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Analysis of The Effect of Asset Quality, Liquidity, Independent Board of Commissioners, Sharia Supervisory Board on Profitability (Study on Islamic Commercial Banks Registered With OJK In 2017-2023)

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Abstract: This study examines the effect of Financing To Deposit Ratio (FDR), Non-Performing Financing (NPF), and Good Corporate Governance (GCG) on the Profitability (ROA) of Islamic commercial banks listed on the Financial Services Authority for the period 2017-2023. The independent variables used are NPF, FDR, and GCG which are proxied by the ratio of the number of independent commissioners and the number of commissioners and the frequency of Sharia Supervisory Board meetings. The dependent variable used is the return on assets (ROA). The results of this study indicate that Non-Performing Financing (NPF) has an effect on profitability (ROA), while Financing To Deposit Ratio (FDR), Independent Board of Commissioners (DKI), and Sharia Supervisory Board (DPS) have no significant effect on the profitability of Islamic commercial banks.

Keyword: ROA, NPF, FDR, DKI, DPS

INTRODUCTION

Indonesia is a country whose majority population is Muslim, and the community's need for services that are in accordance with sharia provisions is also increasing. Therefore, one of the alternative banking services that has become an interesting phenomenon today is the presence of Islamic banks that have provided new nuances in the business world. Islamic banks continue to show development from year to year, one of which can be seen through the total assets owned. According to OJK (2023), the overall development of Islamic financial assets in Indonesia has reached Rp 2,450 trillion as of June 2023. This figure shows a growth of 13.3% (yoy) with a market share of 10.94% of total national finance. This growth was supported by 13 Islamic commercial banks, 20 Islamic business units, and 171 Islamic people's economic banks (BPR) with a distribution of asset portions of 65.7% BUS, 31.7% UUS, and 2.5% BPRS (Binekasri, 2023).

The high growth of Islamic banking assets is not in line with the growth of the Islamic banking market share which is still lower than conventional banking (Anam & Anggraini, 2020). the presence of conventional banks earlier than Islamic banks is the reason that the market share of conventional banks is higher than Islamic banks (Syaiful, 2016).

The low market share of Islamic banking is a challenge for Islamic banks to maintain their performance to remain in the healthy category. Islamic banks must be able to create stakeholder trust. Profitability is considered the most appropriate to assess the financial performance of a bank. Bank Indonesia has determined one of the measures of a bank's profitability is Return on Asset (ROA). Profitability can be influenced by several factors, namely asset quality, liquidity, and corporate governance factors. Measuring tools that can be used as a measure of the factors that affect profitability, namely Non-Performing Financing (NPF), Financing to Deposit Ratio (FDR), and Good Corporate Governance (GCG) (Suwarno & Muthohar, 2018).

NPF (Non-Performing Financing) is non-performing financing channeled by banks to debtors with substandard, doubtful, and loss classifications (*Glosarium Bank Indonesia*, 2020). Non-performing financing (NPF) causes a bank to not have an opportunity for income from the financing that has been provided so that it can have an influence on the level of profit which has a negative impact on profitability (ROA). This finding is supported by (Rahmawati & Handri, 2021), (Amalia et al., 2020), (Ichsan et al., 2021) and (Handayani et al., 2021) which states that NPF has a negative effect on profitability. The inability of customers to pay the financing provided by Islamic banks will have an impact on profitability, so Islamic banks must be more careful if they want to provide financing to customers and Islamic banks must analyze whether the customers who are given the financing can return the financing according to the agreed time (Rahmawati & Handri, 2021).

In contrast to the results of the research (Purwanti, 2022), (Hakimul ’Izza & Utomo, 2022), and (Afkar et al., 2020) state that NPF has a positive and significant effect on profitability. With this research gap, further research is needed on the effect of NPF on ROA.

FDR is the ratio of the amount of capital channeled by banks to the capital owned by banks (Sumarlin, 2016). A high FDR value causes a higher risk in channeling financing, but if the bank distributes funds in the form of financing, the results that will be obtained by the bank are also high. Meanwhile, if the FDR value is low, it can show the bank's lack of effectiveness in channeling funds so that bank profits will decrease (Rahmawati & Handri, 2021).

According to the results of the research (Purwanti, 2022) The financing-to-deposit ratio (FDR) has a positive and significant effect on profitability. These results indicate that the higher the level of Financing to Deposit Ratio (FDR), the higher the profitability. It is also supported by the results of research by (Ichsan et al., 2021) that liquidity (FDR) has a positive effect on the profitability of Islamic banks in Indonesia. The results of this study are different from those (Hakimul ’Izza & Utomo, 2022) which states that the Financing To Deposit Ratio does not have an influence on the profitability variable or FDR has a negative and insignificant effect on profitability.

Good Corporate Governance applies the principles of transparency, accountability, responsibility, professionalism, and fairness. To ensure the sustainability of these five principles, a GCG mechanism is needed, which consists of a board of directors, a board of commissioners, an independent board of commissioners, a sharia supervisory board, institutional ownership, and an audit committee (Hisamuddin & Tirta K, 2015).

The existence of a Sharia supervisory board according to (Mollah & Zaman, 2015) is a GCG mechanism that distinguishes between Islamic banks and conventional banks. According to (Magdalena et al., 2018) and (Anggreni et al., 2022) the Sharia Supervisory Board has a positive influence on ROA. This contradicts research (Billah & Fianto, 2021) which states that the Sharia supervisory board has a negative influence on ROA. Furthermore, according to (El-Chaarani, 2014) the proportion of independent commissioners has a positive influence on ROA. The results of this study are supported by (Intia & Azizah, 2021). Meanwhile, according to (Billah & Fianto, 2021) the independent board of commissioners shows an insignificant effect on the profitability of Islamic banks, also reinforced by the results of research (Islami et al., 2020).

METHOD

The type of research used is quantitative research. The data source used in this study is the annual financial statements of all Islamic Commercial Banks in Indonesia as many as 17 banks registered with the OJK in 2017-2023 resulting in a total of 96 research data. The variables to be examined in this study are profitability proxied by ROA, Asset Quality proxied by NPF, Liquidity proxied by FDR, Independent Commissioner Board, and Sharia Supervisory Board.

This research uses the panel data regression analysis method. Panel data is a combination of time-series data and cross-section data. In the analysis process, the author uses the Eviews version 13 program as a data analysis tool. There are several models for estimating regression model parameters from panel data: Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). The methods used to determine which model is the most appropriate are the Chow Test, Hausman Test, and Lagrange Multiplier Test. In this study, the selected model is the Random Effect Model (REM), so the classical assumption test does not need to be done because the Random Effect Model is a generalized least square (GLS) estimation method. The GLS technique is believed to overcome the autocorrelation of time series and the correlation between observations (cross-section) (Ghozali & Ratmono, 2018).

RESULTS AND DISCUSSION

Descriptive Analysis

The following table will explain the statistical description of the dependent variable and the independent variable from the total number of research samples.

Table 1. Descriptive Analysis

	ROA	DKI	DPS	FDR	NPF
Mean	0.012414	0.641898	18.90625	0.911981	0.017041
Maximum	0.135800	1.000000	67.00000	5.060000	0.220400
Minimum	-0.108500	0.250000	6.000000	0.000000	0.000000
Std. Dev.	0.040386	0.148241	12.33146	0.607922	0.025746
Observations	96	96	96	96	96

Based on Table 1, the average ROA variable is 0.012414 the standard deviation is 0.040386 & the average NPF variable is 0.017041 and the standard deviation is 0.025746 These results indicate that the standard deviation is> average. This means that the data distribution is wide or the data is too extreme. While the FDR variable, the Sharia Supervisory Board, and the Independent Board of Commissioners display a standard deviation value < than the average. This means that these results indicate that the distribution of these variables is in good condition.

Hypothesis Test

Partial (Statistical Test t)

Table 2. Partial Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.023183	0.022433	1.033426	0.3041
DKI	-0.012846	0.028979	-0.443283	0.6586
DPS	-0.000138	0.000329	-0.419702	0.6757
FDR	0.005935	0.005544	1.070566	0.2872
NPF	-0.375707	0.142409	-2.638233	0.0098

Based on Table 2, the equation to interpret the results of the panel data regression analysis in this study can be obtained as follows:

$$Y = a + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + e$$

ROA = 0,023183 - 0.012846 DKI - 0.000138 DPS + 0.005935 FDR - 0,375707 NPF + e

Research Discussion Results

The Effect of Independent Board of Commissioners (DKI) on Profitability (ROA)

It can be seen that the DKI variable has a negative coefficient value with a value of -0.012846 and a probability value of 0.6586> 0.05, this shows that the DKI variable has an insignificant effect on the ROA variable. Thus in this research hypothesis, Ho is accepted and Ha is rejected, meaning that the growth of a bank's DKI ratio will not affect the bank's profitability.

The results of this study are in line with the results of research from (Albert & Jogi, 2020) which states that the Independent Board of Commissioners (DKI) has no effect on Profitability (ROA). The Independent Board of Commissioners (DKI) has a crucial role in overseeing and advising company management to ensure transparency, accountability, and compliance with good corporate standards. Although it is important to maintain integrity and good governance, DKI does not have a significant impact on company profitability.

The Effect of Sharia Supervisory Board (DPS) on Profitability (ROA)

It can be seen that the DPS variable has a negative coefficient value with a value of -0.000138 and a probability value of 0.6757> 0.05, this indicates that the DPS variable has an insignificant effect on the ROA variable. Thus, in this research hypothesis, Ho is accepted and Ha is rejected, meaning that the growth of a bank's DPS ratio will not affect bank profitability.

The results of this study are in line with the results of research from (Intia & Azizah, 2021) which states that the Sharia Supervisory Board (DPS) has no effect on profitability performance (ROA). The Sharia Supervisory Board (DPS) has no significant effect on Profitability (ROA), this can be explained by the influence of DPS which is not involved in making strategic operational or management decisions that directly affect the company's revenue and costs (Surepno & Minoto, 2018). The profitability of Islamic companies is more influenced by factors such as operational efficiency, marketing strategies, market conditions, and risk management policies. Thus, DPS has no direct influence on revenue management, cost reduction, or efficiency improvement, which are the main factors in increasing profitability.

Effect of Liquidity (FDR) on Profitability (ROA)

It can be seen that the FDR variable has a positive coefficient value with a value of 0.005935 and a probability value of 0.2872> 0.05, this indicates that the FDR variable has an insignificant effect on the ROA variable. Thus in this research hypothesis, Ho is accepted and Ha is rejected, meaning that the growth of a bank's FDR ratio will not affect bank profitability.

The results of this study are in line with the results of research from (Hakimul ’Izza & Utomo, 2022) with the results of a negative and insignificant effect (Rahmawati & Handri, 2021) which states that Liquidity (FDR) does not have an influence on the Profitability variable (ROA). prove not the same as the hypothesis in this study with the state of the financing relationship of five years of observation (2017-2023 period).

Effect of Asset Quality (NPF) on Profitability (ROA)

It can be seen that the NPF variable has a negative coefficient value of -0.375707 and a probability value of 0.0098 <0.05, which means that NPF indicates that the NPF variable has a negative and significant effect on the ROA variable. Thus in this research hypothesis, Ho is rejected and Ha is accepted, meaning that the lower the NPF ratio of a bank, the higher the bank's profitability.

The results of this study are in line with the results of research from (Tehresia et al., 2021) and (Izzah et al., 2019) which states that NPF has a significant negative effect on profitability. Good asset quality not only affects the level of profit but also creates a stable environment for long-term growth. Banks with low NPF have fewer barriers to lending, allowing them to support the economy and society.

CONCLUSION

This study aims to investigate the effect of Asset Quality with the proxy Non-Performing Financing (NPF), Liquidity with the proxy Financing Deposit Ratio (FDR), the ratio of the number of Independent Commissioners to the number of Commissioners, and the frequency of Sharia Supervisory Board meetings on Profitability or Return On Asset (ROA) at Islamic Commercial Banks registered with OJK for the period 2017-2023.

Based on the results of the analysis that has been carried out, it can be concluded that Based on the results of the analysis partially Non-Performing Financing (NPF) has a negative and significant effect on Return on Asset (ROA) which means that the higher the NPF ratio of a bank, it will reduce the profitability of Islamic Banks and vice versa. The Financing to Deposit Ratio (FDR) of the Independent Board of Commissioners, and the Sharia Supervisory Board have no significant effect on Return on Assets (ROA) which means that the growth of FDR, DKI, and DPS will not affect Profitability.

Advice

Based on the results of the research that has been done, the suggestions that can be conveyed for further research are;

First, it is recommended to add other independent variables because it is very possible that other financial ratios that are not included in the study as well as other factors in Islamic banking corporate governance can affect profitability. Second, updating the research sample by using the latest year to come or extending the research period. Third, further research is expected to use more complete and accurate methods and test tools so as to obtain more valid results.

For the Company, it is advisable for Islamic banking management to further improve the efficiency of channeling funds carefully so as to reduce the risk of bad debts that can affect bank profitability.

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