.62% in 2014 ,2015 and 2016 respectively (NBS, 2016).

However, all forms of poverty co-exist in Nigeria. It is tragic and has been on the increase over the years; relatively, between 2004 to 2010, poverty increased by 14.6%, putting 112,518,507 Nigerians in the poverty bracket. In this context, the poverty incidence in the Northeast and Northwest was 77.7% and 76.3% in 2004 and 2010, respectively. In the South-west poverty rate was 59.1%. Sokoto state had the highest poverty rate of 86.4%, while Niger State had the lowest at 43.6% in 2010. Poverty increased by 6.2% between 2004 and 2010, with about 99,284,512 Nigerians in poverty in 2010. In this parlance, Sokoto had the highest rate of 81.2%, while Niger had the least, 33.8%. The southwest recorded a poverty rate of 49.8%, while the North-West and North-East recorded 70% and 69%, respectively. It is also documented that in 2004, about 51.6% of Nigerians earned below one dollar a day, and the percentage increased to 61.2% in 2010. In Southwest Nigeria, 50.1 % of the people lived below the one-dollar mark, while 70.4% of the people in the Northwest geo-political zone lived below the one-dollar mark. In addition, 81.9% of the people in Sokoto lived below one dollar per day, while 33.9% of the inhabitants of Niger live below the one-dollar mark. It was also estimated that in 2011 poverty will have increased to 71.5%, 61.9% and 62.8%, corresponding to 2.5%, 1% and 1.6% (increase), respectively (NBS, 2010).

Table 1. Relative Poverty: Non-poor, Moderately Poor, Extremely Poor (%) 1980-2010

Year	Non-Poor	Moderately Poor	Extremely Poor
1980	72.8	21.0	6.2
1985	53.7	34.2	12.1
1992	57.3	28.9	13.9
1996	34.4	36.3	29.3
2004	43.3	32.4	22.0
2010	31.0	30.3	38.7

Source: NBS (2010)

The statistics allude to the severity of poverty within the Nigerian state. Poverty is dangerously high in Nigeria. Also worthy of mention is another dimension to the poverty situation in Nigeria, where most people feel they are poor. For example, in 2010, 93.9% of Nigerians believed they were poor, an 18.4% increase in their self-perception in 2004. The people in Abuja considered themselves the poorest with 97.9%, while the people of Kaduna considered themselves the least poor, with a percentage point of 90.5 (NBS, 2010).

Table 2. Relative Poverty Headcount (1980-2010)

Year	Poverty Incidence (%)	Estimated Population	Population in Poverty (Million)
1980	27.2	65	17.1
1985	46.3	75	34.7
1992	42.7	91.5	30.2
1996	65.6	102.3	67.1
2004	54.4	126.3	68.7
2010	69.0	163	112.47

Source: NBS (2010)

Further compounding the problem is the insurrection in the Northern part of the country, which analysts have linked to the poverty situation in the country. From various quarters, including the government's two commissions, it has been argued that providing essential infrastructural and social amenities cum employment in the war-torn areas might help stem the tide of the insurgence (Kamri, Ramlan, & Ibrahim, 2014). Perhaps, a functional waqf system is a potent tool for such a panacea since waqfs are arguably the most potent instruments for poverty alleviation, especially in the face of growing poverty in the midst of appreciable economic growth.

The State of Charitable Giving in Nigeria

Despite the paucity of data on waqfs in the country, there is ample evidence of charitable causes in the countries, especially in helping strangers, volunteering time, and donating money.

In 2013, Nigeria placed an enviable 20th position among 135 countries represented in the world giving index. Contributing to this 20th position is that the country ranked 8th among countries whose citizens participated in helping strangers, ranked 14th amongst those countries who volunteered the most, and ranked 52nd amid countries who donated money. This statistic derives meaning from the fact that, on average, 44% of all Nigerians engaged in charitable ventures, where disaggregated 66% helped people they did not know, 30% donated money, and 36% volunteered time as a charitable means. In addition, a total of 62 million Nigerians were estimated to have helped strangers in 2013.

Narrowing down the analysis to Africa, Nigeria placed second as far as being charitable is concerned, second only to the state of Libya, where 46% of her people engaged in philanthropic causes. It could be readily seen that the margin between the two countries is just a meagre 2%. Taking it piecemeal, Nigeria fell short of Libya by five percentage points when those who helped strangers were considered. It also fell by one percentage point as far as donating money is concerned. In comparison, Libya also surpassed Nigeria by seven percentage points when examining volunteering time.

Looking at the MINT countries, Nigeria ties with Indonesia as the first amongst the four countries (Ibrahim & Ilyas, 2016). Although an average of 44% of the people in both countries are considered charitable, individual statistics reveal that while 66%, 30%, and 36% of Nigerians helped strangers, donated money, and volunteered time, respectively; 40%, 63%, and 30% respectively did the same in Indonesia (Ibrahim, 2014; Suzuki, Pramono, & Rufidah, 2016). Thus, both countries have their strong points. Singling out the donation of money, Taking the analysis further to cover the Next Eleven[1] (N-11) countries, cursorily, the Philippines beat Nigeria to the second place by one percentage point by scoring 45% in the giving index. However, scrutinising the result, Nigeria ranked higher than the Philippines when helping strangers is in the

[1] A group of eleven countries (Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, the Philippines, Turkey, South Korea and Vietnam) tipped to be among the world's largest economies in the 21st century. They together have promising outlooks for investment and growth.

purview. In this ramification, Nigeria ranked 8th while the Philippines occupied the 20th position in 2013. Taking the MINT and N-11 counties together, Nigeria came third after Indonesia and the Philippines, as only 30% of her people donated money in 2013. However, she places first as far as helping strangers is concerned. Nigeria also placed second after the Philippines when volunteering time is the crux, as 36% of her populace volunteered in 2013.

Analysing the Muslim majority countries in the index numbering over thirty, only Qatar and Libya were ahead of Nigeria, which placed third. Whilst 51% and 46% of Qataris and Libyans expended on charitable causes, only 46% of Nigerians did in 2013. However, Nigeria forged ahead of these countries when the number of people who donated in these countries is considered 62 million helped a stranger in 2013. Further decomposing the results, whilst 73%, 6%, and 19% of Qataris helped strangers, donated money, and volunteered time in 2013, translating to her 2nd, 14^{th,} and 60th ranking respectively in the index, only 66%, 30% and 36% of Nigerians were found to be in a similar act which translated to her 8th, 52^{nd,} and 14th positions.

Similarly, Libya, which came 2nd aggregately amongst the Muslim countries, ranked 3rd, 54^{th,} and 11th. It is noteworthy that despite Libya and Qatar beating Nigeria wholly in the league table, they did not surpass it in all categories individually. This information is evident as Nigeria placed higher than Qataris when volunteering and before Libya when donating money.

Nigeria has nevertheless not been consistent in its performance as a charitable nation. It failed to make the first twenty positions when countries were examined over five years, i.e., from 2008 to 2012. Only the Philippines, amongst the following eleven countries, made a list. At the same time, Qatar was the only Muslim majority country that made a list by taking the 9th position where 46% of her people engaged in charity. Liberia was also the only African country that made a list, as 45% of her people gave to charitable causes over the years in question.

In 2014, Nigeria did not make the first 20 positions it made in 2013. In fact, amongst the Muslim majority countries nations, only Malaysia, Indonesia (the only MINT and the next eleven countries who made a list), and Iran made a list ranking 7th, 13^{th,} and 19^{th,} respectively. Furthermore, between 2009 and 2013, Nigeria also failed to mark among the first 20 countries engaged in charitable causes. Again only Qataris, Turkmenistan, and Indonesia (Khalidin et al., 2010), among the Muslim countries, made a list ranking 9th, 14th, and 16th, respectively. Again, dissecting the statistics further, Nigeria did not make the first ten countries that helped a stranger by participation. The Muslim countries that made a list are Iraq and Saudi Arabia, which ranked 2nd and 7th, respectively. Nigeria, however, ranked 5th in terms of the number of people who helped strangers as a 61million of its people did in 2014, second to Indonesia, which ranked 4th because 85million of its people were reported to have helped strangers. It immediately preceded Pakistan, which ranked 8th with a 58million of its people assisting strangers in 2014. As far as donating money is concerned, Nigeria was not among the first ten countries but made the first ten as far as volunteering time is concerned. It was tied with Malaysia in the 10th position and after Tajikistan and Turkmenistan in the 5th and 1st position, respectively, with 41% of their people volunteering in 2014. It is also ranked 5th in the league of charitable countries and 2nd amongst Muslim countries when the number of volunteers is examined.

Nigeria nevertheless occupied the 21st position out of 135 countries globally in the charitable business in 2014. Amongst the Muslim countries, it came 4th overall after Indonesia, Malaysia, and Iran (Usman et al., 2020). Nigeria was second in Africa, only after Kenya, while amongst the MINT and the following eleven countries, she also came second after Indonesia. The statistics revealed that in the aggregate, 44% of Nigerians gave to charity in 2014, in which 63% helped strangers, 29% donated money, and 41% volunteered time, translating into 19th, 50th, and 10th rank respectively among all the countries of the world.

Perhaps controlling for population demographics amongst these countries, with the possible exception of Indonesia, might greatly tweak the result favouring Nigeria. Overall, Nigeria, without a functional waqf system seems to be doing reasonably well as a charitable country but has not been consistent; hence, there is room for improvement and consistency. With the advent of a functional waqf system stuffed with religious ideology, one can picture or imagine the boost charity causes will have in Nigeria's place in the league of charitable nations.

Waqfs as Opposed to Trusts

While there are similarities between the Islamic Waqf and the (English) Trust, panoramic analyses suggest that there are evident and far-reaching differences between the two institutions, which do not make trust laws or the availability of trust laws an adequate substitute for running a waqf, especially in a majority

Muslim country like Nigeria. First, the assets that are the "corpus" of the Trusts are (legally) owned by the trustees, with the beneficiaries being equitable owners. As such, the trustees may do whatever they deem permissible with the assets, whereas, for a waqf, the *mutawalli* is only the "administrare" of the assets and will not usually be able to make some decisions, e.g., Istibdal or sale of the assets without clearance from an Islamic court. Another difference is that the rule against perpetuities, a protruding feature of Trust laws, has no place in the waqf establishment (Alias & Cizakca, 2014). In other words, by default, a waqf will generally continue to exist in a continuum while Trust and its assets are vested for specific specified periods in the deeds. This point is somewhat technically linked with the first point of difference.

Expectedly, the administrator of the Waqf, i.e., the *mutawalli, and the endower, i.e., the waqif,* do not have the imprimatur to revoke a waqf. However, this waqif/mutawalli "powerlessness" is not a feature of the Trust, as, under the Trust law, the settlor is permitted to revoke a Trust if he or she so wishes. Furthermore, there are restrictions for/on a waqf on the nature of assets that can be endowed to it. For example, usufruct cannot be endowed to waqfs according to the orthodox or traditional jurists. Even some acceptable corpuses such as stocks and cash, restrict investible channels. In contrast, there are virtually no restrictions on "endorsable" trust assets, and it is known that usufructs can be bona fide trust assets.

A significant difference, and in the author's view, the most important between a waqf and a Trust is the intention of the settlor/*waqif*. A *waqif's* action of establishing a waqf should normally be governed by a prime religious motive, which is the requirement for all Muslims to do acts of worship that invariably includes waqfs solely for the sake of Allah the Creator. This requirement is evident in the Hadith contained in Sunan an-Nasa'i 3140: Book 25, Hadith 56, where the Prophet is reported to have said; "…Allah does not accept any deed, except that which is purely for Him, and seeking His Face." This message is further reinforced in the Hadith narrated by Abu Hurairah (may Allah be pleased with him), wherein the Messenger of Allah (PBUH) said: "Allah, may He be blessed and exalted, says: 'I am so self-sufficient that I am in no need of having an associate. Thus he who does an action for someone else's sake, as well as Mine, will have that action renounced by Me to him whom he associated with Me" (Al-Bukhari, 1997).

On the contrary, a settlor is normally primarily driven by other considerations distinct from the sake of Allah's motives. For example, public benefit or altruism is a purely private benefit that accrues to him, i.e., the settlor or mixed benefits, including public and private benefits (Saidu, 2018b). Such motives include; the insulation of family wealth from state taxes and other perceived diminishers, thus "preserving" the wealth for future use cum payments to family members. This obviously relates to family trust; the wholistic preservation of family business by making such a trust and dedicating income from such company to specific family beneficiaries so that wealth fragmentation via sale of inherited family business by the heirs which could culminate into liquidation is forestalled; a "legal" means to effectively side-track or circumvent the law of inheritance and particularly if one wishes that some heirs are left out or get their inheritance piecemeal of one's wealth; to protect one's property from state usurpation; ensure discreteness in appropriation or the bequeathing of properties capitalising on the fact that the beneficiaries of a Trust in most cases are not registered in overseas trust establishment; to specifically protect some groups of persons who may be physically challenged, minors, unborn children whom the settlor feels the need to provide for; lending helping hands to charities by way of creating a charitable Trust with a charity as joint or sole beneficial owner; used as tax avoidance technique by way of setting up a trust in one country with its beneficial owners in another and by so doing inheritance tax, income tax, capital gains tax, estate tax may be reduced or even eliminated. Similarly, exchange controls could be avoided, and many other "benefits" through innovative Trust structures can also be garnered.

It could be argued that some of these motives that motivate Trust establishment also apply to Waqf (Cizakca, 2011). While this might be true, the normative motive for a waqf is to please Allah and for his sake alone. Some persons in the past and present have declared their primary motives to be other than the Islamic normative motive. Some might even dedicate waqfs to reap the benefits that accrue from society by being seen as charitable or religious. Becker (1974) shed light on such type of philanthropy in his "pioneering" work on philanthropy in the (neoclassical) economics discipline.

One does not change the Islamic dictates and makes such persons or endowers correct or necessarily on the right path. Such persons will have to purify their intention(s) if they have to be rewarded for such noble acts by their Creator. Therefore, it is worthy of emphasis and further clarification that this intention factor is profound and needs thorough pondering. It is because a person might say giving out one's wealth to the public is a noble deed (without taking note of the underlying motive or intention) and conclude that by default that such action or deed is for the sake of Allah.

However, this is not so, as people can give public benefit for reasons other than because Allah has enjoined us to be charitable. For example, suppose a person was asked why he/she has done a charitable act. In that case, he/she might say, "Well, I did because she is a friend," or "because he has helped me before," or "because he is my supervisor," or probably "because he might help me in the future," or for fear of shame or sanctions, or any of the motives described above. These intentions are unacceptable in the view of Islamic Shari'ah. Of course, by an extension, such deeds emanating from such intentions are not acceptable from the Islamic viewpoint if intentions remain impurified, i.e., re-intended wholly for the sake of doing so of Allah and are deemed futile according to the hadiths above.

Therefore, there is a constant need for Muslims to purify their intentions when doing charitable deeds. It is one of the reasons why waqfs is the best choice for a Muslim seeking to engage in (perpetual) charity and not Trust. At the very thought of a waqif, the Muslim should immediately become conscious of its rationale as an Islamic institution. Such intentions might be purified if such potential *waqif* is a sincere Muslim. In addition, since intentions usually are not known except if declared, it is safer for Muslims to pursue establishing waqfs if he or she intends to do recurring charity and has the means considering its Islamic ideological basis as well as Islamic rules guiding it so that intentions might in this way become purified.

METHODOLOGY

This study utilizes a qualitative method with a normative approach. Data for this study is gathered from relevant documents, such as related local regulations and the result of previous studies. Considering the normative characteristics for the functionality of the waqf institution, the data were analysed using documentary enquiry, legal reasoning, descriptions, narratives, and critical studies on the waqf system in Nigeria.

RESULT AND DISCUSSION

An Appraisal of Waqf Law/Provisions in Nigeria

There appears to be no dedicated legislated document for Waqfs regulation in Nigeria. Waqf—spelt *Wakf*—in the 1999 constitution of Nigeria (the only and most authoritative governing mandate) appears rather passively under section 277(2) c, 262(2) c. It is proclaimed that "the Shari'ah court of appeal of a state and that of the federal capital territory shall be competent to decide on any question of Islamic personal law regarding a *wakf*, gift, will or succession where the endower, donor, testator, or deceased person is a Muslim." There are no explicit laws on Waqfs in Nigeria. A pseudo-law, however, exists in the form of law on trusts, incorporated and unincorporated. Consistently, there are no explicit laws asides from the inherited English common law governing the unincorporated trusts, even though the provisions of section 45 of the 1999 constitution provide an approximation and could be construed in a general sense to allow for unincorporated trusts. Conversely, comprehensive laws exist and are operational as far as incorporated trusts are concerned. As provided by the law, they could either be registered as companies limited by guarantee or associations with incorporated trustees.

Pertinently, Alias and Cizakca (2014), in arguing their case for a fresh approach to Waqf in Malaysia, identified some shortcomings in the trust laws cum associated laws in the country, thus showcasing some differences between trusts and waqfs. They argue that under the Trustees Incorporation Act of 1952, the board of trustees is incorporated and not a trusted body. The same law does not grant individual trustees the limited liability status, thereby making them personally liable entities that, in their view, is improper. They also advance that the trustees Act of 1949 limits some "lucrative" investment choices such as microfinance and venture capital which might have been available to the trustee to support young entrepreneurs, for instance, due to its conservative risk posture. Further, they posit that the 1965 companies act hampers charitable ventures' activities (e.g., public fundraising and cash waqf), especially those registered as companies limited by guarantee.

Somewhat specific to Nigeria are issues relating to the inadequacy of the trust laws and subsisting legal infrastructure provisions, which are pertinent for waqf operability in the country. These issues or problems are discussed below:

Obscurity in Court Jurisdiction and Governor's Power over Land

As stated earlier, the 1999 constitution of Nigeria confers adjudication and jurisdiction on *Wakf* matters to the Shari'ah courts of appeal seating in the states, including the federal capital territory; even though there are no clear and specific laws (administrative, institutional, operational) to; be interpreted, be applied and ruled upon. It is paradoxical and problematic even as the same constitution grants jurisdiction and adjudication powers to High courts on all landed properties and through the Land Use Act[2] (LUA) of 1978, Section 39. The prospective implosions and bottlenecks become apparent and more pronounced when a landed property is the corpus of the *Wakf* as issues of perpetuity and effective dispute resolution arise. Perpetuity issues surface because the act stipulates that virtually all lands in urban areas, as well as lands carrying statutory right(s) of occupancy title in rural areas, belong to the Governor of the state, who has the imprimatur to grant statutory rights of occupancy to applicants for a tenured period, specified fee and rent (LUA Sections1,2, 5, 8, 34(5)b). This cast grave aspersion on the "surrenderability" of such land to the Creator. In terms of effective dispute resolution, the point is that the law implicitly sidelines the Shari'ah courts and ultimately strips it of its powers on potential Waqf-related cases involving land by granting the same to the High courts. Case(s) of Korau vs. Korau (1998), Baka-Jiji vs. Abare (1999), Magaji vs. Matari (2000), Maishanu vs. Manu (2007), and Adisa vs. Oyinwola (2000) simulate such intricacies (Nigeria, 1978).

A closer look at the Land use act provides an imminent resolution. It grants the municipal government some powers to control and manage lands in its territories, supposedly rural areas, with restrictions on accessible land (LUA Section 3, 6(2)). Therefore, the local governments are empowered to issue customary occupancy rights for landed properties to applicants, and the rights so granted are perpetual and not tenured. Prima facie, this seems to resolve the problem of perpetuity as anyone wishing to set up a Waqf can opt for a corpus type rural land and thus obtain customary rights of occupancy (as opposed to statutory rights of occupancy) under the municipal governments. This would have been the case and the plausible option if and only if the act differentiates and delineates between urban and rural lands (LUA Section 3). This lack of clarity also impedes the adequate dispute resolution opportunity that the powers conceded to the local government afford, as the law gives the customary courts

[2] A law of the federal republic of Nigeria which appropriates all land matters.

or area courts and courts of similar/equivalent jurisdiction adjudication rights, however, not devoid of High courts (LUA Section 41). While awareness of this provision in the act might help Waqf seeking Muslims fulfil their wishes, albeit restrictively by choosing a landed corpus, it does not solve the problem. It resolves the inherent complexities of such adaptations (Nigeria, 1978).

Perhaps, a much more ending and lasting solution to the problem of the Governor's land ownership and tenure powers is the adoption of a cash corpus for (potential) waqfs in Nigeria. The cash waqf, a powerful form of Waqf which is simply of cash corpus variety, was made permissible as far back as the 8th century based on the *fatwa* of Imam Zufar and became widespread in the 16th-century Ottoman period and more recently in the contemporary Muslim world (Cizakca, 2011). In addition to resolving the Governor's powers, the cash waqf will equally eliminate the inefficiency concern associated with land use for (real estate agricultural) waqfs primarily if it is gainfully utilised via sharecropping as was usually used in the case in relevant history. Joseph Reid(1979), mainly within the periods of 1973 to 1977, had asserted that sharecropping is not the most efficient way to utilise farmlands, particularly in the face of (point and sequential) uncertainty. According to him, "…any equilibrium distribution of expected income and risk between factors of production could be achieved without resort to sharecropping". Although Nigeria has abundant land that somewhat effectively neutralises Reid's assertion (assuming that all waqf lands are utilised or invested via sharecropping or equivalent circumstances/ mediums), the cash waqf will still prove useful. As time progresses, pressure is likely to increase on the abundant land; therefore, adopting the cash waqf will be a foresightful policy option for Nigeria.

It is thus instructive to shed some light on the modus operandi of cash waqfs. Operationally, the corpus, i.e., cash, is invested, and the proceeds are used in line with the endowers' wish and directive, in most cases for charitable purposes. With specific reference to the Ottoman cash waqf, the Waqf is initiated when a seemingly affluent individual wishing to dedicate his wealth declares his intention publicly through approved legal channels. Once the endowment is made, the cash is invested through a process called *Istiglal*, in modern terminologies; a sort of lease, buyback arrangement (Cizakca, 2011). Such arrangement entails a fund-seeking entrepreneur relinquishing his ownership/usufruct right to his property, e.g., house, to the Waqf in exchange for working/investment capital he needed (Cizakca, 2011). The entrepreneur invests the obtained fund, and this arrangement remains in force for a specified period, usually a year. The entrepreneur can request to assume usufruct rights on the hitherto relinquished property for a rental fee in favour of the Waqf, which is to be paid for as long as the capital obtained from the Waqf is still with him. In most cases, the entrepreneur returns the capital obtained from the Waqf within a year and is thus entitled to the ownership rights of his property (Cizakca, 2011).

This process is replicated by comprising several funds-seeking entrepreneurs. As such, the returns emanating from such arrangement constituted the mega profit of the Waqf, which is then channelled to philanthropic purposes as stipulated by the endower. Of course, administrative cum management expenses and other overhead expenses are considered before the Waqf funds are disbursed or, better still, the endower's wish(es) is/are carried out. The corpus (cash) is somewhat maintained and sometimes enhanced through this process if the *mutawalli* or Waqf management decides to augment the existing corpus by adding some of the not disbursed profit (Akmal, Musa, & Ibrahim, 2020). Essentially, the Waqf was able to protect the corpus, ensure continuity, and generate income from the entrepreneur's property, who obtained his much-needed capital for investment. It is, however, worthy of note that the waqfs could not come together in the name of financial cooperation to lend out cash endowments. This restriction helped them preserve their identity as social services organisations instead of commercial ones (Cizakca, 2011).

It is worthy of note that the modern *sukuk* rendering mimics the ottoman cash waqfs modus operandi. This analogy draws credence from the fact that the Special Purpose Vehicle (SPV) element, which is readily seen in *sukuk*, operates just like the ottoman cash waqfs as far as the deployment of *Istiglal* (sale-lease-buyback) is concerned (Cizakca, 2011). However, the use of *Istiglal* as an investment conduit has generated some controversies. While the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) subscribes to its service in the form of Sukuk al-ijara, i.e., the revenue-generating part, the International Islamic *Fiqh* Academy of the Organization of Islamic Cooperation (OIC) disallows its use, citing indistinguishability with the mainstream bond as well as (disguised) *riba* concerns as some of its reasons (OIC, 2014). This setback for the ottoman cash waqf prevents its direct, seamless import into today's modern Islamic financial (waqf) scene. A solution is thus seen in the stock waqf. Supported by several fatwas--the 1908 fatwas of the muftis of Egypt and Alexandra, the 1907 fatwa of the *Mujtahid* of Kerbala, and the 1967 proclamation in Turkey that permitted it--the stock waqf, i.e., the modern cash waqf has evolved into a pragmatic wealth redistribution mechanism. It removes its deficiencies from the ottoman cash waqf (Cizakca, 2011).

The stock waqf is essentially a synthesis of the concept of joint-stock companies and the traditional cash waqfs (Cizakca, 2011). As the name implies, the corpus for this form of Waqf is the Stocks, otherwise called the Shares. The endower of stock waqf, normally an individual capable and has sufficient wealth, earmarks his share ownership in a company for Waqf, which in turn becomes the beneficiary of profits accruing to the company under (ownership) shares in such company (Cizakca, 2011). Suppose the shares belong to several incorporated joint-stock companies. In that case, Waqf's existence is further strengthened as a portfolio is born and risks are diversified. The others compensate for potential company losses. It is rare to find that all companies in the portfolio will make losses simultaneously (Cizakca, 2011).

The Waqf keeps or maintains an emergency fund from its revenue in fulfilling its mandate. It is to meet capital enhancement of obligations from participating members of firms when they occur in order to be at par with such firms as far as share ratio is concerned whilst spending on necessary overheads as well as property investments if need be with the chunk of its revenue or yearly dividends disbursed for charity purpose which is its primary objective (Cizakca, 2011). Beautifully, the stock waqfs also permit the pooling of endowments by founders, wherein such pooled funds translate into huge funds, which then become the Waqf (Cizakca, 2011). The *mutawalli* is to ensure the continued existence and functionality of the Waqf by generating revenue through the sale of social services such as private hospitals, citadels of learning, and others (Ibrahim et al., 2015). The derived revenues are expended on necessary expenses, with net profits ploughed back as additions to waqf capital (Cizakca, 2011). To fulfill the Waqf mandate, part of the services carried out by the Waqf overseen by the *mutawalli* is also done on a charitable basis, thus balancing profit and charity activities (Cizakca, 2011).

Hence, to effectively nip the problem in the bud via the adoption of the modern cash waqf and embracing rural lands carrying customary occupancy rights, there is a need to institute a defining waqf law to formalise the practice as orchestration of waqfs in the country. This action will set the record(s) straight by ensuring the removal of complexities associated with the continued use of proximate trust laws and thus ensure adequate recognition of waqf institutions in Nigeria.

Registration

All civil society organisations seeking legal entity status must register with the corporate affairs commission (CAC) under the Companies and Allied Matters Act (CAMA) of 1990. As hitherto stated, they could be registered as companies limited by guarantee or as an association(s) with incorporated trustees [CAMA Section C, Section 673, Section 26(1)]. Structurally, attributively and characteristically, both provide contestable approximations to the Waqf, but the company limited by guarantee seems closer as it does not vest any form of ownership rights whatsoever on/to the members [CAMA Section 26(2)]. After the initial registration, the organisation thus formed is further required to furnish the CAC with statements of annual revenue and incomes and seek permission for any alterations to memorandums and other information deemed necessary by the commission. This close monitoring coupled with registration-related publicity somewhat affects; willingness to establish similar institutions by intending persons, operational flexibility cum ease, and ultimately encourages hostile and unwarranted takeovers.

Taxation

Companies whose activities fall under public benefit as defined under the fifth schedule of the Companies Income Tax Act, CITA 23(1) (c), are granted tax exemption. Such eligible activities include charitable/benevolent, educational, sporting, and ecclesiastical. "Motivated Islamic trusts" sure enlist as one. However, unincorporated trusts and individual donations do not qualify for tax exemptions. Notably, the finance minister is empowered under the CITA 25(6) to amend the listing of institutions eligible for tax exemptions. Nevertheless, the Value Added Tax (VAT) is payable by all organisations irrespective of their activities so long as it conducts lawful activities. Some goods are, however, not VATable (FIRS, 1993). An impediment to the flourishing of "Islamic motivated trusts" is thus apparent.

Investment

The CAMA somewhat restricts the investment propensities of the incorporated Trust if it must be eligible for tax exemption. The profits of incorporated entities or companies that previously mentioned public benefit activities are tax-exempt. The profits in question are not derived from commerce, trade, or business orchestrated by such companies (CITA Section 23(1) c, d.). Companies registered as those limited by guarantee are eligible for holistic tax exemption on profits from any lawful sources if an application for such is initiated and granted by the President of the federal republic of Nigeria.

Constitution of Bench, Qualification, and Religion of Judges

Summing up the issues invoked in section 3.3.4 and 3.3.5 above, quoting ipsissima verba, sections 261(3) and 276(3) of the 1999 constitution which provides for the qualification of the Shari'ah court judge; "A person shall not be qualified to hold office as Grand *Kadi* or *Kadi* of the Sharia Court of Appeal of the Federal Capital Territory, Abuja unless -(a) he is a legal practitioner in Nigeria and has so qualified for a period of not less than ten years and has obtained a recognised qualification in Islamic law from an institution acceptable to the National Judicial Council; or (b) he has attended and has obtained a recognised qualification in Islamic law from an institution approved by the National Judicial Council and has held the qualification for a period of not less than twelve (ten) years; and (i) he either has considerable experience in the Practice of Islamic law, or (ii) he is a distinguished scholar of Islamic law", and contrasting this with Sections 256(3) and 271(3) which provides for the qualifications required for an high court judge; "A person shall not be qualified to hold office of a Judge of a High Court of a State unless he is qualified to practice as a legal practitioner in Nigeria and has been so qualified for a period of not less than ten years", reveals a stack difference in the requisite qualifications for justices of both courts and of course the incompetence of the High Court Judges to handle waqf issues especially where the corpus is land and when not all the parties involved are Muslims. Unless the parties to a case are Muslims and agree to the jurisdiction of the Shari'ah court, the High court automatically becomes the court of the first call in a case of real estate waqfs, for instance.

This problem will also recur when appeals are heard at the court of appeals and Supreme courts, as the qualifications for judges here are inadequate. In addition, the Supreme Court will be plagued with the problem of the short constitution of the bench if cases of Waqfs are to be decided. The religion of the judge is also an issue, as stated earlier. Thus, relevant for this discussion is the need to highlight the classical knowledge requirements, credentials, and prerequisites for an Islamic judge. For any mortal to judge Islamic cases, a) He must be a Muslim, free person, male and mature person. b) He should possess auditory and visual capacities c.) He should be literate, virtuous, and capable of stretching the intellect in the making independent research and interpretation of the Quran and the Sunnah or at least possess the capacity to interpret what an exponent of Islamic law has interpreted based on the Quran and Sunnah. None of the fundamental credentials is met by the judges of these courts sanctioned by the Nigerian constitution to adjudicate on waqf subject. It is "indeed repugnant to justice, incompatible with the law in force and of course contrary to public policy" and presents genuine problems for waqf operability in Nigeria.

By and large, the above appraisal and preliminary analysis point towards the need for dedicated waqf legislation for Nigeria. The waqf legislation will go a long way in mitigating many protruding problems, if not all.

Problems Associated with Waqf Operability in Nigeria

For proper alignment of thoughts and ease of reference and progression, the most critical issues, as well as problems running through the earlier discussions relative to waqfs, are as a result of this highlighted, viz;

a. There are no explicit regulatory frameworks for Waqfs in the country.
b. Obscurity in court jurisdiction where the High court has exclusive jurisdiction over all lands in the country. The Shari'ah court of appeal, which is supposed to have original jurisdiction, is thus stripped of its powers over any (potential) Waqf cases where landed property is the corpus.
c. Directly flowing from the obscurity problem is the competency of a High court judge who might be a Muslim or non-Muslim to appreciate and adjudicate a Waqf dispute. It is worth remembering that the requirement for being a Shari'ah court judge requires a degree in Islamic law in addition to cognate experience, while that of a High court judge does not require knowledge of Shari'ah.
d. The traditional corpus permanence feature of Waqf is eroded as all lands constitutionally belong to the Governor of a state. He allocates statutory certificates of occupancy on a tenured basis.
e. The inadequacy of the incorporated and unincorporated trust provisions in Nigeria is concerned with the functioning of a classical Waqf. These problems centre on the following;
    1. The requirement to register and disclose to government apparatchik under unincorporated trusts.

2. The non-qualification of unincorporated trusts, incorporated trusts (e.g., in the case of Value Added Tax), as well as donations to such trusts for tax exemption.
3. The extensive power of the state conferred on the Minister of Finance to amend tax eligibility.
4. Restriction on investments by incorporated trusts if they qualify for tax exemption.
5. Vast differences between Trusts and Waqfs, at least within the Nigerian context.
6. The prevalent use of approximate trust laws in a populated Muslim country like Nigeria. This dampening of the awareness and preponderance of Waqfs in the country prevents the orchestration of Waqfs' religious philanthropy act or makes Muslims settle for such trust laws out of no choice or against their wish or will. It means the performance of trusts at the expense of waqfs, which is the amenable faith choice for Nigerian Muslims.

Waqf Policy for Nigeria

The following is a collection of Nigeria-peculiar policies from previous discussions in this paper. In other words, the policy strands from earlier discussions are now put into one read or pieced together; as such, it is not a complete policy brief for Nigeria. It is an attempt to proffer workable recommendations for waqfs in Nigeria.

Policy One: Providing for Settling Waqf Cases

There is a waqf case wherein both litigants are Muslims. They can opt for the Shari'ah courts with Muslim judges, thus effectively excluding the High courts from such jurisdiction. Where the subject matter of a dispute is a piece of landed property, there has to be an ascertainment process of determining whether the case is a waqf case by referring to the preamble section of the waqf law for definitions and modus operandi. If in the affirmative, then the case has to be adjudicated upon by the chosen jurisdiction court, albeit subject to the provisions of the waqf law. Thus, the High Courts still maintain their jurisdiction over all lands in the country. It is a mere delineation of waqf issues from land simpliciter issues.

On the grounds of appeal, the appeal court bench of Muslim judges who are learned in Islamic personal law must statutorily sit on waqf cases at all times.

Under no circumstances should any other dramatis personae sit on ascertained waqf cases. This could be ensured by the president of the Court of Appeal without tampering with the constitution. Similarly, there is the need for a (statutory) majority of Muslim judges learned in Islamic personal law to sit on the bench of the Supreme Court for Waqf cases. This could be ensured by the Chief Justice of the Nigerian federation without tampering with the constitution. There is also the need for Shari'ah courts in the southwest and southeast of the country for adjudication on waqf cases (if it is the choice of the parties concerned). In the meantime (if this is not realisable), there should be independent shari'ah panels that should be given legal backing to the extent that their judgements are enforceable in the High courts, Court of Appeal, and Supreme courts in these regions. Such a panel should be an effective alternative dispute resolution mechanism through arbitration and mediation for waqf cases. Some independent commissions already exist in Ijebu-Ode, Lagos, Osun, and Oyo environs but will be fully backed by the enabling Waqf Act in the next chapter.

In the long run, there might need to be a relaxation of sections 231(3), 238(3) 1999 constitution so that there would be an allowance for those qualified as *kadis* (judges of Islamic law) to be appointed as justices in the Islamic courts of Nigeria. It will cater to the paucity of Islamic law judges in the country.

Policy Two: Providing for Raising Awareness on Waqfs

There is a need for an aggressive sensitisation campaign on waqfs in the country. There is an urgent need for the "re-education" of the populace, particularly the Muslims, on the institution of waqfs. The true origin and connection with all religions sent by Allah should be highlighted. It could be done through numerous standalone Islamic organisations which would disseminate the information to their members or through the (local) mosques in each local government area. Through awareness, the society or community should now be aware of waqf institutions and their purposes, encouraging people to do more waqfs. The caretaker of established Waqf should regularly publish its mandate, modus operandi cum beneficiaries' rights towards sensitising the public of its existence through blogs, social media platforms; Ummaland, Facebook, Twitter, Youtube, and via other quasi costless media such as local government notice boards in public squares or centres.

Thus the public can initiate proceedings against the *Mutawalli* whom they deem as non-performing in the Shari'ah courts for non-presence of waqf activities in their domain or non-fulfilment of waqf mandate and, by so doing, helping and ensuring the continued existence of the institution and the accountability of the *mutawalli*. This is a beautiful check. A report of activities of the waqfs should be kept adequately; monthly, quarterly, and yearly to be produced upon request peradventure there is any case for determination requiring an inquisition into the activities of the waqfs; the Islamic court can request for such books to be examined. Also, proper and essential is the sensitisation of the arms of government on the importance cum benefit of such Islamic institutions for the country's polity.

Policy Three: Providing for the Introduction of Cash and Stock Waqfs

Waqf of stocks and cash waqfs are indeed powerful forms of waqfs. As we have earlier submitted, the modern cash waqfs essentially solve the problems associated with landed waqfs. Waqf endowers in Nigeria are encouraged to utilise urban property or cash as well as shares for their endowments as they least infringe on the institutions of waqfs going by the existing laws in the country.

Policy Four: Providing for Registration with Courts

The managers, i.e., the Mutawalli of a (prospective) Waqf, should only be required to inform the Shari'ah local court or courts of similar standings like the Area courts operated by the Islamic judges of the intention to establish one. This is for record purposes and potential state incentives inclusion benefit only. They should be registered in the court books. They should not report to any state apparatus as this portends significant negative implications as history informs, and for the institution to align or conform to classical waqf practice. Where there are no Islamic courts, for example, in the southeast and west, the independent Shari'ah panels would temporarily serve as registrars or documenters. The registration would, of course, spell out the beneficiaries and purposes of the Waqfs. The beneficiaries should be informed if specified by the establisher. If the endowment's beneficiaries are unnamed but a general purposes variety, such purposes should still be documented. As hinted under policy two, the managers of the Waqf still have the responsibility of informing the target group or general beneficiaries through mentioned platforms of their activities.

Policy Five: Providing Tax Exemption for Waqfs

Waqfs activities in the country should be tax-exempt. If associated businesses are whole to support the beneficiary or fulfil the founder's wishes, they should also be tax-exempt. According to Schedule 3, parts 1 and 2 of decree 102 of 1993 and the FIRS Information circular number 9901 of 1999 services, item d, waqf activities being a religious service, they should also be exempt from the VAT. This will be reinforced in the law to follow. The legislature can only review the tax eligibility, concession, or holiday conferred, i.e., amending the Waqf Act. The finance minister will not and cannot unilaterally amend tax eligibility. This would ensure waqf development, continuity, and operational stability.

Policy Six: Providing for Limits to Endowments

If a waqf is endowed in good health by the endower, then the concept of *hiba* is activated, and as such, there is no upper limit to the "endowable" property or amount. However, suppose the endowment is made at the point of death or during a "death-illness." In that case, the concept of bequest is activated, and as such, a limit to the "endowable" property is set by the Islamic shari'ah at a third of the endower's estate.

Also, the author proffers that waqfs could be (1.) charitable waqfs and (2.) family waqfs in the strict sense. In other words, family waqfs will refer to waqfs activated by bequests made to non-legal heirs who are, of course, relatives whose shares have not been expressly stipulated by Allah or who do not have ordained allowed shares and can be cut off from inheriting by the legal heirs. Legal heirs typically include parents, sons, mothers, siblings, and spouses. There are about 15 possible male categories and 11 female categories of legal heirs, depending on the family situation, deaths, and survivor stats. The non-legal heirs who are relatives are usually the maternal uncle and sister's sons, brother's daughter, etcetera. Family waqfs should essentially cover the latter group. General clauses in the will institute Waqf, that at the instance of death, wealth not exceeding one third should go to the non-legal heirs/relatives mentioned above if they do not normally qualify under legal heir survivors will be a requirement. This might include legal heirs who do not have prescribed shares and are cut off under legal heirs cum survivors (Saidu, 2019).

The waqf founders will have to fear Allah concerning their inheritance and wills because the Messenger (PBUH) was reported to have said; "A man may do the deeds of the people of goodness for seventy years, then when he makes his will, he is unjust in his will, so he ends (his life) with evil deeds and enters Hell. And a man may do the people of evil for seventy years; then he is just in his will, so he ends (his life) with good deeds and enters Paradise" (Majah, 2007). They should equally remember the statement of Allah in chapter 4, verses 13-14 of the glorious Quran, which reads; "These are the limits [set by] Allah, and whoever obeys Allah and His Messenger will be admitted by Him to gardens [in Paradise] under which rivers flow, abiding eternally therein; and that is the great attainment. And whoever disobeys Allah and His Messenger and transgresses His limits - He will put him into the Fire to abide eternally therein, and he will have a humiliating/disgraceful punishment/ torment'"

Policy Seven: Providing for Who Can Set Up and How to Invest Waqfs

The Nigerian waqfs could be established by any individual who so wishes. It will be intergenerational and perpetual and cash, stock, and real estate. The Islamic judges or the court reserves the right and permit any corpus for waqfs while acting within the Islamic Law. There will indeed be a place for the practice of *Istibdal* in the Nigerian waqf establishment. As hinted in chapter 2, section 2.4.6, the *Istibdal* is strict and will be apropos a matter of necessity with conditionalities. For a start, the permissible modes for real estate waqf investment would be Ijara, i.e., lease/rent, and of course modified ijaratyn, i.e., modified double lease with definitive or specified lease terms, stipulated reasonable payments were ensuring the non-dilution of waqf property rights (Cizakca, 1998). Also, *Mudarabah*, *Musharakah*, *Istisna*, *Salam*, classical *Hukr*, and Modern *Hukr* of flat-sharing (Cizakca, 2011) and hybrids of these investment forms would be acceptable modes of investment as cash and stock waqfs are concerned. Istibdal would also come in handy to reduce some of the problems associated with the real estate waqfs. The above-mentioned fact people have learned from history.

Policy Eight: Providing for how to Consummate Waqfs

A waqif could set up the Nigerian waqfs by making definitive and non-definitive unambiguous statements or carrying out activities indirectly signalling intention to set up waqfs from the property he or she owns and possesses. As stated earlier, the waqf contract would be written down, and registration would follow in the shari'ah courts for practical documentation purposes. It relatively makes setting up the religious institution easy and largely conforms with the classical waqf establishment practices whilst being practicable in a "modern" setting.

Policy Nine: Providing for legal Status, Salary of Waqf Manager, and How Waqf Will Operate

The waqfs in Nigeria will be run by their beneficiaries acting as *mutawallis* or designated *mutawallis* by the founders who register the waqfs in the Islamic court. As hinted earlier, they do not have to show their books to anyone and are primarily independent. There will be no oversight or supervision from the state authorities. As stated earlier, the oversight, monitoring, and supervision will come from the informed beneficiaries and the Mutawallis spiritual conscience and fear of sanctions from the authorities having a recourse to the law of the land if a case is instituted against them (i.e., the Mutawalli) in the *Shari'ah* court for non-performance or recklessness.

Thus, the waqf managers or the Mutawallis enjoy no separate legal entity. This fact prevents the recklessness of the *mutawallis* as this puts them on their toes. Above all, this reminds them that they would be held accountable ultimately in the world and the hereafter concerning the management of the waqfs. In light of this, there will be provisions or stipulations in the waqf law for the *waqif* to stipulate the choice of intergenerational *mutawalli* successors with conditions or to expressly empower the mutawallis for as long as the Waqf exists in a beneficial state to appoint successive mutawallis. The endower must fix the salary of the *Mutawalli*. Over time, the amount due to the *mutawalli* must be in tandem with the economic realities of the times calculable, e.g., by the implicit deflator or other relevant yardsticks.

There might be a need for a waqf commission to officiate waqfs who will have no designated managers in the future. The commission, primarily civil and non-governmental composition-wise, might also perform oversight functions.

Policy Ten: Provision for How to Spend Waqf Income

Suppose an established waqf generates more than is needed. In that case, the excess will be spent on a similar course initially stipulated by the founder of the (original) Waqf or the excesses spent on charity for the poor. Also, such excess(es) can be ploughed back to the Waqf as additions to capital or capital enhancement. Furthermore, the *mutawalli* may change (annual) disbursement modalities considering the widely known "ten" stipulations or conditions. This statement is in line with the *mutawallis* mandate to do all that is permitted to sustain the Waqf whilst at the same time fulfilling the waqf purposes. Relatedly, as a matter of policy, if the beneficiary stipulation of the founder is person-specific to the tune of a stipulated amount or benefit, any extras should be spent on similar courses and should not be withheld.

Policy Eleven: Provision for How to Ensure Good Conduct of Waqf Manager

Compulsory religious talks might need to be organised by the Islamic judge, or someone appointed/designated by him in the locality for the mutawallis at least once a month. The Mutawallis attendance is recorded. This might go a long way in maintaining the waqf system through a self-correcting/check mechanism that is mainly expensive and prevents the *mutawalli* from dubious characters and encourages them to perform their duties as expected.

Policy Twelve: Provision for How to Set up Waqfs in Nigeria from Abroad

As a matter of international cooperation, Muslims can set up waqfs in Nigeria from outside of the country if they wish. However, the laws of Waqf in the land prevail as the waqf property belongs to Allah immediately it is endowed and activated.

CONCLUDING REMARKS

By and large, having examined waqfs within the Islamic legal space and Nigeria, its meaning, its distinction with trusts, the state of charitable giving in Nigeria, appraised pertinent regulations as well as laws requisite for waqf functionality. The researcher deduced problems associated with waqf operability and proffered workable policies for its operation. Explicitly, it was found out that the main issues beseeching the Nigeria waqf space include: 1) the lack of explicit regulatory frameworks for waqf operations in the country, 2) the obscurity in court distribution where the high court has exclusive jurisdiction over all lands in the country stripping the shari'ah courts of original jurisdiction which poses a problem to other courts of competent jurisdiction where and when waqf cases are involved, 3) the problem of competency and educational qualification associated with the faith of High court judges when it comes to appreciating and judging a waqf case, and 4) the traditional corpus permanence feature of Waqf is eroded as all lands constitutionally belong to the Governor of a state who allocates statutory certificates of occupancy on a tenured basis.

There are also inadequacies relating to incorporated and unincorporated trust provisions as far as the functioning of classical waqfs is concerned, centring on 1) strict requirements to register and disclose to government agencies required salient operational information, 2) the non-qualification of such trusts as well as donations to them for tax exemption, 3) the extensive power of the state conferred on the Minister of finance to amend tax eligibility at will, 4) the restriction on investments on certain trusts if they are to qualify for tax exemption, and 5) vast differences between trusts and waqfs at least within the Nigerian context.

It was prescribed that if any waqf cases wherein both litigants are Muslims, they can opt for the shari'ah courts with Muslim judges such that the High Courts still maintain their jurisdiction over all lands in the country. This policy essentially delineates waqf issues from land simpliciter issues. On the grounds of appeal in ascertained waqf cases, a fully constituted bench of Muslim judges learned in the area of Islamic personal law of which Waqf falls would statutorily sit on such cases at all times. Where there are no shari'ah courts, the shari'ah panels in those parts will adjudicate in such instances. In the future, a relaxation of a section of the constitution might need to be done to allow for some more qualified *Khadis* to be appointed as justices in the Nigerian system, thereby further enhancing the institutionalisation of waqfs in the country. There is a need for an aggressive sensitisation campaign on waqfs in the country. A decisive policy prescription of introducing the cash waqfs and the modern waqfs of stocks was also made, which helped to essentially bypass the Governor's impediment of land tenure and absolute powers. It was conceived that the prospective *mutawallis* should only be required to inform the shari'ah courts or courts of similar standings like the Area courts operated by Islamic judges of intentions to establish a waqf, thereby protecting the traditional sanctity of the waqf institution.

The tax exemption was also advocated, where waqfs and associated businesses established wholly to support beneficiaries will be tax-exempt. Investment modalities were also prescribed, and it was prescribed that the Nigeria waqfs will be permanently written down, with a documentation process to follow in the shari'ah courts. Managerial modalities were also prescribed wherein *mutawallis* or beneficiaries in administrative capacities will enjoy no separate legal entity that prevents managers' recklessness and ensures intergenerational sanctity of the waqfs. Other establishment modalities, including income spending prescriptions and guidelines for international cooperation and continuity ensuring prescriptions, were also formulated. Non-Nigeria peculiar waqf policies adaptable to the Nigerian system were also prescribed. These include the *Hanafite* ten conditions stipulating the powers of the founder and the *mutawalli*, the supremacy of intentions in the establishment of waqfs, and the adoption of a waqf commission to cater for mainly waqfs not under the courts or which have no *mutawallis*, breaches of trust prescriptions etcetera.

Therefore, the policy briefs above serve as a prelude to the Nigeria waqf law (Saidu, Cizakca, & Wilson, 2021). They more or less should represent the would-be peculiar main features of the Nigerian waqf space. Highlighting the salient features in the proposed waqf bill and rendering the waqf law for Nigeria would be the concern of another paper and thus falls outside the purview of this paper.

The study is thus an attempt at concretising the operations as well as the institution of waqfs in Nigeria. Attention to this institution might be what the Nigerian state needs to float above the waters in the aqua of a macabre social-economic conundrum and malaise it finds itself, whether this is a truism, posterity will tell. We hope that the policymakers would avail the opportunity this article brings to the table to fulfil their electoral mandate to serve the people better and bring to fruition and realisation the quality of life to which each Nigerian aspires.

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Received: 05 August 2021; Revised: 18 September 2021; Accepted: 29 September 2021

MAPPING THE TREND OF ISLAMIC ECONOMIC STUDIES INDEXED IN *SINTA* WEBSITE: A BIBLIOMETRIC ANALYSIS[1]

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ABSTRACT - Research on Islamic economics experienced rapid development in recent years along with the development of Islamic economics as a branch of science throughout the world, especially in Muslim countries. This paper aims at mapping and observing the trend of Islamic economic studies listed on *SINTA*, the official Indonesian indexing website. The sampling data for this study is 114 published papers obtained from the website. The data are analyzed using quantitative descriptive with bibliometric analysis method. This study found that most papers are published by "Al-Iqtishad: Jurnal Ilmu Ekonomi Syariah", owned by Syarif Hidayatullah State Islamic University. The qualitative approach is most used by research samples in this study with 74 papers (64.91%), while the quantitative is only used by 40 papers (35.08%). It also found that Islamic economic research in Indonesia is dominated by Islamic bank topics with several general bank keywords, such as efficiency, profitability, liquidity, and Non-Performing Financing (NPF). This study suggested that further researchers conduct more studies on Islamic or Sharia values implemented within Islamic banks since it is the main difference between Islamic and conventional banks. Further studies can also observe broader problems like poverty and how the Islamic economy has overcome this issue.
Keywords: SINTA, bibliometric analysis, Islamic economic research

ABSTRAK – Pemetaan Tren Kajian Ekonomi Islam pada Pengindeks SINTA: Suatu Analisis Bibliometrik. *Penelitian di bidang ekonomi Islam mengalami perkembangan yang cukup signifikan beberapa tahun terakhir bersamaan dengan perkembangan ekonomi Islam sebagai salah satu cabang ilmu pengetahuan, terutama di negara-negara dengan mayoritas penduduknya adalah Muslim. Artikel ini bertujuan untuk melakukan pemetaan dan melihat tren publikasi pada artikel penelitian ekonomi Islam yang terindeks SINTA, website pengideks resmi Indonesia. Sebanyak 114 artikel diperoleh dari SINTA untuk dijadikan sebagai sampel penelitian. Metode yang digunakan adalah deskriptif kuantitatif dengan analisis bibliometrik. Penelitian ini menemukan bahwa mayoritas paper dipublikasikan oleh "Al-Iqtishad: Jurnal Ilmu Ekonomi Syariah" dari UIN Syarif Hidayatullah Jakarta. Pendekatan kualitatif digunakan oleh 74 sampel artikel (64.91%), sementara pendekatan kuantitatif digunakan oleh 40 artikel (35.08%). Studi ini juga menemukan bahwa artikel kajian ekonomi Islam di Indonesia masih didominasi oleh penelitian terkait bank syariah dengan beberapa kata kunci, diantaranya: efisiensi, profitabilitas, likuiditas, dan Non-Performing Financing (NPF). Penelitian ini merekomendasikan kepada para peneliti di bidang ekonomi Islam untuk melakukan kajian lebih mendalam pada nilai-nilai Syariah yang diimplementasikan di bank Syariah karena hal tersebut merupakan perbedaan mendasar antara bank Syariah dan bank konvensional. Isu lebih luas terkait kemiskinan dan bagaimana ekonomi Islam mengatasinya juga dapat diteliti secara lebih komprehensif dalam kerangka penelitian ekonomi Islam.*
Kata Kunci: *SINTA, analisis bibliometrik, penelitian ekonomi Islam*

[1] This article has been presented at the "4th Annual International Conference on Islamic Economics and Social Sciences (AICIELS)" held in Padang, Indonesia on November 30, 2021.

INTRODUCTION

Islamic economics has various definitions collected from neoclassical economics (starting from the 20th century). Mannan (1986) said that Islamic economics is a social science that studies the economic problems of a people imbued with the values of Islam. Islamic economics also examines *human falah* (well-being) achieved by organizing the resources of the earth on the basis of cooperation and participation (Khan, 2019). Meanwhile, Chapra (2001) stated that Islamic economics might be defined as that branch of knowledge that helps realize human well-being through allocating and distributing scarce resources that conform to Islamic teachings without unduly curbing individual freedom or creating continued macroeconomic and ecological imbalances.

The development of Islamic economics as a branch of science and the current economic system has received many positive responses at the global level. This development impacts the increasing number of learning centers and educational programs offered at various campuses to form human resources in the field of Islamic economics and develop ideas and thoughts about Islamic economics through the study and research in this area. Along with the increase in understanding and human resources, financial institutions that operate with Islamic principles began to emerge in the 1970s and continue to proliferate (Suryani, 2012).

Global attention related to Islamic economics has an impact on research in the field, which has experienced rapid development since the middle of the last decade. The rapid growth in this research raises challenges in understanding and determining the direction of Islamic economic research development, as well as identifying interconnected topics within. The academicians, as well as the practitioners, need to build clarity by conducting researches in order to confirm Islamic economics in the practical field; then, those researches need to be published in selected journals so society may understand its importance.

SINTA (Science and Technology Index) is an indexing website for journals initiated by the Director General of Strengthening Research and Development, Ministry of Research, Technology, and Higher Education of the Republic of Indonesia with the involvement of experts from various institutions. Its goal is to provide Indonesians with access to citations and expertise. Fast, quick, and comprehensive web-based research information system for assessing the performance of Indonesian researchers, institutions, and publications. SINTA provides benchmarking and analysis, as well as identification of each institution's research strength in order to form collaborative alliances, analyze research trends and maintain expert directories (www.sinta.ristekbrin.go.id). SINTA provides the rank of every indexed journal. The ranks range from SINTA 1 to SINTA 6; the highest level is SINTA 1, and the lowest is SINTA 6. A higher position means the journal has a higher reputation in the context of impact, index, and citations.

This paper aims to investigate the map and trend of Islamic economic research that has been published and indexed by SINTA. The importance of finding those patterns is to identify the identity of Islamic economics based on the research articles. Those patterns will be clustered based on author, title, and keywords. In order to achieve the purpose, this paper employs bibliometric analysis to find a general overview of the research field. Earlier researchers have employed bibliometric analysis in their studies (Mondal and Roy, 2018; Marlina et al., 2021; Agustina et al., 2021; Rusydiana, 2021; Aminy et al., 2021). Those researchers use bibliometric analysis to determine the map, trend, and research pattern on various topics. The remaining of this paper is structured as follows; section 2 discusses Literature Review, section 3 introduces Research Method, section 4 is the Results and Discussion, and the last section provides a conclusion.

LITERATURE REVIEW

Research in Islamic economics has many themes with macro and micro issues. Based on Ahmed (2010), Islamic banking and finance is the subject of academic interest in Islamic economic researches. Zaher and Hassan (2001) also stated that there is high growth in Islamic finance and banking study in Muslim countries worldwide. This growth is influenced by factors including the introduction of broad macroeconomic and structural reforms in financial systems, the liberalization of capital movements, privatization, the global integration of financial markets, and the introduction of innovative and new Islamic products. Biancone et al. (2020) also show that the literature on Islamic finance focuses on banking, rates, comparisons with traditional banks and portfolios, and analysis of governance and control structures.

In addition to the previous argument, studies on Islamic banking as one topic in Islamic economics generally focus on how Islamic banking institutions perform in their efforts to compete with conventional banking. Subaweh (2008) compared the performance of Islamic banks and conventional banks. This study found no significant difference between the performance of the two types of banking institutions. In addition, research related to what factors affect the performance of Islamic banks has also been in the spotlight, like studies conducted by Istan and Fahlevi (2020), Syofyan (2017), and Setyawati et al. (2017).

The conversion process of conventional banks into Islamic banks is an issue that needs to be studied further. Budiman (2021) and Hilman (2018) found that the change in the form of conventional banks to be Islamic banks is one of the efforts to boost and improve the performance of regional Islamic banks in Indonesia. This process was successfully done with an increase in Islamic bank performance (Fahdiansyah, 2021).

Research in the field of Islamic economics also takes the zakah topic as an issue to be observed (Ibrahim, 2011). Dantes (2012) tried to measure how far productive zakah can impact business progress for zakah recipients. The result indicated that productive zakah affects the increase of income, consumption, savings, investment, productivity, and employment. In other research, Kholid (2018) found that zakah impacts accelerating poverty reduction.

Research on zakah is also closely related to the topic of zakah management itself, both in the management institution and its management. This research related to the governance of zakah institutions cannot be separated from the discussion of how well the performance of the zakah management institutions themselves (Lubis et al., 2018). In addition, issues on zakah management and community contributions in managing zakah have also become one of the topics discussed, such as in research conducted by Izzuddin et al. (2021) and Aziz et al. (2018). These two studies agreed that localization and involving the community to make zakah management institutions more community-oriented is an opportunity to develop and advance their management. Discussions about zakah management cannot be separated from efforts to measure the extent to which zakah management performance. Research conducted by Lubis et al. (2018) and Al-Ayubi et al. (2018) tries to explore and study further the issue of zakah management performance. Furthermore, along with advances in technology in the field of finance (fintech), research in this field began to develop, as was done by Hudaefi et al. (2020), which shows that zakah management institutions in this era have also begun to adapt to financial technology in an effort to collect zakah funds.

The theme of waqf, including its obstacles, has also become one of the topics widely discussed by Islamic economics researchers (Ibrahim, 2014). According to Uluyol et al. (2021), waqf played a powerful Islamic social finance instrument throughout Islamic history. It is an instrument that the benefit of waqf is perpetual theoretically and immovable. Waqf provides cost-free services such as mosques, education services, and health services. However, Islamic scholars also advocate movable or productive waqf in order to fulfill human lives development and transformation through various methods, such as utilizing local economic instruments (Ibrahim & Ilyas, 2016), property waqf (Noipom & Hassama, 2017), educational sectors (Ibrahim et al., 2015), including cash waqf (Uluyol, 2021).

Cash waqf is the cash that has an underlying asset of the perpetual religious endowments (Uluyol, 2021). Aziz (2017) tried to examine how the role of waqf bodies in developing the prospect of cash waqf, while Abdullah (2017) and Rusydiana and Devi (2017) reviewed the governance of cash waqf. In another study, Al Arif (2012) found that cash waqf has an important role in poverty alleviation efforts in Indonesia. Furthermore, Hasan (2010) conducted research on cash waqf related to applying cash waqf as a means of religious investment, education, and social services.

METHODOLOGY

This study is a descriptive quantitative research with bibliometric analysis. Bibliometric analysis is helpful in most research for many purposes, including a general overview of a research field and researchers' analysis (Bjork et al., 2014).

The necessity of applying bibliometric analysis in this study is to picture the map and trend of Islamic economics research. It provides the academic interest in each area of Islamic economics study. According to Pritchard (1969), bibliometrics applies mathematical and statistical methods to books and other means of communication. Compared with the contemporary definition, Mulet-Forteza et al. (2019) stated that bibliometric analysis is the instrument for analyzing the evolution of disciplines based on intellectual, social, and conceptual structures and for identifying the leading trends. Bibliometric mapping is an important research topic in the bibliometric field (Borner et al., 2003). Two distinguishable bibliometric aspects are the construction of the bibliometric map and the graphical representation of the map. In the bibliometric literature, the most significant concern is in the construction of the bibliometric map (Rusydiana et al., 2021).

Two computer applications are used to help researchers conducting this study, namely Microsoft Excel and VOSviewer. Microsoft Excel is needed to gather and analyze all data from research samples, including research topics and articles' identities. VOSviewer can map papers and the authors. This application can be used to create maps of authors or journals based on co-citation data or maps of keywords based on co-occurrence data (Van Eck & Waltman, 2010).

This study uses a non-probability purposive sampling technique in selecting research samples. This technique is the deliberate choice of a participant due to the qualities the participant possesses. It is a non-random technique that does not require any underlying ideas or a predetermined quantity of participants. The researcher determines what information is needed and sets out to discover persons who can and will offer it based on their knowledge or experience (Etikan et al., 2016).

Papers obtained in this study should use English as the primary language in the articles and get cited at least one time by other articles. The cited articles were used as observed articles because the total of citations reflected the impact of cited articles on further research in the same field, which is the Islamic economic research area in this context. In addition, the journals in which the article was published are accredited on the SINTA indexing website, ranging from SINTA 1 (S1) to SINTA 3 (S3). The journals also need to have the words "ekonomi syariah" or "ekonomi Islam" as part of the title. All articles should also discuss topics or issues related to Islamic economics. The year of publication is ranging from 2014 to 2020. Articles' identities that should be extracted as the data in this study are article title, research topics, authors name, research method, number of citations, and name of publishing journals.

According to the criteria above, we selected 114 articles as research samples in this study. The number of articles and journals as the publishers can be seen in Table 1.

Table 1. Number of Articles in Various Journals

No.	Name of journal	Number of articles
1	Al-Iqtishad: Jurnal Ilmu Ekonomi Syariah	90
2	Equilibrium: Jurnal Ekonomi Syariah	3
3	Falah: Jurnal Ekonomi Syariah	4
4	Economica: Jurnal Ekonomi Islam	7
5	Iqtishoduna: Jurnal Ekonomi Islam	5
6	Maqdis: Jurnal Kajian Ekonomi Islam	5

Source: Processed data (2021)

RESULT AND DISCUSSION

Journals are the publishers of scientific articles resulting from the authors' thoughts and research. Journals in Indonesia are typically initiated by universities and considered scientific media for lecturers, academicians, and researchers to publish their research papers. Most of those journals have been accredited by the SINTA indexing website, a journal indexing program initiated by the Indonesian Ministry of Research, Technology, and Higher Education.

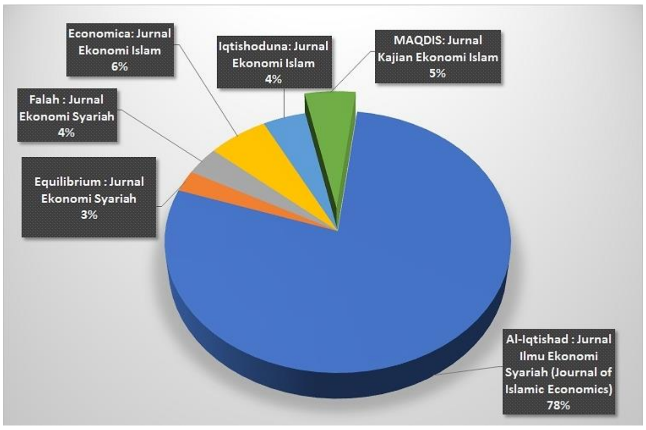

Figure 1. Contribution of Journals
Source: Processed data (2021)

The contribution of journals in this study is shown in Figure 1. The most contributing journal is a journal published by Syarif Hidayatullah State Islamic University, namely Al-Iqtishad: Jurnal Ilmu Ekonomi Syariah. This journal has been accredited by the SINTA indexing website with SINTA 2 (S2) rank. The percentage of its contribution to the study is 78%, followed by other journals. Regarding the year of publications, the number of articles produced is highly fluctuating. The highest number of articles was found in 2016 with 31 articles, while the lowest is 2014 with only three articles.

Table 2. Number of Articles Produced Based on Year of Publications

No.	Year of publication	Number of articles
1	2014	3
2	2015	19
3	2016	31
4	2017	12
5	2018	27
6	2019	18
7	2020	5

Source: Processed data (2021)

We categorized articles into two research methods generally applied by researchers: quantitative and qualitative. The research method used in this study is dominated by qualitative with a contribution percentage of 64.91%, while the quantitative only reached 35.08%.

Table 3. Total Articles Based on Research Method Category

No.	Research method	Total articles	Percentage
1	Quantitative	40	35.08%
2	Qualitative	74	64.91%

Source: Processed data (2021)

We also classified articles based on their research topics. Research topics are essential to be categorized and analyzed as Islamic economic research has vast issues and focus. Indonesia is one of the countries concerning Islamic economic research since most Indonesian people are Muslims, approximately 87.2% (227 million people). Various topics should be studied to cover all parts of Islamic economics so that Muslims are interested in interacting with the Islamic-regulated economic system and its products.

Islamic banking is the most discussed among the observed articles in this study. This research topic has been addressed in 50 articles, followed by Islamic capital market in 11 articles, zakah in 11 articles, Islamic financial institutions in 7 articles, and others. Details can be seen in Figure 2. The citation is a play of similarity and difference, identity and alterity, an interdiscursive calibration of a citing and a cited event, and self-reflexive (Nakassis, 2013). The number of citations from all research articles as the research samples in this study varies among journals.

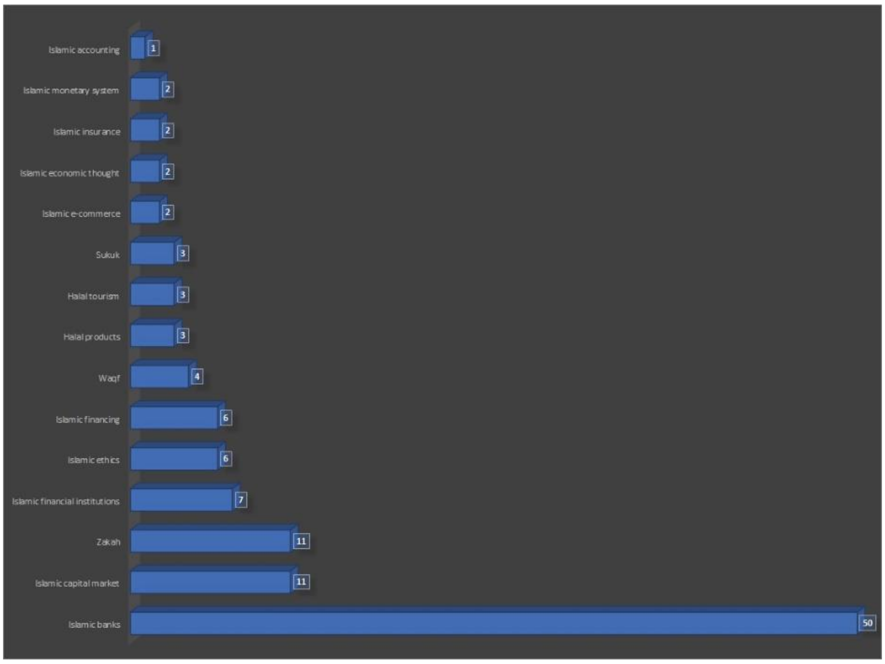

Figure 2. Distribution of Articles Based on Research Topics

Source: Processed data (2021)

According to Table 4, the most cited articles come from Al-Iqtishad: Jurnal Ilmu Ekonomi Syariah, which Syarif Hidayatullah State Islamic University publishes with a total of as many as 1,182 citations. Followed by Iqtishoduna: Jurnal Ekonomi Islam in the second position reached 79 citations, Economica: Jurnal Ekonomi Islam with 49 citations, Equilibrium: Jurnal Ekonomi Syariah with 36 citations, Maqdis: Jurnal Kajian Ekonomi Islam with 15 citations, and the last is Falah: Jurnal Ekonomi Syariah with 13 citations.

Table 4. Total Citations of Each Journal

No.	**Name of journal**	**Total citations**
1	Al-Iqtishad: Jurnal Ilmu Ekonomi Syariah	1,182
2	Iqtishoduna: Jurnal Ekonomi Islam	79
3	Economica: Jurnal Ekonomi Islam	49
4	Equilibrium: Jurnal Ekonomi Syariah	36
5	Maqdis: Jurnal Kajian Ekonomi Islam	15
6	Falah: Jurnal Ekonomi Syariah	13

Source: Processed data (2021)

We ranked articles based on their citations with the purpose of identifying the most cited publications among the observed articles. We found that the most cited one was written by Irfan Syauqi Beik (2015), entitled "Construction of CIBEST model as a measurement of poverty and welfare indices from an Islamic perspective," published by Al-Iqtishad: Jurnal Ilmu Ekonomi Syariah. This article got 68 citations at the time this study was conducted. It means that

Islamic economic researchers are highly interested in using the CIBEST model developed by Irfan Syauqi Beik and Laily Dwi Arsyianti for their current and further studies in the Islamic economic area, particularly to measure poverty and welfare based on an Islamic perspective. The five most cited articles can be seen in Table 5 below.

Table 5. The Most Cited Articles

No.	Article title	Author(s)	Total citations
1	Construction of the CIBEST model as a measurement of poverty and welfare indices from an Islamic perspective	Irfan Syauqi Beik, Laily Dwi Arsyianti	68
2	Ibnu Taimiyah and His Concept of Economy	Muhammad Hifdil Islam	65
3	Effects of service quality, customer trust, and customer religious commitment on customers satisfaction and loyalty of Islamic banks in East Java	Rachmad Hidayat, Sabarudin Akhmad, Machmud Machmud	60
4	Financial Ratio and Its Influence on Profitability in Islamic Banks	Erika Amelia	49
5	Islamic bank service quality and its impact on Indonesian customers' satisfaction and loyalty	Muniaty Aisyah	44

Source: Processed data (2021)

Furthermore, we used a word cloud to observe several words that appeared in all research samples. Word cloud is a visualization of words that come up within articles. It aids in determining whether a text is relevant to a specific information requirement. One of its flaws is that it just provides a statistical summary of isolated words, disregarding linguistic knowledge about the terms and their relationships. As a result, most systems employ word clouds to summarize the text in a static manner, with no or limited interactive features. (Heimerl et al., 2014).

The minimum of appearances for a single word used in this study is 1,000 times. The bigger the font size of the word, the more often the term appeared within articles. The most frequent term used in this study is “Islamic.” This word can refer to Islamic economics, Islamic banks, Islamic financial institutions, or others related to the Islamic economic ecosystem. The other word with the same meaning as the word Islamic is “Sharia,” but it does not appear to be more popular than “Islamic,” as shown in Figure 3.

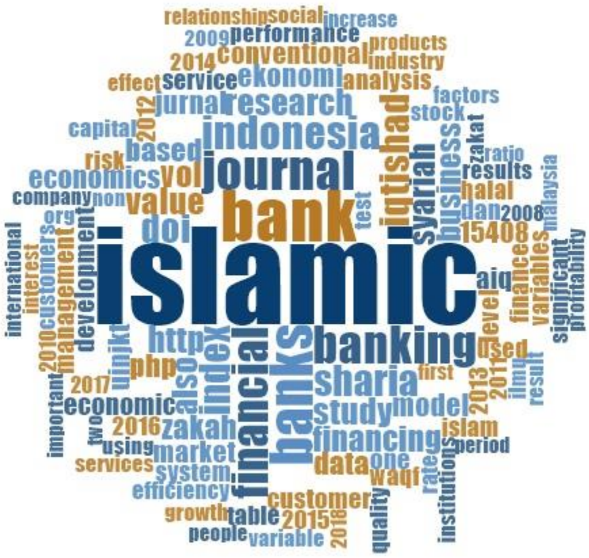

Figure 3. Word Cloud Visualization
Source: Processed data (2021)

Bibliometric Analysis

We used VOSviewer for bibliometric analysis purposes. We conducted a bibliometric analysis of researchers' co-authorship in order to find the pattern of collaborations among them. Several authors had connections with other writers. It means that these authors were collaborating with other researchers to produce articles, either becoming the first author or not. This connection can be visualized using VOSviewer computer applications.

We found that several authors like Irfan Syauqi Beik, Farhan Ahmed, Afzal, Bayu Taufiq Possumah, Nurul Huda, Ahmad Rodoni, Euis Amalia, and Sutan Emir Hidayat were collaborating in writing articles. The connections of their names with other authors' names proved it. We also observed keywords based on their co-occurrences within articles. This observation aims to identify the most discussed keywords within the observed articles; thus, we will understand the most discussed topic in the Islamic economic research field, particularly in SINTA-indexed research publications. We categorized 38 keywords into 7 clusters.

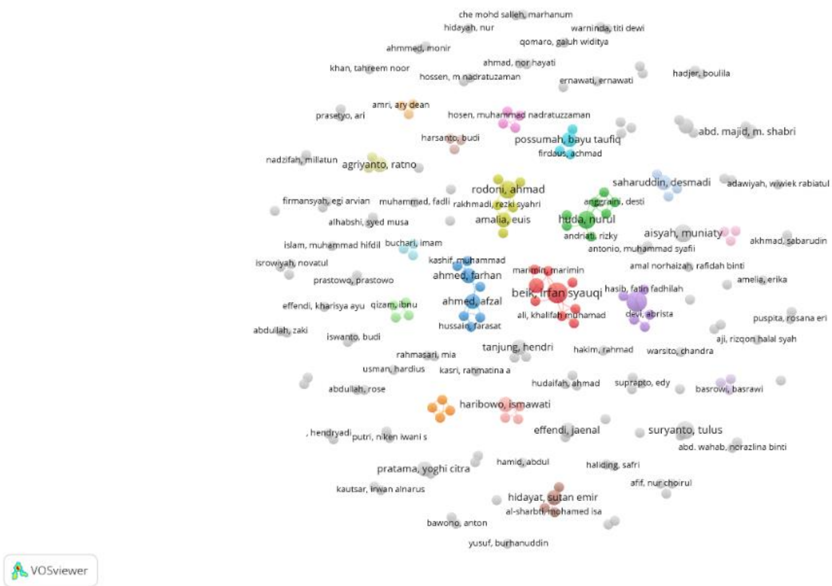

Figure 4. Network Visualization of Co-Authorship
Source: Processed data (2021)

These keywords come up in papers and have relations with other keywords within 1 cluster. The clusters we created using VOSviewer are as follows:

a) Cluster 1: *company, customer, customer loyalty, customer satisfaction, effect, service,* and *service quality*
b) Cluster 2: *development, growth, halal tourism, Indonesia, intention, Islamic financial institution,* and *waqf*
c) Cluster 3: *bank, efficiency, Islamic rural bank, profitability, sharia bank,* and *spin*
d) Cluster 4: a *conventional bank, financing, Islamic bank, liquidity risk,* and *NPF*
e) Cluster 5: *Jakarta Islamic index, performance, return, risk,* and *Sukuk*
f) Cluster 6: *domestic credit, Islamic banking, Malaysia,* and *Pakistan*
g) Cluster 7: *poverty, strategy, zakah,* and *zakah institution*

If we analyzed the discussion among keywords in each cluster, we could conclude that cluster 1 talked about the company, services, and customers, cluster 2 explained various Islamic economic ecosystems, clusters 3, 4, and 6 discussed conventional and Islamic banks and other keyword related to bank topic, cluster 5 talked about Islamic capital market, and cluster 7 explained zakah and its relation with poverty, as well as strategy to reduce poverty through the instrument of zakah.

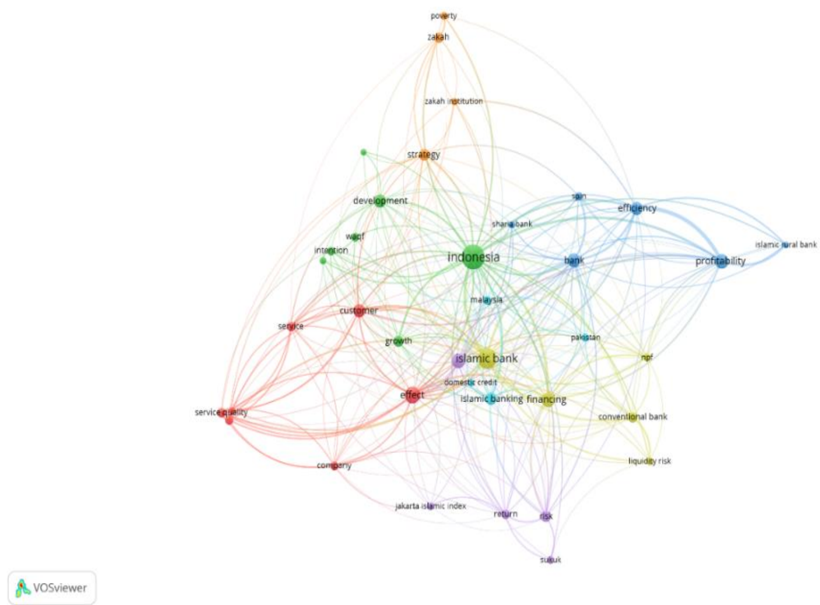

Figure 5. Network visualization of keywords
Source: Processed data (2021)

Several countries were mentioned in the articles, such as Indonesia, Malaysia, and Pakistan. Based on Figure 5, the word "Indonesia" has many networks and connections with other words, and it has a bigger dot than other words. It means that the word "Indonesia" appeared in almost all research samples. One of the reasons is researches are mainly conducted in Indonesia since most of the authors are Indonesian researchers and academicians.

Malaysia and Pakistan are two countries that appeared in publications. This indicates that researchers who have published papers in SINTA-indexed journals are interested in doing research in these two nations in addition to Indonesia, which is the most often mentioned country in the articles.

We found that research on Islamic economics in SINTA-indexed journals is mainly dominated by Islamic and conventional bank topics. Clusters 3, 4, and 6 confirmed this finding. The differences between both banking systems and products have been analyzed by Islamic economic academicians and researchers (Aminy & Sauqi, 2020). But it is not considered as part of the discussion in the observed papers. Several keywords related to the bank are quite general, such as efficiency, profitability, liquidity, and Non-Performing Financing (NPF). All of these keywords indicated that the authors were more interested in conducting research on bank financial performance instead of other perspectives, like bank services to their customers.

CONCLUSION

This study was conducted in order to benefit researchers in term of identifying the most cited article and the most discussed topic in Islamic economic field and to investigate the map and trend of current Islamic economic research articles, particularly those studies that are published in SINTA-indexed journals.

Islamic economic research in Indonesia is still dominated by Islamic bank topics. Several keywords related to bank financial performance indicators were applied to both banking systems, Islamic and conventional banks, which means that researches on Islamic bank are not different from researches on the conventional one.

Islamic economics is not only talking about Islamic banks. Poverty issues could be another primary concern by Islamic economic researchers since zakah, as a Muslim obligation mentioned in the *Qur'an* (Holy Book of Islam), can be one alternative instrument to reduce and alleviate poverty.

Cash waqf is an Islamic economic instrument developed with the purpose of gaining sustainable benefits without reducing the number of used funds (Meylianingrum et al., 2020). Cash waqf can also be studied to be another solution to overcome poverty issues and empower SMEs without violating Sharia or Islamic law.

This conclusion suggested that further researchers explore Islamic or Sharia values implemented within Islamic banks, which is the main difference between Islamic and conventional banking systems. In addition, we also expect further researchers to conduct more studies on the broader Islamic economic area since Islamic economics covers all parts of economic activities in human lives.

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Received: 07 May 2021; Revised: 08 September 2021; Accepted: 12 November 2021

THE RELEVANCE OF ISLAMIC ECONOMICS AND FINANCE FUNDAMENTALS TO THE CONTEMPORARY ECONOMY: ISLAMIC ECONOMISTS' PERCEPTIONS

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ABSTRACT - There have been some studies related to the fundamental values of Islamic economics and finance. However, not many studies directly examine the relevance of the fundamental values of Islamic economics and finance to the modern contemporary economy. This study intends to examine the perception of Islamic economists on the relevance of the fundamental values of Islamic economics and finance to the contemporary economy. This research was conducted with a qualitative design by conducting a structured survey and in-depth interviews with 61 participants. The data were analyzed descriptively. The findings show that the Islamic economists perceived that the Islamic economics and finance fundamental values are relevant to contemporary modern economic conditions. The values are also considered better for overcoming economic and financial problems, thus achieving Islamic goals of public prosperity. The results also reveal the need for more vigorous efforts in promoting Islamic economics and finance fundamental values.
Keywords: perceptions, fundamental values, Islamic economics, Islamic finance, modern economy

ABSTRAK – Relevansi Fondasi Ekonomi dan Keuangan Islam dengan Ekonomi Kontemporer: Persepsi Ekonom Islam*. Kajian-kajian terkait dengan nilai-nilai dasar ekonomi dan keuangan Islam telah banyak dijumpai dalam literatur. Namun, tidak banyak penelitian yang secara langsung mengkaji relevansi nilai-nilai fundamental ekonomi dan keuangan Islam dalam tataran ekonomi kontemporer. Oleh karena itu, penelitian ini bertujuan untuk mengkaji persepsi ekonom Islam terhadap relevansi aspek fundamental ekonomi dan keuangan Islam dalam terhadap ekonomi kontemporer. Penelitian ini dilakukan dengan pendekatan kualitatif dimana data-data didapat dengan cara survei terstruktur dan wawancara mendalam dengan 61 peserta. Analisis data dilakukan dengan metode deskriptif kualitatif. Hasil kajian menunjukkan bahwa para ekonom Islam menganggap bahwa nilai-nilai fundamental ekonomi dan keuangan Islam relevan dengan kondisi ekonomi kontemporer. Nilai-nilai tersebut juga dianggap lebih baik dalam mengatasi masalah ekonomi dan keuangan kontemporer, sehingga mencapai tujuan syariah untuk kesejahteraan umat. Hasil kajian juga mengungkapkan tentang pentingnya upaya yang lebih gencar dalam mempromosikan nilai-nilai fundamental ekonomi dan keuangan Islam.*
Kata Kunci: *Persepsi, Nilai Fundamental, Ekonomi Islam, Keuangan Islam, Ekonomi modern.*

INTRODUCTION

The Islamic financial system is rooted in Islamic values, and it is believed to emerge as a response to the needs of Muslims to carry out their daily economic and financial activities according to Islamic teachings. After being under the colonialism of Western countries for quite some time, many Muslims have become subjected to the Western secular system and have been influenced by the Capitalist-Materialist economic practice in their daily lives. Islamic thinkers believe that implementing a system of life based on Western secular values and a Capitalist-Materialist economy is unsuitable for Muslims and it is believed to be the barrier that lead Muslims to the essential goals of life as outlined in Islamic teachings. Therefore, the urge to revive Islamic teachings in various aspects of Muslim life, including the economy, is inevitable.

Many economists have criticized the failure of conventional economics to solve human economic problems. Criticisms of economic capitalism can be classified into several aspects (Tanjung, 2014). First, from a moral aspect, such as Van Barque (as in Tanjung, 2014) and Etzioni (1988). Second, from the system aspect, such as criticism of Ul Haq (1971), Stiglitz (2002), and Klein (2007). Third, from a cultural aspect, such as criticism of Fritjop (as in Chapra, 1999), and fourth, from a theoretical aspect, such as criticism of Tanjung (2014). At least a number of these criticisms indicate that there are problems faced by the economy of capitalism in solving the problems of the human economy. That is why some experts offer alternatives to the capitalist economy, one of which is offering an Islamic economic and financial system proposed by Chapra (2000).

The journey of economic development and Islamic finance has undergone a long period since it was echoed in the form of ideas in the 1940s to the 1960s eras. It was later implemented in the form of Islamic economic and financial practices in the 1970s until it developed as it is now. The growth and development of Islamic economics and finance, followed by the growth and development of Islamic economic and financial institutions, are indeed driven by the belief that there are fundamental differences between the Capitalist-Materialism economic system and the Islamic economic and financial system.

In the Islamic economics and finance perspective, several general principles are applied in financial systems and institutions to ensure compliance with Islamic sharia (shari'ah compliant) as well as differentiate Islamic finance from conventional finance. Islamic finance principles are not only ethical but also rational. These principles exist to achieve the objectives of Islamic finance, which not only ensure that financial instruments are permitted according to sharia but also as a form of social responsibility and participate directly in the process of economic growth and development (Hock & Wang, 2008).

Islamic economic and financial goals are supported by morality (ethics) as its fundamental value. Islamic economics and finance are encouraged to be based on Islamic teachings to advance the economy (Kamri, Ramlan & Ibrahim, 2014). Morality and economy are complementary and inseparable (Furqani, Adnan, & Mulyany, 2020). Each Muslim must carry out economic activities in accordance with Islamic teachings. Islamic morality becomes the main guideline for economic actors as a guide in determining economic activities to be carried out. In Islam, the purpose of life is seeking the pleasure of God. It must underlie (inspire and direct) consistency between the intention to seek the pleasure of God and ways to achieve economic goals (Ali & Al-Owaihan, 2008). Islamic morality is then compiled and implemented into Islamic economic and financial values and Islamic economic and financial principles as guidance for Muslims to live their economic and financial activities.

Previous research discussing the relevance of Islamic economics and finance fundamentals to modern economic and financial activities is still limited. This study focuses on examining the specific Islamic fundamental principles that form the operational basis of the contemporary Islamic financial system. This discussion is essential to do at this time because Islamic economics and finance have entered a reasonably long age since the idea was initiated. If calculated from the time the idea of reviving the Islamic economy and finance began to roll out in 2020, it is already more than 70 years old. Therefore, the grounding of the fundamental characteristics of Islamic economics and finance through tracing the perspectives of Indonesian Islamic economics and finance experts is necessary. This research explores the views of Indonesian Islamic economics and finance experts in the North Sumatra region regarding their understanding of the urgency of applying Islamic economic and financial fundamentals in the context of contemporary economics and finance.

LITERATURE REVIEW

The Islamic economic and financial system can be summarized into a system that seeks to ensure the optimal formulation of economic and capital resources and their efficient use in order to achieve sustainable economic growth and fair opportunities for all parties. The fundamental values of Islamic economics and finance emphasize the attainment of spiritual, material, and social well-being simultaneously, both individually and collectively (Ahmad, 1994; Siddiqi, 2006; Khan & Bhatti, 2008; Furqani, 2012). This situation illustrates that the mission of Islamic economics and finance is in line with the mission of maqashid sharia, which is to create benefits for humanity in the economic and financial sectors (Laldin & Furqani, 2013).

Studies on Islamic economics and finance have been carried out from a number of perspectives, including Abbasi, Hollman, and Murrey Jr (1989) and Mahomedy (2013). They generally explained that Islamic economics and finance are the implementations of norms, ethics, and principles extracted from Islamic teachings to overcome problems faced in the economic and financial sectors (Ibrahim et al., 2021). Islamic economics and finance are seen as viable alternatives to the community for the realities of the economic and financial crises that have hit the global economy (Mastrosimone, 2013; Ahmed, 2010).

Islamic economics and finance are re-emerged in contemporary global society as part of an effort to restore the way of Muslim life who, after a while, have followed a secular perspective in economic life and financial activities. In the span of the life history of Muslims, for a long time, Muslims lived during the Western colonial period. Along with that, the Muslim community experienced a shift to following the Western way of life, including using interest-based financial services and speculative practices indicated by gharar and maysir, which should be forbidden and avoided (Siddiqi, 2006). The re-existence of Islamic economics and finance in the modern era is part of the Islamic revivalist movement that requests Muslims to return to Islamic teachings. The Islamic revivalist movement was driven by internal factors, including the way of life of Muslims who followed the secular way of life as well as external factors, especially the factors of the Western colonialists (Saeed, 2000; Kuran, 1986).

Regarding Islamic economic and financial fundamentals, some literature suggests many perspectives that make Islamic economics and finance different from the Capitalist-Materialism economic system. Iqbal (2005) mentioned six principles that underlie the financial system that meets the criteria of sharia, namely prohibiting interest, sharing risk, money as potential capital, prohibiting speculative behavior, the sanctity of contract, and activities in areas approved by sharia law. Ayub (2007) mentioned nine fundamentals of Islamic finance, namely avoiding usury, avoiding *gharar*, avoiding gambling and chance games (speculation), alternative financial principles, legal acquisition of investment, right to benefit related to risk and responsibility, financial institutions sharia does business with goods, not with money, transparency and documentation, additional risks faced by Islamic financial institutions. Abdullah and Chee (2010) mentioned five fundamental principles of Islamic finance: belief in divine guidance, no interest, no illicit investment, recommended risk sharing, and financing based on real assets. El-Ghamal (2002) stated that the essence of the existence of the Islamic financial industry is the urge to avoid usury and *gharar* in every economic transaction.

Based on the literature studies above, there are at least eight basic principles put forward by experts in Islamic economics and finance, which are evidence of the uniqueness of the Islamic financial system, namely Faith in Divine guidance (faith-based finance), Prohibition of *Riba*, Prohibition of Speculative Behavior, Trade Recommendations and Profit and Risk Sharing in Business, Money as "potential" capital, financing based on real assets, the sanctity of contract, Operations on activities approved by Islamic Sharia Law. These eight basic principles of Islamic finance form the basis for the Islamic financial system to offer a comprehensive financial plan. They are believed to provide complete solutions to the economic and financial problems of the people.

However, studies on the relevance of Islamic economic and financial fundamentals to the modern contemporary economy from the perspective of Islamic economists are still not widely carried out. Therefore, this more empirical research is one of the interesting studies to understand how the basic principles of Islamic economics and finance are perceived by Islamic economists, especially concerning the relevance of the basic principles of Islamic economics and finance to modern economic conditions today.

METHODOLOGY

This study used a qualitative research method by conducting a structured survey and in-depth interviews with Islamic economists. They were identified as Lecturers specializing in Islamic Economics and members of the Association of Islamic Economists of the North Sumatra region. A number of 61 economists participated as respondents for this study. Qualitative research was conducted to understand the perceptions of research subjects regarding the relevance of Islamic economic and financial fundamentals in the modern era. In the last stage, the data were analyzed descriptively.

RESULTS AND DISCUSSIONS

The fundamental values of Islamic economics and finance must be the principles that strengthen the structure or framework of Islamic economics and finance, which is reflected in the characteristics and principles of Islamic economics and finance. According to Akhtar (2008), Islamic finance characteristics include recognition of ownership rights supported by the elaboration of stakeholder obligations, principles and rules of action, a contract system and institutional framework, and regulatory enforcement procedures that simultaneously form the foundation of sharia financial business and architecture. Islam's ideological substance and legal framework are guided by the commandments and principles of sharia, which have been translated into defining public and private economies and social affairs that will support to shape of business and financial relationships. The essence of this relationship is supported by solid contract principles and the parties' rights and obligations in contract preparation. The main drivers of the enforcement of contracts and the rule of law in accordance with the Islamic system are ideology and faith influenced by the Islamic emphasis on establishing a socio-economic system that is fair, ethical, equitable, and just. This feature is what shapes Islamic finance and differentiates it from conventional finance.

Financial institutions with sharia-compliant as the intermediate institutions have the same model, duties, and functions as conventional financial institutions where they are also institutions that seek to maximize profits and offer traditional financial services with their uniqueness that distinguishes them from conventional finance (Silva, 2006; Imam & Kpodar, 2010). Islamic finance requires that every transaction have to meet the criteria of sharia and strive to achieve economic prosperity and social justice based on Islamic beliefs. Islamic finance proposes an alternative financial system governed by sharia principles derived from laws based on the Koran and its practices and explanations of the Sunnah of the prophet Muhammad. Scholars developed subsequent elaboration of sharia laws in Islamic law within the framework of the Quran and Sunnah in the form of ijtihad.

There are several general principles of sharia that are applied in finance to ensure compliance with sharia (shari'ah compliant) and differentiate Islamic finance from conventional finance. The following Islamic finance principles are not only ethical but also rational. These principles exist to achieve the objectives of Islamic finance, which not only ensure that financial instruments are permitted according to sharia but also as a form of social responsibility and participate directly in the process of economic growth and development (Kahf & Khan, 1992).

Based on the formulations set by Islamic economics and finance experts, the researcher proposed eight fundamental principles of Islamic economics and finance be consulted on the relevance of Islamic economic and financial fundamentals to a modern economy and current needs. The researcher collected the respondents' answers based on the questionnaire, as summarized in Table 1.

Table 1. Perspectives of Indonesian Islamic Economists

Questions	Agree	Disagree
It is crucial to link modern economics and finance with Islamic ethics and values.	61	0
Contemporary economics and finance should perform in line with Islamic Sharia Law.	53	8
Prohibition of interest (usury) is positive for creating better modern economics and finance	61	0
Prohibition of speculative behavior is positive for creating better modern economics and finance	61	0
Contemporary economics and finance need to Promote Trade and Profit and Risk Sharing in Business	61	0
Treat money as capital "potential" is a positive thing applied in contemporary economics and finance	59	2
Contemporary economics and finance need to apply financing that is only based on real assets/sectors	58	3
Contemporary economics and finance need to position the contract as an important aspect of every transaction	56	5

Based on the answers submitted by respondents who are academics and practitioners of Islamic economics and finance who are members of the Association of Islamic Economists in North Sumatra, the researchers conducted an in-depth study through interviews to understand the reasons behind their answers. Based on the interview results, the researcher found the reasons behind the respondents' answers as follows:

a. *It is crucial to link modern economics and finance with Islamic ethics and values*

The answer table shows that of the 61 respondents who gave answers to all respondents, 100% answered agree. The researcher then examines the reasons behind the respondents' agreement on the question point that linking contemporary economics and finance with ethics and religious values is important. *First*, a number of respondents stated that, basically, the economy and finance as a system are not value-free. Linking contemporary economics and finance with Islamic religious values is an attempt to differentiate between economic and financial practices based on the importance of capitalism and socialism. *Second*, several respondents stated that Islam has complete teaching characteristics, including teachings in the economic and financial sectors.

Third, some respondents stated that contemporary economic and financial realities had shown the problem of economic inequality that leads to injustice. Economic capitalism places too much emphasis on the economy on individual rights, which causes control of assets and economic and financial results to be concentrated in the hands of a group of wealthy individuals, companies, and countries. The problem of unequal distribution of wealth arises. As for the economic system of socialism focuses too much on the distribution of wealth evenly to all elements of society but ignores individual rights to achieve and have individual rights. It is hoped that contemporary economics and finance will be more balanced and fair from both individual and social perspectives, linking modern economics and finance with Islamic religious values.

Fourth, contemporary economics and finance are believed to lead economic actors to achieve genuine and comprehensive economic goals. The economic and financial orientation based on the values of capitalism and socialism is solely a material good. Values like this are believed to lead economic actors to become humans who will prioritize the material aspects but ignore the moral and spiritual aspects. The inclusion of Islamic values will balance the attainment of economic goals not only for material interests but also taking into account other interests such as social and spiritual interests. The prosperity that will be realized armed with Islamic values is material and spiritual, means in the world and the hereafter.

Fifth, linking contemporary economics and finance with Islamic religious values will make contemporary economics and finance more ethical. The values of honesty, transparency, responsibility, and other ethical values will turn modern economic and financial practices into more ethical approaches to achieve broader benefits. These efforts will prevent contemporary economics and finance from fraudulent actions and behavior that harm many parties. *Sixth*, the ideological reasons for Muslims are the belief that all aspects of life, including the economic sector, are regulated in Islamic teachings. In their individual and social lives, Muslims are always required to practice Islamic teachings.

The philosophy of sharia finance comes from the belief that Islamic sharia governs all aspects of Islamic community life in economic, political, social, and cultural elements, banking, business, and law. In the conventional financial system, religion and government are separated and independent. Conventional finance is based on man-made laws, while religion must not interfere with economic decision-making. This system is to uphold religious freedom and secularity in government. The government is not influenced by any particular religion. This is the main difference with Islamic finance, which is based on divine guidance and rejects the secular concept—accepting Islam as a religion means agreeing to implement Islamic rules (sharia) in private and public matters (Iqbal & Mirakhor, 2007). Ideology and faith are the main things that must be upheld in various contracts and rules in accordance with the Islamic system. This is influenced by the emphasis of Islam on upholding a just socio-economic system. This is one of the main differentiators of the Islamic financial system from conventional finance (Khan, 1996)

b. Contemporary economics and finance should perform in line with Islamic Sharia Law

The answer table shows that of the 61 respondents who gave answers, the majority of respondents, as many as 53 people, answered agreed, and only eight people answered disagree. Based on the interviews with respondents who answered agree, there were some reasons. *First*, respondents believe that something is permissible by Islamic sharia law because it benefits humans. Likewise, on the contrary, something is prohibited by Islamic sharia law because it contains danger to humans. Therefore, in the economic and financial aspects, Islamic sharia adheres to the rule that everything is permissible (*mubah*) unless arguments show its prohibition. Respondents believe that contemporary economics and finance will avoid the various dangers that may arise in the economic sector if they limit themselves to only operating in activities approved by Islamic sharia law.

Second, the ideological demands that contemporary economic and financial practices are limited only by regulation and material profit motives. As in Islam, economic and financial practices are limited by regulations, profit and loss studies from a financial perspective, but are also required to avoid objects prohibited from being transacted, such as pigs, *khamar*, blood, and carcasses. It is also required to avoid prohibited methods in transactions such as committing fraud, fraud, interest in money, price manipulation, and other prohibited behavior.

Third, the halal industry market is a business opportunity that is currently very open globally. Many of the world's economic and business players currently participate in business in the halal industry sector, including halal products and services in the food, medicine, cosmetics, fashion, Muslim-friendly tourism, media, and recreation sectors. The global Muslim population of 1.8 billion people has boosted the world's halal industry market with a potential of up to US$2.3 trillion. Restrictions on activities and following the approval of Islamic sharia law will enable contemporary economic and financial actors to meet the potential needs of the Muslim population, which range from US$2.3 trillion.

Fourth, restrictions on activities approved by Islamic Sharia Law will encourage the creativity of business actors to develop various products and services and instruments in the halal economic and financial sector. Respondents believed that the restrictions would encourage new, more ethical innovations in the economic and financial sectors.

Investors in Islamic financial institutions pursue maintaining capital and markets related to their investment returns. These goals are the same as those of investors in conventional financial institutions. Muslim investors also want the assurance that the income they receive from their investment is only obtained from businesses compliant with sharia. The risk and return parameters can be evaluated based on the financial analysis of the credit rating agency issuing the investment instruments. Meanwhile, the evaluation of its sharia compliance is also carried out by the authority of the sharia supervisory board (Zaidi, 2008).

Islamic financial institutions are committed to contributing to economic and social development as well as generating rational economic income while operating in accordance with sharia. The Islamic financial system focuses on helping members of society who need usury-free financing, which in turn realizes social justice and more equitable income distribution. The Islamic financial system promotes a healthy and stable monetary system and protects the financial system from potential risks from financial stress caused by excess demand and speculative fiscal activity (Ahmed, 2010).

Akhtar (2008) insisted that Islamic finance specializes in broad projects and development projects. Islamic finance is not justified in investing in prohibited or socially prohibited investments. Emphasis on ethical issues and strict self-regulation in the context of sharia surveillance is to ensure fairness, fairness and offer a more robust consumer protection model. Islamic finance encourages financial discipline and establishes ethical standards that must be adhered to for all stakeholders, offering a solid and unique governance model. In more general language, this point emphasizes that Islamic finance can only involve oneself in projects that are justified by sharia and, at the same time, can function to realize economic justice and provide protection to consumers who use Islamic financial services.

c. *Prohibition of interest (usury) is positive for creating better modern economics and finance*

The answer table shows that of the 61 respondents who provided the answers, they all agreed with the statement. Based on the interviews with respondents who all (100%) answered agreed, there were several reasons. *First*, most respondents stated that interest in money was an act that is prohibited in Islamic law, both based on the Koran and the Sunnah of the Prophet. Even the prohibition of interest in money is not only the domination of Islamic teachings but is also prohibited by all religions. According to most respondents, this is clear that the practice of earning money in various modern economic and financial activities is not permitted. Respondents believe that the practice of earning money is the same as *riba* because of the similarity of the legal *illat*, namely the presence of an additional element in the payable transaction.

Second, a number of respondents stated that usury is a form of fraud that can lead to tyranny and exploitation by one party against the other and tends to cause harm and loss to the debtor. The prohibition of usury will impact efforts to save people who are down because of debt needs and limit the tyrannical behavior of those who seek profit from borrowing money from those in need.

Third, some respondents stated that prohibiting usury would bring economic and financial practices closer to achieving the goal of upholding justice. The prohibition of interest in money will encourage productive money, which requires profit-taking by the owner of the funds to flow only to the commercial sector. On the other hand, those who intend to spend money for social motives without demands for profit can take lending and borrowing transactions that are channeled to parties in need. This concept will ensure that the use of money must be clear, whether it is for commercial motives aimed at seeking profit or for social motives aimed at helping those in need without demanding benefits.

Fourth, some respondents stated that the prohibition of usury would encourage the flow of money to be used in the real sector. In Islam, the use of usury in commercial transactions is recommended to replace other transactions requiring an underlying transaction (the real sector that underlies the transaction). The real sector underlies every legitimate transaction as a substitute for usury, among others, through exchanging money for goods, services, and work or certain projects. This situation will certainly further encourage the use of money to flow into the real sector economy.

Besides being based on religious arguments, the prohibition of usury is also based on reasons of social justice, equality, and property rights. One of the important teachings in Islam is upholding justice and eliminating exploitation in business transactions (Chapra, 2005). The prohibition of usury is central to the ethics and law of Islamic finance in carrying out this mission (Kahf, 2006). The economic mission of eliminating usury is an Islamic distributive strategy for alleviating poverty. The elimination of usury on loans is an act of healing, and the elimination of *fadl* usury is a preventive measure in the Islamic strategy of distributing wealth more equitably (Tag el-Din, 2007).

In the global financial system, the prohibition of *riba* is the entrance (*raison d'etre*) to Islamic finance (Ahmad, 1994). The interest-based financial system that has been adopted by many Muslim countries from capitalist countries is one of the concentrated sources of wealth and power. Choudury

(2007) emphasized that usury is forbidden because it causes unfair prices, property ownership, and poverty. Chapra (2005) also emphasized that usury is the main source of unjust profit-taking. Ayub (2007) stressed that one of the reasons behind the prohibition of interest is the effort to uphold socio-economic justice and distributive justice. The prohibition is intended to prevent the accumulation of wealth in the hands of a few people, both institutions and individuals. Other writers such as Kahf (2006), Karsten (1982), and Zaman and Zaman (2001) had also mentioned the vices of an interest-based system. In modern literature, the use of the words usury and interest are often used interchangeably. This is because usury and interest are often considered the same. Interest is the price paid for borrowing and borrowing money. In financial transactions, *riba* that occurs at interest is generally categorized as *riba nasi'ah* because addition is promised in advance in a loan or debt solely due to the time element.

d. *Prohibition of speculative behavior is positive for creating better modern economics and finance*

The answer table shows that of the 61 respondents who gave answers, all respondents answered agree. Based on the results of interviews with respondents who all (100%) answered agreed, there were a number of reasons. *First*, a number of respondents stated that speculative behavior in the economic and financial sectors brings dangers and losses, including damaging market conditions and fostering market manipulation practices.

Second, a number of respondents stated that speculative behavior has the potential to become a source of conflict because one party's gain comes from the other's loss. *Third*, some respondents stated that speculative behavior could cause bubbles in the economic sector. Economic bubbles caused by speculative behavior generally occur in trading transactions in large volumes at very different prices from their intrinsic value. Economic bubbles appear because transactions take place for a particular commodity with a relatively high price, even though it is not followed by the true fundamentals so that in normal conditions, the price will experience a sharp decline back to its normal value.

Fourth, a number of respondents stated that the rampant speculative behavior would cause funds to flow not to the real business sector but to the financial sector, which leads to practices such as gambling. This condition will cause businesses in the real sector and the productive economic sector to be less developed because money will flow to the gambling sector, which is considered to be more profitable even though the risks that must be borne are also very large.

Islam prohibits all forms of lottery games and gambling. Speculation in Islam is often identified with the terms *gharar* and *maysir*/*qimar*. *Gharar* literally means fraud and risk. The words *maysir* and *qimar* literally mean gambling. Fraud, lottery games, and gambling are prohibited because they cause hostility and hatred and involve the vanity consumption of property and some form of oppression (Ayub, 2007; Obaidullah, 1999). The Islamic financial system rejects various forms of speculation, such as hoarding and prohibiting transactions that contain uncertainty, gambling, and very high risk. Islam does not want *gharar*, namely ambiguity in business agreements in terms of quality, quantity, delivery time, or price, resulting in losses due to this uncertainty. Likewise, the practice of gambling (*maysir*) is prohibited as a form of unfairness in taking other people's property, and in general, it has similarities with usury. Gambling sometimes refers to betting on something that will happen in the future, which is prohibited. There is no reward that accrues from the expenditure of assets that individuals may generate through gambling.

Under this prohibition, every contract must be free from ambiguity, risk, and speculation. Transacting parties must equally have perfect knowledge of the value that is the object of exchange in their business. The parties also cannot determine profits in advance. This is based on the principle of "uncertain results." The rationale behind this prohibition is the protection of the weak from exploitation. However, this does not mean that all contracts whose results are unknown in the future are prohibited (Ahmad, 1994). A number of exceptions to the *gharar* principle, such as buying and selling of *mu'ajjal*, buying and selling of greetings, and *ijarah* indicate that small *gharar* (*yasir*) is unavoidable and does not affect the legality of a business transaction is justified. However, some legal criteria must be met in the contract to minimize risks.

e. *Contemporary economics and finance need to Promote Trade and Profit and Risk Sharing in Business*

The answer table shows that of the 61 respondents who gave answers, all respondents answered agree. Based on the results of interviews with respondents who all (100%) answered agreed, there were a number of reasons. *First*, providing a variety of alternatives in an effort to eliminate the money-interest behavior. Profits are something that can be obtained through legal means, namely through buying and selling transactions, leasing, and business cooperation projects. Respondents believe that linking various contemporary economic and financial activities with trade-based transactions and sharing results is an alternative that can keep economic and financial actors away from money-lending behavior. There is no reason to say that interest-free transactions cannot be carried out because there are still other alternatives that can be used, namely replacing the money-interest system with buying and selling transactions which require the availability of productive goods, or replacing the interest system with profit-sharing transactions that require capital participation or inclusion of work skills.

Second, is the medium of enforcing justice for economic actors. Respondents believed that the interest of money was a way of obtaining an unfair advantage because the owner of the capital had the right to benefit by ensuring that the use of funds would always generate profits in the future. Even though the use of funds in the future is something that cannot be ascertained, it could experience a profit or it could experience a loss. Therefore, replacing the interest system with the sale and purchase-based transactions and sharing results will be an entry point to a transaction that is more representative of the realization of a sense of justice among the transacting parties. The meaning of the profit obtained by the asset owner is indeed based on the contribution of ownership of the asset in the sale and purchase transaction and on the contribution of capital and work shares in the profit-sharing cooperation-based transaction.

Third, efforts to increase awareness of the law of balance in the business and investment sectors, namely that there is also a high risk of loss behind the potential for high-profit levels. Conversely, behind the potential for a low loss level is also a low risk of loss. This is important to develop as a form of education for the public. Many people expect huge profits immediately without considering the risks involved in the enormous profits promised. As a result, many people are deceived by lucrative offers because of the significant benefits without being followed by an awareness of the big risks involved. Relying on interest in money does carry a small risk because the borrower fully bears the consequences of using money both for and for losses. However, this website breaks the relationship between the owner of the fund and the user of the fund. Through the promotion of buying and selling transactions and profit-sharing cooperation, the owner of the funds will understand the risks inherent from the profit opportunities that will be obtained from the transaction process based on the sale and purchase agreement and the result-sharing cooperation.

Fourth, efforts to promote a productive and real sector-oriented economy. The interest in money starts from the paradigm of making money a tradable commodity as well as goods and services. Dwelling on the interest of money will cause money to circulate in the financial sector through various instruments based on the use of money. This condition has led to a separation between the financial and real sectors. In fact, the financial sector can stand alone without being supported by the real sector with assets that are many times that of the real sector. The mechanism of avoiding interest and making transactions based on the sale and purchase of goods and services as well as profit-sharing business cooperation will certainly encourage money to flow not only to financial instruments but also to flow profusely to the productive sector of goods and services.

Fifth, promoting a fair economy, economic actors are encouraged to carry out the economic and financial sectors that balance the benefits of obtaining benefits while considering existing risks. Having an economy and doing business fairly, it is important to develop it so that people can understand the business cycle for what it is. There will be no manipulation effort that will encourage the public to commit fraudulent acts to make unfair profits. Through buying and selling transactions and sharing the results, the community will be motivated to carry out actual business activities by providing goods and services proportional to the profits obtained.

The concept of trading and sharing risks arises because of the prohibition of usury. Islamic finance has a philosophy of sharing risks and advancing social and economic welfare. Islam places the philosophy of realizing the benefit as the company's highest goal above the maximization of profits. The risk-sharing philosophy considers that a predetermined and fixed interest rate is the same as exploitation of the borrower (Warde, 2000). *Riba* is a prohibited income in Islam because investors simply distribute cash or capital to get returns in the form of cash or something that can be converted into cash without any risk borne by the owner of the money (Ayub, 2007).

Islamic finance places great emphasis on contracts for trade in goods and services and encourages profit and loss sharing as a substitute for interest instruments. The prohibition of interest does not mean that Islam prohibits a certain level of return from capital because Islam advocates making profits and sharing profits. Profits are made after the effort is made to symbolize entrepreneur success and additional wealth creation (Iqbal, 2005; Al-Jarhi, 1999). Islam recommends that fund owners act as investors rather than as creditors. Fund providers and entrepreneurs share business risks and benefits (profit and loss sharing) through various kinds of cooperation contracts such as *mudarabah* and *musharakah* (Jobst, 2007). For some sectors where profit-sharing-based financing cannot be applied or is deemed impossible to do, it is possible that several other instruments can be used for financing purposes, such as *murabaha*, *ijarah*, *salam* or *istisna'* (Usmani, 2005). In more general language, this point confirms that Islam strongly advocates the use of trade-based transactions and sharing results, which are the root of business activity in the real sector. Islam recommends that people avoid businesses that use an interest system or debt trading that will lead to a usurious financial system.

f. *Treat money as capital "potential" is a positive thing applied in contemporary economics and finance*

The answer table shows that of the 61 respondents who gave answers, the majority of respondents, as many as 59 people, answered agree, and only two answered disagree. Based on the results of interviews with respondents, most of whom answered agreed, there were a number of reasons.

First, money must be exchanged for productive goods or services in order to obtain a profit. One should not get profits solely because of added time. Therefore, money will only be treated as usable capital after it is used productively with goods and services. In conventional economic theory, it is known as the time value of money, where money in the future is considered to be lower in value than money in the present. Therefore, interest is seen as a price that should be paid as a gain in a money lending and borrowing transaction. This view is certainly different from the Islamic view, which sees that its value may not necessarily decrease or increase in economic activity in the future. The money involved in various economic and business transactions may experience less probability of losing business conditions or experiencing an increase in profitable business conditions. Therefore, in Islam, money is justified in obtaining profit when transacted in combination with goods, services, and cooperation. Suppose money takes advantage solely of increased time in lending and borrowing transactions, including usury prohibited in Islam. Therefore, if money is exchanged with a counterpart in the productive sector in the form of goods, services, and cooperation, the benefits obtained are something that is permissible.

Second, money is something that is not justified to be bought and sold. The motive for holding money should be only for transactions (means of payment), precaution, and units of calculating wealth. The speculation motive of holding money to gain profit by saving money is something that imprisons the function of money and has the potential to damage the function of money in social life. In Islam, money is known to have a flow concept. The motive of speculation has raised many problems in the economic sector. The damage that occurred in the financial sector due to currency speculation with the motive of buying cheap, hoarding, and then the price rising and then selling, in principle, damaged the function of money as a medium of exchange which should not be tolerated.

Third, the prohibition of usury is one of the prohibitions against taking profits by using interest in money. The reason for the prohibition of usury is taking advantage of lending and borrowing transactions that solely involve additional time. Having profit-taking just because there is extra time is not the right thing in Islam. The practice of interest makes the owner of the fund benefit in lending and borrowing transactions while the borrower is in a depressed position because of the need for money that drives him to borrow. In Islam, if the fund owner wishes to obtain a lawful profit, the transaction must switch from a lending and borrowing transaction to a commercial transaction with the motive of taking profits, such as buying and selling, leasing, and business cooperation.

Fourth, money must remain linked to the real sector. Therefore, money as potential capital must remain connected to certain goods and or services or projects when utilized in the business sector. If money revolves only to generating money profits, the financial sector will move independently without the need for the presence of the real sector. The separation between the financial sector and the real sector will be a separate obstacle for the economy because the dominant money owner will be the most beneficiary in economic order.

Money in Islam is treated as "potential" capital. Therefore, money will only become actual potential if money is combined with other resources to be used in productive activities. Islam recognizes the time value of money, but only if money is used as actual capital, not when money is used as "potential" capital. In Islamic law, money is not considered an asset that generates its own profit because money is not a commodity but a medium of exchange. Therefore, the result can be positive or negative depending on the actual results of the use of money in the real sector. Every financial transaction must relate to a "specific object-based asset" such as real estate or commodities (The National Bureau of Asian Research, 2008). Money represents purchasing power, therefore, it cannot be used to increase the purchasing power without going through an intermediation stage to be used to buy goods and services (Ahmad, 1994). In a more general language, this point emphasizes that the concept of money in Islam is characterized by the flow. Money can be said to function if used in the medium of exchange scheme or as an intermediary when exchanged for goods or services.

g. *Contemporary economics and finance need to apply financing that is only based on real assets/sectors*

The answer table shows that of the 61 respondents who gave answers, the majority of respondents, as many as 58 people, answered agreed, and only three answered disagree. Based on the interviews with respondents, most of whom answered agreed, there were several reasons. *First*, financing based solely on real assets/sectors ensures that the community's economic interests are maintained. A situation like this can increase society's welfare in absolute terms and prevent society from the dangers of a bubble economy. The economic turnover must harmonize the financial sector with the goods and services production sector. Money must be positioned as a lubricant that will drive the circulation of the real sector that produces goods and services. If this condition can be maintained, there will be a balance between the money supply and the real sector's demand for public goods and services. The community's needs will always follow the money flowing to society in producing goods and services. Along with this condition, the community's welfare can be maintained because the wheels of the economy rotate concretely in the midst of society.

Second, Islamic economics has prepared alternatives to interest-free transactions by applying asset-based financing or specific real sectors in the form of goods, services, or certain projects. It means that, in Islam, there are some alternative schemes to replace the interest system. Islam has prepared other transaction schemes that allow economic and business activities to continue. Instead of taking advantage of interest through money with no apparent underlying transaction, Islam encourages the public to switch to other transactions that have underlying transactions in the form of goods, services, and business cooperation.

Third, the concentration of financing is based solely on real assets/sectors, which will further clarify the object of financing and provide higher security to economic actors. One of the lessons can be taken from the global crisis in 2008, which began with the subprime mortgage problem in USA (America), an investment based on securities instruments inflated in global financial markets. The existence of an unclear financing object causes the securities instrument transaction to be vulnerable because the inflating process is not directly related to the underlying transaction's asset.

Fourth, asset-based or real sector financing will ensure that the economy grows on a strong basis. This means that the economy will be more engaged in the circulation of goods and services produced by the community. The involvement and participation of the public at large will optimize the growth and distribution of economic resources more evenly and have a strong foundation because they are based on the real sector economy.

Fifth, the financial sector should exist to support real sector economic growth. Therefore, money flow through channeling financing needs to be applied to asset-based financing or the real sector. The financial sector in the Islamic financial system cannot be separated from the real economic sector that produces goods and services. The financial sector supports the real economic sector of goods and services by providing the funds needed for economic expansion in the real sector. People who need working capital to produce goods and services are targeted for financing, the source of which comes from the financial industry sector. Thus the financial sector will be upstream as a support system for the real industrial sector in producing goods and services for the public.

Every financial transaction must be linked to real goods and identifiable assets such as real estate or commodities. Actual transactions mean purchases of real commodities and assets for cash payments or future payments (Al-Jarhi, 1999). Under sharia law, money is not classified as an asset because it is not a commodity and, therefore cannot generate profit on its own (The National Bureau of Asian Research, 2008). Financing channeled through Islamic products can only increase as the real economy improves and helps ward off speculation and excessive credit expansion.

Islamic finance strategy in minimizing and managing risk is carried out by integrating these risks into actual activities. These real activities will generate sufficient wealth to compensate for these risks. Islamic finance must be able to create harmony and linkages between the real sector and the financial sector. These two sectors must not be separated or have no connection because they will cause various negative effects that are to be prevented by this basic rule.

h. *Contemporary economics and finance need to position the contract as an important aspect of every transaction*

The answer table shows that of the 61 respondents who gave answers, most respondents, namely 56 people, answered agree, and only five people answered disagree. Based on the interviews with respondents, most of whom answered agreed, there were several reasons. *First*, the existence of a contract makes a transaction clearer and makes it easier to provide a comprehensive understanding to the parties involved. Educating the public on the existence of a contract in a transaction is essential. A transaction requires a full understanding of each transacting party so that all parties understand their respective positions in the transaction. A complete understanding of a contract in each transaction will provide a clear understanding for the parties to carry out agreements and agreements in accordance with their respective portions of rights and obligations, consciously and voluntarily.

Second, the existence of the contract will provide an understanding of the risks and benefits for the parties so that each party will be aware of their rights and obligations in every transaction they carry out. The awareness of the weight-lightness of risk and the ratio of benefits to risks borne by each party will be the initial capital for the parties to enter into the transactions they are conducting. Suppose the parties already have the same understanding regarding the risks and benefits of each. In that case, this condition will help them through the transactions they carry out, even if the mitigated risk occurs later. The parties will accept the risks and rewards according to the portion of the initial agreement.

Third, the existence of the contract in the transaction is expected to be able to prevent the parties from fraud and disputes in the future. The existence of a contract in a transaction, when agreed to and approved for implementation basically shows the willingness of each party to carry out the agreement according to the agreement in the contract. The contents of the agreement have been stated transparently and based on the sincere intention of each party to be implemented. According to the contract, the details of the agreement will protect the parties from the possibility of fraud. The contents of the engagement carried out in the contract agreement will help the parties take settlement action at a later date if there is a difference of opinion that results in a dispute between the parties.

Fourth, in Islamic law, every transaction may not be carried out if it is not based on a justified contract. The contract determines the validity of every transaction in Islam. Islam considers that the existence of a contract is considered sacred and holy. The meaning of activity is not regarded as valid and legally acceptable in Islam if it is not based on a legal contract in Islam. Islamic law regulates the existence of pillars and conditions in transactions that Muslims must obey. Therefore, Islam only recognizes a human legal action if it is carried out following the contract rules in Islamic law.

Fifth, the existence of the contract will strengthen the parties' compliance with the transactions they carry out. In the verses of the Al-Quran as well as in the hadith of the Prophet, Islam obliges Muslims to obey and fulfill the covenants they have agreed upon. This means that Muslims should not fall into the munafiq (hypocrite) who renounce the agreed agreement and are obliged to be obedient in carrying out the various agreements and agreements that have been established.

Sixth, the contract in the transaction will determine whether the perpetrators' actions are in accordance with Islamic provisions. The existence of a contract in the trade will prevent Muslims from prohibited transactions such as buying and selling prohibited items such as pork, wine, gambling, and the like. In addition to the prohibition of transacting on haram objects, Muslims are also prohibited from transacting in prohibited ways such as lending money (usury), cheating, stealing, robbing, corruption, price manipulation, and other banned acts that harm others.

In Islam, the contract is regulated based on assets, and each transaction must meet the sharia criteria, namely prohibiting usury, prohibiting profit-taking without any underlying economic activity, and prohibiting activities that are not halal. Furthermore, the contractual relationship between the owner of funds and the user of funds is managed not based on capital-based investments obtained from the time value of money but from the sharing of risks and business profits that are financed in permitted activities (Hesse, Jobst, & Sole, 2008). Islam enforces contractual obligations and lists information as a noble duty. This is intended to reduce the risk of asymmetric information and moral hazard.

Islamic finance encourages risk management, and places trust through explicit and transparent disclosure of roles and responsibilities outlined in the contract. The main contracts that are popularly used in Islamic financial institutions include: first, profit-sharing-based contracts consisting of *musyarakah* and *mudharabah*. Second, a contract based on buying and selling consists of buying and selling of *murabahah*, *salam*, and *istisna'*. Third, a lease-based contract consisting of pure *ijarah* and *ijarah muntahiya bittamlik* (accompanied by the transfer of ownership). Islamic finance requires an agreement that forms the basis of an agreement or a business contract. The engagement is manifested in contracts that can be tailored to the needs of the parties and the characteristics of the business agreed upon by the parties. Included in the context of this point, everything that provides for the terms and conditions related to the agreed business agreement or contract must be able to fulfill the stipulated conditions.

CONCLUSIONS

This study shows that the fundamentals of Islamic economics and finance are relevant to global economic and financial conditions from the perspective of Islamic economists. The challenges faced by Muslims in the economic and financial sectors require support following the Muslim perspective of life. Based on the surveys and interviews conducted, this study found that most participants agreed that linking contemporary economics and finance with Islamic ethics and values is essential. Contemporary economics and finance need to be limited to operating only in activities approved by Islamic Sharia Law. The prohibition of *Riba* is a positive thing for modern economics and finance. The prohibition of speculative behavior is positive for contemporary economics and finance. Contemporary economics and finance need to advocate Trade and Profit and Risk Sharing in Business. Positioning money as "potential" capital is positive in modern economics and finance. Contemporary economics and finance need to apply financing based on real assets/sectors. Contemporary economics and finance need to position the contract as something important in every transaction.

Thus, this research further strengthens the need to strengthen the implementation of the fundamental values of Islamic economics and finance into the practice and operation of modern economic and financial activities. The interest of accommodating the fundamental values of sharia economics and finance is seen as an ideological interest so that Muslims can carry out their economic and financial activities in accordance with the basic values of their religion. However, in terms of economic and social interests, the implementation of the fundamental values of Islamic economics and finance is also believed to be an alternative solution to modern economic and financial problems, which have been proven to have received many criticisms due to various failures in solving contemporary economic and financial issues.

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Nama dan Lembaga Penulis. Nama penulis ditulis lengkap tanpa gelar akademis atau indikasi jabatan dan kepangkatan. Lembaga penulis merupakan tempat pemegang hak kepemilikan atas tulisan atau tempat dimana penulis berafiliasi. Alamat korespondensi penulis ditulis secara jelas beserta dengan e-mail.

Abstraks. Abstrak merupakan intisari pokok bahasan dari keseluruhan naskah. Ditulis dalam satu paragraf dengan dua bahasa, yaitu Indonesia – Inggris atau Indonesia – Arab. Abstrak terdiri dari maksimum 250 kata di mana sekurang-kurangnya memuat: latar belakang kajian, tujuan penulisan, metode yang digunakan, hasil yang dicapai, kesimpulan dan saran.

Kata Kunci. Kata kunci adalah kata-kata yang dipilih secara cermat sehingga mampu mencerminkan konsep yang dikandung dalam artikel. Kata kunci ditulis di bawah abstrak, antara empat hingga enam kata.

Pendahuluan. Bagian pendahuluan merupakan bahasan yang meliputi latar belakang, rumusan masalah, tujuan dan kegunaan, hipotesis dan metodologi.

Kerangka Teori. Kerangka teori bersifat optional atau harus disertakan hanya dalam penelitian kuantitatif.

Hasil dan Analisis. Bagian yang merupakan inti dari hasil-hasil penelitian, meliputi deskripsi data dan analisis hasil penelitian. Penggunaan grafik dan tabel hendaknya dibatasi jika masih dapat disajikan dengan tulisan secara singkat.

Pembahasan. Bagian ini merupakan interpretasi penulis terhadap bahasan hasil dan analisis penelitian. Pembahasan dilakukan secara mendalam dan fokus dengan menggunakan acuan teori.

Penutup. Merupakan bagian terakhir dari keseluruhan naskah yang meliputi kesimpulan dan saran

Kutipan. Jurnal Share menggunakan teknis innote (catatan dalam teks) dengan style *APA 16th-full name* yang berisi pengarang, tahun, dan halaman yang dikutip (jika berupa kutipan langsung). Misalnya "...... (Ibrahim, 2012) atau (Kamri, Ramlan, & Ibrahim, 2014) atau (Ibrahim & Kamri, 2013a; Rahman, 2011)". Sekiranya dibutuhkan, penulis boleh menggunakan innote sekaligus dengan endnote (catatan di akhir teks) yang isinya berupa catatan (note) atau komentar tambahan.

Daftar Pustaka. Di bagian akhir tulisan, penulis mencantumkan Daftar Pustaka yang memuat daftar buku yang dirujuk di dalam teks (sesuai innote). Sumber rujukan disarankan merupakan terbitan 10 tahun terakhir. Karya klasik yang relevan dapat diacu sebagai sumber masalah tapi tidak untuk pembandingan pembahasan. Penulisan daftar pustaka mengacu kepada ketentuan berikut:

- **Buku**
  Untuk kutipan buku berikut (Ali, 2005) atau , contoh penulisan daftar pustaka adalah:

  Ali, Abbas. (2005). *Islamic Perspectives On Management And Organization*. Chentenham, UK: Edward Elgar Pub.

- **Bab dalam Buku**
  Untuk kutipan bab dalam buku berikut (Ibrahim & Kamri, 2013a), contoh penulisan daftar pustaka adalah:

  Ibrahim, Azharsyah, & Kamri, Nor 'Azzah. (2013). Measuring the Islamic Work Ethics: An Alternative Approach. In Nor 'Azzah Kamri, Azian Madun, & Suhaili Sarif (Eds.), *Islamic Perspective on Management: Contemporary Issues* (pp. 135-163). Kuala Lumpur, Malaysia: YaPEIM Management Academy & Dept. of Shariah and Management, Acad. of Islamic Studies, University of Malaya.

- **Sumber Online**
  Untuk kutipan sumber online berikut (www.kanalislam.com, 2014), contoh penulisan daftar pustaka adalah:

  www.kanalislam.com. (2014). Praktik Akuntansi Pemerintahan Islam. Retrieved from http://www.kanalislam.com/2014/08/praktik-akuntansi-pemerintahan-islam.html

- **Surat Kabar**
  Untuk kutipan surat kabar berikut (Abidin, 2014), contoh penulisan daftar pustaka adalah:

  Abidin, Zainal. (2014, 12 Juni). Bank Syariah Kekurangan Sumber Daya Manusia. *Kompas,* p. 10.

- **Jurnal**
  Untuk kutipan artikel jurnal berikut (Ibrahim, 2012), contoh penulisan daftar pustaka adalah:

  Ibrahim, Azharsyah. (2012). Gala dan Rahn: Analisis Korelasi dari Perpsektif Ekonomi Islam. *SHARE Jurnal Ekonomi dan Keuangan Islam, 1*(1), 41-49.

- **Skripsi/Thesis/Disertasi**
  Untuk kutipan disertasi berikut (Yusuf, 2012), contoh penulisan daftar pustaka adalah:

  Yusuf, Muhammad Yasir. (2012). *Tanggung Jawab Sosial Korporat pada Institusi Perbankan Islam di Aceh: Analisis Kriteria dan Persepsi.* (Doctoral Thesis), Universiti Sains Malaysia, Penang.

- **Makalah Seminar**
  Untuk kutipan makalah seminar berikut (Ibrahim & Kamri, 2013b), contoh penulisan daftar pustaka adalah:

  Ibrahim, Azharsyah, & Kamri, Nor 'Azzah. (2013b, 27-28 November). *Measuring the Islamic Work Ethics: An Alternative Approach.* Paper presented at the International Convention on Islamic Management, Kuala Lumpur, Malaysia.

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