

Analysis Of Factors Affecting The Market Share Of Sharia Banking In Indonesia

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Abstract

This study aims to analyze the effect of inflation, economic growth, BI rate, and Capital Adequacy Ratio (CAR) on the market share of Islamic banking in Indonesia for the period 2015 - 2022. The data used is secondary data in the form of quarterly time series data. sourced from Indonesian Central Bank (BI), Statistics Central Bureau (BPS), and Indonesian Financial Authority (OJK). The method used is multiple linear regression and uses the SPSS 25 program. The results of this study indicate that partially the Inflation and Capital Adequacy Ratio (CAR) has a significant positive effect, and the BI rate variable has a significant negative effect on the market share of Islamic banking in Indonesia. Meanwhile, economic growth variables have no effect. Simultaneously, all independent variables have a significant influence on the market share of Islamic banking in Indonesia.

Keywords: BI rate ; CAR ; economic growth ; inflation ; market share

Introduction

In the economy of a region or country, the existence of banking as a financial institution is very important, and almost all activities are related to finance. The progress of a country can also be measured based on the progress of banking in that country. The more the role of banking in controlling a country, the more developed the country will be. Bank is a financial institution whose main activity is to collect funds from the public and these funds are channeled back to the community and provide other banking services.

The reason why the Indonesian state must continue to improve the development of sharia banking, namely in addition to the great potential for the Indonesian nation to become a world financial center is because 86.7% or around 231 million Indonesians adhere to Islam. This shows a community that cannot be said to be small. In the current era, Islamic banking is showing quite rapid development, even though the existence of banking in Indonesia itself is still dominated by conventional banks.

There is a need for public understanding of this Islamic bank. So that the market share of Islamic banking in Indonesia can increase according to the expected target. Market share analysis reflects marketing performance associated with competitive position within a company. Market share is an indicator, the key to market competition, which shows how well a company reaches the market against

its competitors. The following is the development of the market share of Islamic banking and conventional banking in Indonesia:

Table 1.1 Development of Sharia Banking and Conventional Banking Market Share

Season	Market Share	
	Syariah banking	Coventional banking
2015	4.59%	95.41%
2016	4.94%	95.06%
2017	5.81%	94.19%
2018	5.71%	94.29%
2019	5.85%	94.15%
2020	6.08%	93.92%
2021	6.41%	93.59%
2022	6.75%	93.25%

Source: Financial Services Authority (data processed) 2022

The market share value of Islamic banking in Indonesia for the period 2015 to 2022 tends to experience a relatively small increase. This is not in line with the vision of developing Sharia banking services which have been implemented since 2015-2019 and was published by the OJK on September 10, 2015, with a target market share of Sharia banking of 10%, whereas in 2019 the market share value was only at 6.18% and did not meet the desired target. Bank Indonesia has also set a target market share for the Islamic finance industry in Indonesia in 2023 at 20%, while the market share in 2022 is 6.75%. This is still far from the expectations conveyed by the Governor of Bank Indonesia Perry Warjiyo at the Shari'a Economic Festival (ISEF) or the 2018 Indonesian Sharia Economic Festival.

In carrying out their operational activities, banks are inseparable from the influence of economic conditions. The development of an industry's market share, especially banking, requires an environmental analysis that includes the external and internal environment. Analysis of the external environment can help companies anticipate opportunities and threats from outside the company (Pradana, 2019). In this study, inflation, economic growth, and the BI rate are the macroeconomic factors of the external environment. While the internal environment used is related to financial ratios, namely CAR.

Table 1.2 Developments in Inflation, Economic Growth, BI Rate, and CAR

Season	Inflation	BI Rate	CAR	E
2015	3.35%	7.50%	15.02%	5,03%
2016	3.02%	4.75%	16.63%	4,88%
2017	3.61%	4.25%	17.91%	5,07%
2018	3.13%	6.00%	20.39%	5,17%
2019	2.72%	5.00%	20.59%	5,02%
2020	1.68%	3.75%	21.64%	-2,07%
2021	1.87%	3.50%	25.71%	3,70%
2022	5.51%	4.75%	16.63%	5,31%

Source: Central Statistics Agency, Bank Indonesia, and the Financial Services Authority 2022

Based on Figure 1.2, inflation, economic growth, the BI Rate and CAR always fluctuate. So that the market share of Islamic banking is important and very interesting to study because until now in Indonesia and stakeholders are still exploring ways to increase the market share of Islamic banks in Indonesia so that it is by the expected target. By observing financial performance indicators and macroeconomic factors that influence the market share of Islamic banking in Indonesia. Therefore, it is necessary to analyze what factors influence the market share of Islamic banking in Indonesia from 2015 to 2022.

Literature Review

Financial Markets

Well-functioning financial markets and financial intermediaries are critical to the health of the economy. Financial markets play an important role in the economy by channeling funds from households, companies, and governments that have saved excess funds to those who have a shortage of funds. Financial markets play an important role in the economy by channeling funds from households, companies, and governments that have saved excess funds to those who have a shortage of funds (Mishkin, 2011). Fund owners are those who have excess funds but do not have profitable investment opportunities. Meanwhile, borrowers of funds are those who need funds to realize their investment projects, and/or for consumption, because they consider that the utility of consuming now is higher than delaying it until they have enough money (Ktut Silvanita, 2009).

In practice, Bank Indonesia has the authority to conduct monetary policy by setting monetary targets (such as money supply or interest rates) with the main objective of maintaining the inflation rate target set by the Government. To achieve the inflation target, monetary policy is implemented in a forward-looking manner, meaning changes to the monetary policy stance are carried out by evaluating whether future inflation developments are still in line with the inflation target that has been announced. Within this framework, monetary policy is also marked by policy transparency and accountability to the public. Operationally, the monetary policy stance is reflected by the determination of the policy interest rate (BI rate) which is expected to influence money market interest rates and bank deposit and lending rates. This change in interest rates will ultimately affect output and inflation (Bank Indonesia, 2010).

Islamic Bank

Islamic banks are banks whose activities lead to Islamic law. In its activities, it does not charge interest and does not pay interest to customers. The rewards received by Islamic banks and those paid to customers depend on the contracts and agreements between the bank and the customer (Ismail, 2016). In the world of Sharia banking, according to Islamic law, Islam prohibits practices that contain *maishir*, *gharar*, or *usury*, so there is no interest in Sharia banks to the basic principles of Islamic teachings (Yushmad, 2018).

The development of Islamic banking is expected to be able to compete in the market. The market is defined as people who have the desire to satisfy, the money to spend, and the willingness to spend it. The market is all the forces and circumstances that result in decision-making by buyers and sellers resulting in the exchange (buying and selling) of goods (Subagyo, 2007). As a meeting place for sellers and buyers, the market has an important role in the economy because the market is the place where prices are formed.

Market Shares

In simple terms, market share is the percentage of the total market area that can be controlled by a company. The market share of Islamic banks is a comparison of how much or how many people use Islamic banks in conducting economic and financial transactions. The main goal of most companies is to increase profits (profitability) in the short term and increase market share in the medium and long term.

The market share of Islamic banking can be concluded as a comparison between the total assets of Islamic banking in Indonesia to the total assets of national banking. The formula used to calculate the market share of Islamic banks is as follows:

The size of the market share will change at any time, this is caused by consumer tastes and the shift in consumer interest from one product or service to another product or service that is considered more attractive. Market share is often used as an indicator to see market power and also how important the company is in the market.

Inflation

Inflation is a continuous increase in the price level, affecting individuals, businesses, and governments. The change in the price level is called the rate/inflation rate, where. Mishkin (2008:14) defines it as a rate that is usually calculated as the percentage change per year in a certain period of the average growth rate of the money supply during the same period (Mishkin, 2008:13)

If inflation increases, interest rates will decrease. When interest rates decrease, the demand for money loans from banks will be greater, and people usually choose to borrow more money from banks than save. This is because interest on savings deposits is reduced due to inflation. Conversely, if interest rates are high, customers will save at conventional banks, and this will result in a decrease in the market share of Islamic banking.

Economic growth

According to Sukirno, economic growth means the development of activities in the economy that causes goods and services produced in society to increase and people's prosperity to increase. Mishkin (2009:59) explains that stable economic growth will directly encourage companies to invest or encourage people to save. This is because economic growth is closely related to the provision of employment, where the business world is more likely to invest in capital equipment to increase productivity and economic growth when unemployment is low.

BI Rate

The Liquidity Preference Theory of interest rate put forward by John Maynard Keynes in 1936, argued that people's ability to save depends more on their level of income. While interest rates play a second role in influencing people's decisions to save. So that interest rates are a monetary phenomenon and are determined by the interaction of the money supply and society's aggregate demand for money (Boediono, 1985: 83).

Conventional banks such as Mandiri, BNI, and other banks set interest by referring to the BI rate set by Bank Indonesia. Meanwhile, Islamic banks do not use the BI rate reference because the application of interest is not permitted in Islamic banks. However, Bank Indonesia's interest rate still has an impact on Islamic banks, namely when the BI rate rises, the market share of Islamic banking in Indonesia will decrease

Capital Adequacy Ratio

CAR indicates whether the decline in bank assets can still be compensated for by the available bank equity. The higher the capital adequacy ratio, the better the condition of the bank. A high CAR indicates that the bank has high capital adequacy so that the bank can freely place its funds into profitable investments to increase customer confidence. If the CAR ratio increases, the market share of Islamic banking will increase. If the value of the bank's CAR ratio is higher, the level of capital adequacy will be better, so public trust in banks will be stronger.

Research methods

This type of research is descriptive research with a quantitative approach that aims to explain the effect of the independent variables on the dependent variable. The type of data in this research is secondary data. The secondary data used is time series data from the first quarter of 2015 to the fourth quarter of 2022. Data were obtained from relevant government agencies namely the Financial Services Authority, the Central Statistics Agency, and Bank Indonesia as well as scientific literature in journals (articles) and theses.

This study uses a multiple linear regression analysis method which is equipped with several statistical tests, namely the classic assumption test and hypothesis testing with the help of IBM SPSS version 25 software. The basic model of multiple linear regression from this study can be formulated as follows:

$$Ms = \beta_0 + \beta_1 Inf + \beta_2 Pe + \beta_3 Sbr + \beta_4 Cr + e$$

Information :

Ms: Market Share (%)

Inf: Inflation (%)

Pe: Economic growth (%)

Sbr: BI Rate (%)

Cr: Capital Adequacy Ratio (%)

β_0 : Constant

$\beta_1, \beta_2, \beta_3, \beta_4$: Regression coefficients Inf, Pe, Sbr and Cr

e: Standard Error/Confounding Variable

Results and Discussion

Based on the results of testing the classical assumption test and hypothesis testing. Then the results of the regression calculation are obtained as follows:

Table.4.1 Normality Test Results

Skewness		Kurtosis	
Statistic	Std. Error	Statistic	Std. Error
.230	.414	-.987	.809

Source: Processed data using SPSS statistics 25 (2023)

The skewness and kurtosis ratio values are at 0.556 and -1.220 between -2 to 2 so it can be concluded that the data used is normally distributed.

Table 4.2 Multicollinearity Test Results

Model	Tolerance	VIF
(Constant)		
Inflasi	.535	1.869
Pertumbuhan Ekonomi	.826	1.210
BI Rate	.400	2.498
CAR	.526	1.901

Source: Processed data using SPSS statistics 25 (2023)

This is to the test criteria that the results of the multicollinearity test have no correlation coefficient between variables with a tolerance value of > 0.01 and a variance inflation factor (VIF) value of < 10 . So it can be concluded that the data used does not have multicollinearity problems.

Table 4.3 Autocorrelation Test Results

Asymp. Sig. (2-tailed)	.106
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Source: Processed data using SPSS statistics 25 (2023)

The results of the autocorrelation test were obtained from the Asymp. Sig. (2-tailed) of $0.106 > 0.05$, it can be concluded that the data used has no symptoms of autocorrelation.

It can be seen that the significance value (Sig) of the inflation variable is 0.644, the economic growth variable is 0.696, the BI rate variable is 0.789, and the CAR variable is 0.825. This means that all sig values are greater than 0.05.

Table 4.4 Hasil Uji Heteroskedastisitas

Model	Sig.
(Constant)	.396
Inflasi	.644
Pertumbuhan Ekonomi	.696
BI Rate	.789
CAR	.825

Source: Processed data using SPSS statistics 25 (2023)

Sig value $0.000 < 0.05$ then the hypothesis is accepted. Inflation (X1), economic growth (X2), BI rate (X3), and CAR (X4) simultaneously affect the market share of Islamic banking (Y).

Table 4.5 F test results

Model	F	Sig.
Regression	61.559	.000 ^b
Residual		
Total		

Source: Processed data using SPSS statistics 25 (2023)

This means that the ability of the variables of inflation, BI rate, economic growth, and CAR in explaining the variable market share of Islamic banking is 90.1%, the remaining 9.9% is explained by other variables not discussed in this study.

In this study, the hypothesis put forward is that there is an influence between inflation, economic growth, the BI rate, and CAR on the market share of Islamic banking in Indonesia in the first quarter of 2015 - the fourth quarter of 2022. Based on the test results using multiple linear regression with the SPSS version 25 program. Inflation and CAR variables influence the market share of Islamic banking. Meanwhile, the BI rate variable has a significant negative effect, and the economic growth

variable does not affect the market share of Islamic banking in Indonesia.

Conclusion

Based on the results of the research and discussion, it can be concluded that the factors influencing the market share of Islamic banking in Indonesia in 2015-2022 are inflation and CAR with a positive coefficient direction and the BI rate with a negative coefficient direction. The economic growth variable has no effect. The perception factor is very influential on people's interest in using Islamic banking services.

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