Analysis of the Effect of Islamic Income Ratio (ISIR) on The Profitability of Sharia Banks in Indonesia

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Abstract - The purpose of this study is to examine the impact of the Islamic Income Ratio (IsIR) on the profitability of Islamic banks in Indonesia over the five years 2012-2019. This study employs a quantitative method and draws on secondary data sources. It was decided to apply a basic linear regression methodology. The Islamic Income Ratio (IsIR) is the independent variable, and the profitability is proxied by the Return on Assets (ROA) as the dependent variable. The data processing analytic tools were SPSS 22.0. The findings revealed that a partially Islamic Income Ratio (IsIR) positively and statistically significantly impacted profitability in the study.

Keywords*:* Islamic Income Ratio (IsIR), Profitability.

1. INTRODUCTION

Indonesia's total assets of Islamic banking have continued to expand year after year, indicating that the sector is doing well. Many features of Islamic banking, such as the growth in the number of branches and assets of Islamic banks, demonstrate this trend, which has been increasing year after year. The development and expansion in total assets owned by Islamic banks necessitate the ability of Islamic banks to manage these assets efficiently to generate the greatest possible profit. The accomplishment of these benefits represents a challenge for Islamic banks since the ability of the company's management to manage resources in the process of creating value for the company is a good indicator of the firm's progress and development.

Table 1. Development of Islamic Commercial Banks (BUS) and Sharia Business Units (UUS) in Indonesia

Tahun	Islamic Commercial Banks (BUS)	Sharia Business Units (UUS)
2012	11	24
2013	11	23
2014	12	22
2015	12	22
2016	13	21
2017	13	21
2018	14	20
2019	14	20

Based on table 1, it can be seen that Islamic commercial banks have experienced relatively good growth from year to year. However, the opposite occurs in Islamic business units, which have decreased every year. The growth of an excellent Islamic bank can be

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shown through the profits earned by Islamic banks. Profitability is one of the ratios used to calculate the company's ability to generate profits, with return on assets (ROA) being one of the ratios used to calculate the company's ability to generate profits.

Profitability as a reference in measuring the amount of profit is essential to determine whether the company is running its business efficiently. The efficiency of a new business can be found after comparing the profits obtained with the assets or capital that generate these profits. In Bank Indonesia Regulation No. 13/1 / PBI / 2011 concerning Assessment of the Soundness of Commercial Banks, Bank Indonesia requires commercial banks to conduct an assessment of the soundness of banks both individually and in consolidation using a risk approach, in which the factors for assessing the soundness of a bank consisting of a Risk Profile, Good Corporate Governance (GCG), Profitability (Earnings), and Capital (Capital). From the BI Regulation, it can be seen that profitability is one of the main elements assessed in determining the soundness of a bank, and one of the indicators commonly used in measuring a company's earnings power is the Return on Assets (ROA) ratio.

The Islamicity Performance Index is a method that can evaluate banking performance not only from a financial perspective but also able to evaluate the principles of justice, halalness and purification (tazkiyah) practiced by Islamic banking. Some of them are by calculating and analyzing the performance of Islamic banks through the Islamic Income Ratio (IsIR).

Suchman's Legitimacy Theory states that the company will continue to ensure that its activities and activities are by the limits and norms prevailing in society, which is related to the Islamic Income Ratio (IsIR). Islamic Income Ratio (IsIR) is a ratio used to calculate the percentage of halal income with the total income given as a whole. The value of halal income can be obtained through the management of Islamic Bank funds as mudharib. Meanwhile, the total value of income can be obtained through sharia income, non-sharia income, other operating income, and non-operating income. The resulting value is a measure of Islamic income obtained by Islamic Banks.

Based on the research background, the formulation of this study is whether the Islamic income ratio (isir) affects the profitability of Islamic banks in Indonesia? Next, based on the research formula, this study aims to analyze the effect of the Islamic income ratio (ISIR) and equitable distribution ratio (EDR) on the profitability of Islamic banks in Indonesia.

2. THEORETICAL REVIEW

2.1 Return On Assets (ROA)

Return on assets (ROA) is a ratio that is used to assess the ability of a bank's management to generate total profits from its assets. The higher the Return On Assets (ROA) of a bank, the bigger the level of profit realized by the bank and the better the bank's position in terms of asset utilization.

A bank's profitability is calculated using return on assets (ROA) because Bank Indonesia, as a banking supervisor and supervisor, prioritizes the value of a bank's profitability as measured by assets whose funds are derived from the vast majority of the public's savings. Using the best standard of 1.5 percent (Bank Indonesia No.339 / June / 2012 / Vol.XXXIV), the return on assets (ROA) is computed by comparing the profit before tax with the average total assets. The higher the return on investment (ROI), the higher the level of profit achieved.

2.2 Islamic Income Ratio (IsIR)

Islamic Income Ratio (IsIR) is a ratio used to calculate the percentage of halal income with the total income given as a whole. The value of halal income can be obtained through the management of Islamic Bank funds as mudharib.

3. RESEARCH CONCEPTUAL FRAMEWORK

Based on the theory put forward, the research conceptual framework in this study is as follows:

Figure 1. Research Concept Framework

Research Hypothesis

Based on the theory that has been put forward, the hypotheses in this study are as follows:

Ho1: Islamic Income Ratio (IsIR) has no significant effect on Return On Asset (ROA)

Ha1: Islamic Income Ratio (IsIR) has a significant effect on Return On Assets (ROA)

3. RESEARCH METHODS

The quantitative descriptive analysis method was utilized in this study, and secondary data in the form of numbers was employed as the primary data source for it. Using secondary data from the publishing of Islamic Banking Financial Statements, available on the OJK website, this study calculates the Islamic income ratio (ISIR) and return on assets, which are important metrics in the Islamic banking industry (ROA). Library procedures and documentation techniques were employed to obtain the information for this study's data. The classical assumption test and multiple linear regression were employed to determine the association between variables in this study, which was conducted using a statistical approach known as data mining. Additional techniques such as multiple linear analysis (a model in which the dependent variable is dependent on two or more independent variables) and correlation analysis (a technique for determining the correlation between two or more independent variables and the dependent variable) are further refined the results. This model has two independent variables and one dependent variable, and it is called a multiple regression model.

In accordance with the variables studied, the multiple linear regression equation used in this study is:

$$Y= a + b_1 X_1+ e \qquad (1)$$

Note:

Y = Return on Asset (ROA)
a = Constant
$b_{1,2}$ = Regression Coefficient
X1 = *Islamic Income Ratio* (ISiR)
e = Error

4. RESULTS AND DISCUSSION

4.1 Hypothesis test

This test is used to detect whether or not the independent variable has a significant or non-significant effect on the dependent variable to some extent. A two-way test is used to conduct this examination. The t-test is used to determine whether or not each independent variable (independent variable) has a statistically significant effect on the dependent variable, either alone or in combination (dependent). The following are the results of the t-test (also known as partial testing):

Table 2. T Test results

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	,478	,125		3,829	,005
	IsIR	,560	,108	,878	5,190	,001

Based on Table 3, the multiple linear regression equation can be formulated as follows:

$$ROA = 0{,}478 + 0{,}560\ IsIr + e \quad (2)$$

From the results of the multiple linear regression equation above, it can be concluded as follows:

a. The positive value constant is 0.478, this indicates a unidirectional relationship between variable X and variable Y, that if the Islamic Income Ratio (IsIR) and Equitable Distribution Ratio (EDR) variables are considered constant, the Return On Asset (ROA) value is 0.478.

b. The coefficient value of the Islamic Income Ratio (IsIR) variable is positive at 0.560, this indicates that the direction of the relationship between Islamic Income Ratio (IsIR) and Return on Assets (ROA) is positive, meaning that each addition of the Islamic Income Ratio (IsIR) variable is 1%. Increase Return On Assets (ROA) by 0.560.

Based on Table 2, it can also be seen that the results of hypothesis testing in this study are:

The Islamic Income Ratio (IsIR) variable has a sig value smaller than 0.05, namely 0.000 <0.05. These results indicate that the Islamic Income Ratio (IsIR) variable has a significant effect on Return On Assets (ROA).

Table 3. Determination Coefficient Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,878[a]	,771	,742	,22628

a. Predictors: (Constant), IsIR

Based on the results of the coefficient of determination test in Table 3, it can be seen that the test results show the R Square value of 0.771. This shows that the variable x, namely the Islamic Income Ratio (IsIR), can explain the Return On Asset variable of 0.771 or 77.1 percent. The remaining 22.9 percent is explained by other variables.

4.2 Discussion

It is a ratio used to compute the proportion of halal revenue earned or owned compared to the total income presented as a whole to see how much halal revenue is owned or earned. The Bank's ability to generate significant halal income will be one indicator of the institution's sound financial management. A positive influence on the Bank's financial performance will boost its profitability, which will have ramifications for a rise in the Bank's Return on Assets (ROA). Return on Assets (ROA) is a ratio used to evaluate a company's ability to generate overall profits, in this example, the ability of the Bank to generate overall profits. Generally speaking, the higher the Return On Assets (ROA) achieved by a bank, the greater its profit level will be and the better the Bank's position in terms of asset utilization.

5. CONCLUSSION

Based on the results of the research that has been done, the conclusions in this study are:

The Islamic Income Ratio (IsIR) variable has a sig value smaller than 0.05, namely 0.000 <0.05. These results indicate that the Islamic Income Ratio (IsIR) variable has a significant effect on Return On Assets (ROA).

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