

CHAPTER I INTRODUCTION

A. Research Background

Banking is a financial sector that supports the growth of the Indonesian economy. Catering to both the lower and upper middle classes. The banking sector acts as an intermediary institution between those who want to increase the value of their wealth through saving or investment and those who need funds through credit.¹ Banking is one of the foundations for improving economic progress and national stability, which aims to enhance the quality of life for the wider community. The most important function of banking in Indonesia is to collect and distribute funds to the public while supporting national development.

Banks perform their functions based on the precautionary principle, which protect customers' funds. Therefore, banks in Indonesia are expected to be healthy, liquid and solvent. A healthy bank is one that is able to perform its intermediary role properly, facilitate the smooth flow of payments, and can help carry out monetary policy together with the government.²

The establishment of Islamic banks was preceded by the prohibition of usury in religious teachings. In Egypt since the 1930s, the influential al-Ikhwan al-Muslimun movement began to criticize the interest-based financial system in Egypt and other parts of the Muslim world. The idea of a bank that uses a profit-sharing system as a substitute for usury emerged,

¹ Alifia Annisaa, Nurizal Ismail, and Iman Nur Hidayat, "Sejarah Hukum Perbankan Syariah di Indonesia", *Ijtihad Jurnal Hukum dan Ekonomi Islam*, Vol. 13, No. 2 (2019), p. 248.

² Novia Dwi Astari, Dadang Hermawan, and Rosma Pakpahan, "Analisis Tingkat Kesehatan Bank Dengan Menggunakan Metode RGEC (Studi Kasus Pada PT Bank Mandiri (Persero), Tbk)", *Indonesian Journal of Economics and Management*, Vol. 1, No. 3 (2021), p. 615.

marked by the thoughts of Muslim scholars such as Anwar Qureshi (1946), Naiem Siddiqi (1948) and Mahmud Ahmad (1952).³

Basically, Islamic banking entities in Indonesia have started since 1983 with the issuance of the December 1983 Package which contained several regulations in the banking sector, including a regulation that allows banks to provide credit with 0% interest (zero interest). This development was followed by a series of policies in the banking sector by the Minister of Finance Radius Prawiro which were contained in the October 1988 Package. October Package 88 was essentially a banking deregulation that made it easier for the establishment of new banks, so that the banking industry at that time experienced very rapid growth.⁴

In this era, Islamic banks have begun to attract the attention of financial service users worldwide. Islamic banks have become increasingly popular among both Muslim and non-Muslim customers. Islamic bank is a financial institution where the implementation of all financial activities must comply with Islamic sharia principles, so all transactions at Islamic banks must adhere the rules and regulations that apply to contracts in *fiqh muamalah*.⁵ The birth of Islamic banking began with the emergence of two modern Islamic renaissance movements: neorevivalist and modernization. The aim was to create financial institutions based on ethics and Muslims' efforts to base all aspects of their economy on the Quran and Sunnah.⁶

According to their business activities, the types of banks can be divided into conventional banks and Islamic banks. According to Law No. 21/2008, a conventional bank is a bank that conducts its business activities

³ Devid Frastiawan Amir Sup and Selamat Hartanto, "Sejarah Perbankan Syariah (Dari Konseptual Hingga Institusional)", *Journal of Islamic banking*, Vol. I, No.3 Desember (2020), p.13.

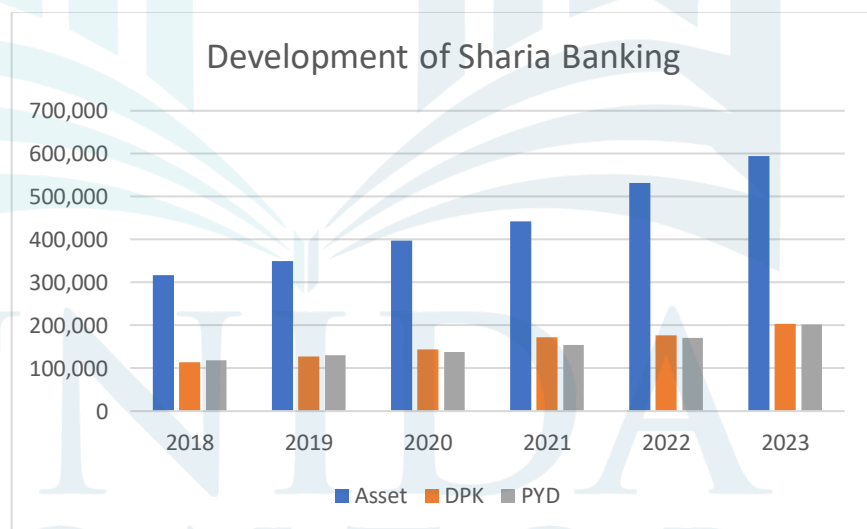
⁴ Angela Septiani, Heri Sunandar, dan Nurnasrina N, "Pengertian, Ruang Lingkup Perbankan, Tujuan, Latar Belakang, Prinsip dan Sejarah Perbankan Syariah di Indonesia", *jurnal riset ekonomi*, Vol. 19, No. 2 (2023), p. 537.

⁵ Evi Mutia and Nastha Musfirah, "Pendekatan Maqashid Shariah Index Sebagai Pengukuran Kinerja Perbankan Syariah di Asia Tenggara", *Jurnal Akuntansi dan Keuangan Indonesia*, Vol. 14, No. 2 (2017), p. 182.

⁶ *Ibid.*

in a conventional manner, while an Islamic bank is a bank that conducts its business activities based on sharia principles. Sharia principles are the principles of Islamic law in banking activities based on fatwas issued by institutions that have the authority to determine fatwas in the field of sharia, specifically the National Sharia Council of the Indonesian Ulema Council (MUI).⁷

Islamic banking in Indonesia began to develop with since the enactment of Law No. 7 of 1992 concerning banking with profit-sharing principles, marked by the establishment of PT Bank Muamalat Indonesia (BMI) as the first commercial bank in Indonesia. The development of Islamic banking in Indonesia seen from the number of Sharia Business Units has increased since the establishment of the Islamic financial system. This growth is considered quite progressive as evidenced by data on the number of Islamic Commercial Banks (BUS), Islamic Business Units (UUS), and Islamic People's Credit Banks (BPRS).

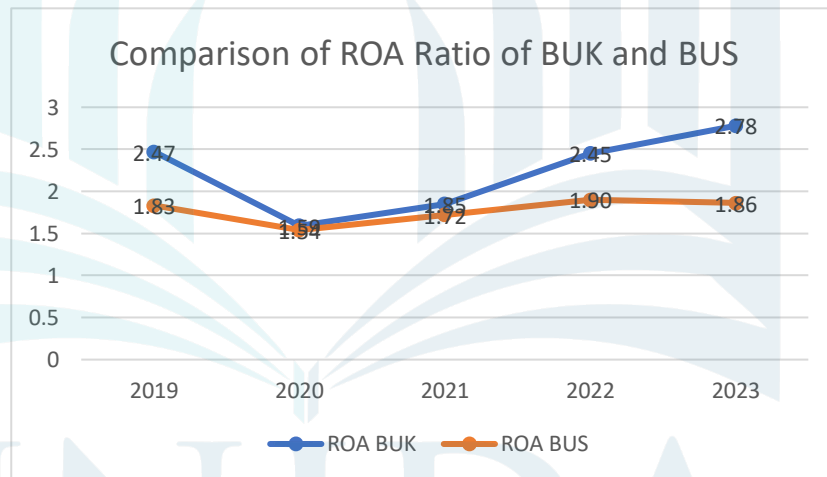


Source: OJK Sharia Banking Statistics Data 2018-2023

Figure 1. 1 Development of Sharia Banking

⁷ Andrew Shandy Utama, “Sejarah dan Perkembangan Regulasi Mengenai Perbankan Syariah Dalam Sistem Hukum Nasional Di Indonesia”, *Jurnal Wawasan Yuridika*, Vol. 2, No. 2 (2018), p. 187.

Based on the table above, we can see that the development of Islamic banking is very rapid when viewed in terms of assets, third party funds (DPK), and financing distributed (PYD). In terms of Islamic banking assets, the highest increase occurred in 2023 with a percentage increase of Rp.594,709 (in billion rupiah) and the lowest percentage occurred in 2018 with a percentage of Rp.316,691 (in billion rupiah). Regarding third party funds (DPK) the highest increase also occurred in 2023 with a percentage increase of Rp. 203,317 (in billion rupiah), while the lowest percentage occurred in 2018 with a percentage of Rp. 114,222 (in billion rupiah). For financing distributed (PYD), the highest percentage increase reached Rp. 201,413 (in billion rupiah), and the lowest percentage reached Rp. 118,541 (in billion rupiah).⁸



Source: Annual Report Statistical Data 2023

Figure 1. 2 Comparison of ROA Ratio of BUK and BUS 2019-2023

Based on the table above, we can see that the ROA ratio in Conventional Commercial Banks and Islamic Commercial Banks has a significant difference. We take for example in 2023 the ROA ratio in Conventional Commercial Banks can reach 2.78%, while in Islamic Commercial Banks it is only 1.86%. This proves that the measurement of

⁸ OJK, *Statistik Perbankan Syariah - Februari 2024*, No 2. February (2024), p. 1–3.

the performance of Islamic Commercial Banks cannot be done only by looking at the profitability ratio, but must involve the ratio of sharia compliance as well. Measurement of the performance of Conventional Commercial Banks cannot be equated with Islamic Commercial Banks because the measurement of conventional banking performance only looks at the profitability ratio and Islamic Commercial Banks must also be measured by the ratio of sharia conformity. Therefore, a banking performance measurement method is needed by combining two ratios, namely the profitability ratio and the sharia conformity ratio.

Research conducted by Dita Khiswaradewi⁹, Sandi Nasrudin Wibowo, Rudi¹⁰, Tata Fatima¹¹, Praptiningsih, H. Nastiti, Heni Nopiyanti¹², Puput Fitriana¹³, Riandi Chandra¹⁴, Susanto Wibowo¹⁵, Pipin

⁹ Ditha Khiswaradewi et al., “Assessment of Bank Health Level Using RGEC Method and Its Impact on Islamic Financial Distress”, *International Journal of Social Health*, Vol. 2, No. 6 (2023), p. 362–376.

¹⁰ Sandi Nasrudin Wibowo and Yodi Rudiantono, “Analysis of the Health of Islamic Banking in Indonesia”, *IJESS International Journal of Education and Social Science*, Vol. 3, No. 2 (2022), p. 71–81.

¹¹ Tata Fatima Azzahra, Muhammad Sholahuddin, and Soepatini Soepatini, “Comparative Analysis of Islamic Banks’ Performance in Indonesia and Malaysia with RGEC and the Islamicity Performance Index (2018-2021)”, *Kontigensi : Jurnal Ilmiah Manajemen*, Vol. 11, No. 1 (2023), p. 261–272.

¹² Praptiningsih Praptiningsih, Heni Nastiti, and Anita Nopiyanti, “Analysis of Corporate Governance, Intellectual Capital, and Financial Performance Using Conventional Methods and Maqashid Sharia Index (MSI) on the Implementation of Sustainable Finance in Sharia Banking in Indonesia”, *Dinasti International Journal of Economics, Finance & Accounting*, Vol. 3, No. 4 (2022), p. 391–411.

¹³ Puput Fitriana, Darmawati, and Angrum Pratiwi, “The Effect of RGEC on Financial Distress in Islamic Commercial Banks”, *EkBis: Jurnal Ekonomi dan Bisnis*, Vol. 6, No. 2 (2022), p. 100–111.

¹⁴ Metode Camel et al., “Analisis Kinerja Keuangan Pt Bank Syariah Mandiri Dan Pt Bank Mandiri Tbk Dengan Menggunakan Metode Camel”, *Jurnal Berkala Ilmiah Efisiensi*, Vol. 16, No. 2 (2016), p. 201–206.

¹⁵ Susanto Wibowo, “Analisis Perbandingan Kinerja Keuangan Perbankan Syariah Dengan Metode Camel di ASEAN (Studi Komparatif: Indonesia, Malaysia, Thailand)”, *Jurnal Riset Ekonomi dan Manajemen*, Vol. 15, No. 1 (2015), p. 136.

Lestari¹⁶, Ahsan Putra Hafiz¹⁷, Solatiah Nasution¹⁸, Raja Ria Yusnita¹⁹, Irmawati Wijaya²⁰, Ria Fatmasari²¹ focuses only on either conventional or sharia. The methods used include the Risk profile method, Good corporate governance, Earnings profile and Capital factor (RGEC), Maqashid sharia index (MSI) method, Islamicity performance index method, Capital Assets Management Earnings and Liquidity (CAMEL) method. However, in this study, the researchers will combine conventional banking methods and Islamic banking methods into one method called (SCnP) Sharia conformity and profitability.

The main advantages of measuring financial performance using the Sharia Conformity and Profitability (SCnP) Model are; First, the measurement of the Sharia Conformity and Profitability (SCnP) method is more complex because it combines two assessment orientations that cannot be separated, namely the sharia side of a bank and the financial side of the bank. Secondly, by incorporating two socio-economic orientations in Sharia Conformity and Profitability (SCnP) model, the results of this measurement are more effective. Therefore, measuring financial performance using the Sharia Conformity and Profitability (SCnP) Model can serve as an

¹⁶ Pipin Lestari, “Analisis Komparatif Kinerja Keuangan Perbankan Syariah Di Indonesia dan Malaysia Dengan Pendekatan Metode CAMEL Periode 2014-2018”, *JURNAL Masharif Al-Syariah*, Vol. 5, No. 2 (2020), p. 175–193,

¹⁷ Ahsan Putra Hafiz, “Penilaian Tingkat Kesehatan Bank Syariah Dengan Metode Camel dan Regc (Studi Pada Bank Bni Syariah Tahun 2011-2015)”, *ILTIZAM Journal of Sharia Economic Research*, Vol. 2, No. 1 (2018), p. 66.

¹⁸ Solatiah Nasution and Pani Akhiruddin Siregar, “Analisis Kinerja Perbankan Syariah 2018-2022 Dengan Menggunakan Pendekatan Islamicity Performance Index”, *Ekonomi, Keuangan, Investasi dan Syariah (EKUITAS)*, Vol. 4, No. 4 (2023), p. 112–117.

¹⁹ Raja Ria Yusnita, “Analisis Kinerja Bank Umum Syariah Dengan Menggunakan Pendekatan Islamicity Performance Index Periode Tahun 2012-2016”, *Jurnal Tabarru': Islamic Banking and Finance*, Vol. 2, No. 1 (2019), p. 12–25.

²⁰ Irmawati Wijaya, Erna Kustyarini, and Putri Maulida, “Analisis Kinerja Bank Umum Syariah Berdasarkan Islamicity Performance Index Pada Bank Syariah Mandiri”, *Jurnal Riset Keuangan dan Akuntansi*, Vol. 7, No. 2 (2021), p. 60–75.

²¹ Masyiah Kholmi Ria Fatmasari, “Analisis Kinerja Keuangan Perbankan Syariah Dengan Pendekatan Islamicity Performance Index Pada Perbankan Syariah di Indonesia”, *jurnal akademi akuntansi*, Vol. 1 (2018), p. 1–26.

alternative method for assessing the financial performance of Islamic commercial banks.²²

Based on this background, researchers are interested in measuring the performance of Islamic banking or the health level of Islamic banking using the SCnPI (Sharia Conformity and Profitability Index) technique. Banks that have large total assets, Third Party Funds (DPK), and Financing disbursed (PYD) are not necessarily healthy banks in terms of sharia conformity and if Islamic banking only uses the same measurements as conventional banking to measure its performance without using sharia principles, there will be a mismatch in the value of using conventional banking performance indicators with broader objects contained in Islamic banking.

Many company performances in the global world, including Islamic banking, still use financial ratio measurements such as Capital, Asset, Management, Earning, Liquidity, Sensitivity of Market Risk (CAMELS), Data Development Analysis (DEA) and Return on Asset (ROA) and Return on Equity (ROE). But in practice, this ratio measurement tool has many weaknesses. First, it is still difficult to distinguish the characteristics between Islamic banks and conventional banks. Second, many studies state that measuring the performance of Islamic banks is certainly not the same as measuring conventional tyres, because both are completely different in their functions and operational characteristics. Thirdly, this condition also shows that the basic purpose of Islamic banking itself has not been taken seriously, so that in measuring the performance of Islamic banking using conventional measuring instruments that only focus on financial measurements. Therefore, there must be an effort to measure the performance of Islamic banking formulated from measurements based on

²² Risna Nur Azizah and Arief Widyananto, "Analisis Keuangan BPRS Al-Salaam Amal Salman Dengan Model Sharia Conformity and Profitability (SCnP) dan Teknik Dupoint System", *MASLAHAH (Jurnal Hukum Islam dan Perbankan Syariah)*, Vol. 13, No. 1 (2022), p. 90.

sharia principles so that there is a measuring tool for Islamic banks in accordance with sharia objectives, namely Sharia Conformity and Profitability.²³

This interest underlies the author's desire to conduct this research, leading to the title **“Analysis of the performance index of Islamic Commercial Banks (BUS) using the Sharia Conformity and Profitability Index (SCnPI) method for the 2019-2023 period”**.

B. Research Question

The research question that will be discussed in this study are as follows :

1. How is the performance index of Islamic Commercial Banks (BUS) using the Sharia Conformity method ?
2. How is the performance index of Islamic Commercial Banks (BUS) using the net profitability index method ?
3. What are the best performing banks when measured by the Sharia Conformity and Profitability index ?



²³ Laila Soviyatun, “Analisis Kinerja Keuangan Bank Umum Syariah di Indonesia Menggunakan Metode Sharia Conformity and Profitability (SCnPI)”, *Skripsi* (2022), p. 35.

C. Research Objectives

1. To determine the performance index of Islamic Commercial Banks (BUS) using the Sharia Conformity method.
2. To determine the performance index of Islamic Commercial Banks (BUS) using the net profitability method.
3. To determine the best performing banks when measured by Sharia Conformity and Profitability index.

D. Research Benefits

a. Theoretical benefits

The results of this study will not only provide further information about the development of Islamic banking studies as part of Islamic economics, but will also enhance the author's knowledge and understanding of the health assessment of Islamic banking when measured by the Sharia Conformity and Profitability (SCnP) method.

b. Practical benefits

The results of this study can be used as the latest data for decision making in developing the performance level of Islamic banking in particular and in general for conventional banks as well using the Sharia Conformity and Profitability (SCnP) method.