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**Be The Throne of Science, Religion and Culture
Toward The Civilized Society**

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FACTORS INFLUENCING MARKET SHARE OF ISLAMIC BANKING IN INDONESIA

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SUMMARY

Islamic banking in Indonesia has been growing since last decade. Information about its market share is important. This research aims to know the factors that influencing the Market Share of Islamic Banking in Indonesia. This research was conducted with secondary data. Data retrieved from a report data publication of Bank Indonesia (BI) consisting of Islamic Banking Statistics and the reports of the development of Islamic banking. The analysis methods used were linier regression, F-tests, and t- test.

Based on F-test, the variables of DPK, ROA, NPF, FDR, and the NISB were jointly influenced the market share of Islamic banking in Indonesia. Based on the t-test, it can be inferred that variables of DPK, ROA, NPF, and NISB partially influenced toward market share of Islamic banking in Indonesia. Variables of DPK, ROA, and FDR had positive influence, but NISB had negative influence toward market share of Islamic banking in Indonesia. The implication of this research were that the Islamic bank should increase the expected DPK, and ROA and lower NISB to increase the market share in Indonesia.

Keywords : Market share, DPK, ROA, NPF, FDR, and NISB, Islamic banking.

Background

Market share of Islamic Bank in Indonesia is still low, this is because of strongly competition from commercial bank. Until the end of 2010, the market share of the Islamic banking is still below target of PAPBS that amounted to 3.24 percent. Bank of Indonesia initiated the growth acceleration program of Islamic banking through Accelerated development program of Islamic banking (PAPBS) as it is stated in the Blueprint of Syariah Banking.

Table 1: Market Share of Islamic Banking in Indonesia 2006-2010

	2006	2007	2008	2009	2010
Assets (billion Rupiah)	26.722	33.016	49.555	66.090	97.519
Market share (%)	1,58	1,84	2,14	2,61	3,24

Resource: Report of Islamic Banking Bank of Indonesia

Based on the information above there are the development assets of Islamic Banking during last five years by 70797 billion rupiahs or 2.65 percent. Market share also increase in the same period from 1.58 percent to 3.24 percent. But compared to conventional bank its is still very low and there is good opportunity to increase market share.

Development of comparison Assets of Islamic banking and conventional banking in Indonesia during 2006 to 2010 can be looked at table 2 below:

Table2: Comparison Assets of Islamic banking and conventional banking in Indonesia during 2006 to 2010 (billion Rupiahs)

year	Islamic Banking			Conventional Banking		
	Assets	ΔAsset	% Δ Aset	Assets	Δ Aset	% Δ Aset
2006	26.722	-	-	1.693.850	-	-
2007	33.016	6.294	23	1.986.501	292.651	17
2008	49.555	16.539	50	2.310.557	324.056	16
2009	66.090	16.535	33	2.534.106	223.549	9
2010	97.519	31.429	47	3.008.853	474.747	18
	Average		38.25			15

Sources: Statistic Bank of Indonesia 2006-2010

Where:

ΔAsset = differences between assets in year t and year t-1

%ΔAsset= percentage between assets in year t and year t-1

Based on the data in table above there are information about development of Islamic banking and conventional banking. Compared to conventional bank, Islamic banking had higher increasing assets. Islamic banking assets increase by average 38.25 percent per year and conventional banking increased only 15 percent per year during 2006 to 2010.

The purpose of this research is to analyze the influence of variables DPK, ROA, NPF, FDR, and NISB toward the market share either jointly and partially of Islamic bank in Indonesia. This research used secondary data published by report of Bank Indonesia (BI) period of 2006 to 2011 that consisted of Islamic Banking Statistics and its development. Research objects: this research used 23 Islamic Bank in Indonesia. The method of analysis used linier regression model, F-tests, and t- test.

Definition of operational variables;

- Market share is the percentage comparison between the total assets of the Islamic banking in Indonesia against total assets of national banking, with the formula as follow:

- $market\ share = \dfrac{total\ assets\ of\ Islamic\ bank}{total\ assets\ of\ national\ bank} X\ 100\%$

- Third party funds (DPK)

- *Return on Asset* (ROA)

- $ROA = \dfrac{earning\ before\ taxes}{total\ assets} X\ 100\%$

- *Non Performing Financing* (NPF)

- $NPF = \dfrac{total\ bad\ financing}{total\ financing} X\ 100\%$

- *Financing to Deposit Ratio* (FDR)

- $FDR = \frac{total\ financing}{total\ deposit} X\ 100\%$

- Financing for result (NISB)

    The general form of regression is as follow: (Damodar Gujarati)

    $Y_i = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + ... + \beta_k X_{ki} + e_i$

    where:

    Y_i = dependent variable

    i = 1,2,3,...,N (observation)

    a = Constant

    $\beta_1, \beta_2, \beta_3, ..., \beta_k$ = regression coefficients

    $X_1, X_2, X_3, ..., X_{ki}$ = Independent Variables

    e_i = error

    The operational forms ia as follow:

    PP = f(DPK, ROA, NPF, FDR, NISB)

    $PP = a + \beta_1 (ln)DPK + \beta_2 ROA + \beta_3 NPF + \beta_4 FDR + \beta_5 NISB + e_t$

    where :

    MS = market share (percentage)

    a   = Constant

    $\beta_1, \beta_2, \beta_3, ..., \beta_k$ = regression coefficients

    DPK = third party fund (billion Rupiah)

    ROA = Return on Asset (percentage)

    NPF = Non Performing Financing (percentage)

    FDR = Financing to Deposit Ratio (percentage)

    NISB = Financing for result (percentage)

    ei = error

    Software used was Microsoft Office Excel dan Eviews 4.0.

    Due to the unit of DPK variable is differ from other variable so to make easy the interpretation of result the regression model used semi logarithmic model, and DPK used natural logarithmic notation.

Test of Adjusted R-Square (determination coefficient)

This test is used to measure how much the variation of dependent variable can be explained by variation of independent variables. Value of Adjusted R square is between 0 to 1.

Test the value of F-statistic

This test is used to know the significant of influencing independent variables jointly toward dependent variable . Using degree of freedom (df) = (k-1) (n-k) and in this research used $\alpha = 0,05$.

Test of t-statistic

This test is used to know the significant influence of independent variables partially towards dependent variable and in this research used $\alpha = 0,05$.

Research result

The following data are about the performance of some factors related to development of Islamic Banking in Indonesia during 2006 to 2011

Table 3: Data of variables of research from March 2006 to September 2011

Time/period	Market Share(%)	DPK billion Rp.	ROA(%)	NPF(%)	FDR(%)	NISB (%)
Mar-06	1,40	14.955	1,32	4,27	106,96	11,42
Jun-06	1,49	16.432	1,51	4,23	110,52	12,27
Sep-06	1,54	17.975	1,41	5,13	109,39	12,1
Des-06	1,58	20.672	1,55	4,75	98,90	13,73
Mar-07	1,67	21.883	1,75	4,75	95,14	14,69
Jun-07	1.65	22.714	1,88	6,20	101,12	13,88
Sep-07	1,72	24.680	1,85	6,29	101,96	13,82
Des-07	1,84	25.473	1,78	4,05	99,76	16,93

Mar-08	2,28	29.552	2,59	4,17	100,26	20,31
Jun-08	2,10	33.049	2,32	4,23	103,18	19,11
Sep-08	2,15	33.569	2,21	4,12	112,25	19,43
Des-08	2,14	36.852	1,42	3,95	103,65	19,38
Mar-09	2,34	38.040	2,44	5,14	103,33	19,01
Jun-09	2,34	42.103	2,16	4,39	100,22	19,19
Sep-09	2,42	45.381	1,38	5,72	98,11	19,33
Des-09	2,61	52.271	1,48	4,01	89,70	19,11
Mar-10	2,70	52.811	2,13	4,53	95,07	17,87
Jun-10	2,80	58.078	1,66	3,89	96,08	17,6
Sep-10	3,02	63.912	1,77	3,95	95,40	17,03
Des-10	3,24	76.036	1,67	3,02	89,67	17,39
Mar-11	3,30	79.651	1,89	3,60	93,28	16,93
Jun-11	3,43	87.025	1,65	3,55	92,87	16,45
Sep-11	3,65	97.756	1,64	3,50	92,69	16,61

Source: calculated from secondary data based on the Bank of Indonesia report.

To know the meaning and interpretation of the data, the following operation conducted calculation regression analyses based on methodology mentioned above. Firstly using Eviews 4.0 result the following information in table 4 below. Before interpret the meaning of result, research conducted classical assumption test that consist of test of multicollinearity, test of heteroscedasticity and test of Autocorrelation.

Table 4. Output of multiple regression operation

Variables	coefficients	t - calculation	Prob.
Constant	-10,09068	-10,06670	0,0000
(ln)DPK	1,229077	19,46623	0,0000
ROA	0,148909	2,295653	0,0347
NPF	-0,082800	-3,093686	0,0066

FDR	0.001578	0.357037	0.7255
NISB	-0,034910	-3.397247	0.0034

R-squared= 0.987465
Adjusted R-squared= 0.983778
S.E. of regression=0.086006
Sum squared residual=0.125750
Log likelihood=27.26736
Durbin-Watson stat=2.369795
Mean dependent var= 2.322174
S.D. dependent var= 0.675271
Akaike info criterion=-1.849336
Schwarz criterion=-1.553120
F-statistic=267.8368
Prob(F-statistic)= 0.000000

Sorce: operated data using *Eviews 4.0,*

After testing classical assumption of the result of calculation and succeeded, meaning that the result can be used to make interpretation.

Based on table 3 above can be stated that the form of regression model as follow:

$MS = -10,091 + 1,229(\ln)DPK + 0,149ROA - 0,083NPF + 0,002FDR - 0,035NISB$

$\qquad\qquad\qquad$ (19,466) $\qquad$ (2,296) $\quad$ (-3,094) $\qquad$ (0,357) (-3,397

$F_{calculation}$ = 267,8368

F-table = 2,96

t- table = 2,101

Adjusted R-Squared = 0,983778

n = 23

interpretation

a. *Adjusted R-Squared*
value of *Adjusted R-Squared* is 98,37 percent, its mean that the model is reliable to be used to interpret the result. The meaning that 98,37 percent variation of dependent variable (MS) was explained by variation of

independent variables (DPK, ROA, NPF, FDR, and NISB), and 1.63 percent is explained by other variables that were not be studied.

b. F-test

based on F-test using *level of* confidence 95 percent or $\alpha = 0,05$, show that the value of F-calculation $= 267,83$ and the value of F-table $= 2,96$. This means that F-calculation is bigger than F-table means that variables of DPK, ROA, NPF, FDR, and NISB jointly significant influenced toward market share (MS) of Islamic Bank in Indonesia.

c. t-test

The following table 3 show the result of multiple linear regression using Eviews 4.0 to look at the inter correlation between dependent variable and independent variables partially.

Table 5. Partially result of linear multiple regression

	coefficient	t-calculation	t-table
(ln)DPK	1.229077	19.46623	2,101
ROA	0.148909	2.295653	2,101
NPF	-0.082800	-3.093686	-2,101
FDR	0.001578	0.357037	2,101
NISB	-0.034910	-3.397247	-2,101

Source : operated data using Eviews 4.0

1) DPK

The coefficient of DPK variable was 1.229077 and because of t-calculation was greater than its t-table, means that DPK had positive significant influence toward Market Share (MS) of Islamic Banking in Indonesia by 1.23 percent. Meaning that when third party fund (DPK) increase one percent then Market Share will increase 1.23 percent. Ceteris paribus.

2) ROA

3) The coefficient of ROA variable was 0.148909 and because of t-calculation was greater than its t-table, means that ROA had positive significant influence toward Market Share (MS) of Islamic Banking in Indonesia by

14.89 percent. Meaning that when return on assets (ROA) increase one percent then Market Share will increase 14.89 percent. Ceteris paribus.

4) NPF

5) The coefficient of NPF variable was -0.082800 and because of t-calculation was -3.093686 and smaller than -2,101 greater than its t-table, means that NPF had negative significant influence toward Market Share (MS) of Islamic Banking in Indonesia by 8.28 percent. Meaning that when non performing finance (NPF) increase one percent then Market Share will decrease 8.28 percent. Ceteris paribus.

6) FDR

FDR variable was not significant influence toward Market share so statistically there is no meaning.

7) NISB

The coefficient of NISB variable was -0.034910 and because of t-calculation was -3.397247 and smaller than -2,101 t-table, means that ROA had negative significant influence toward Market Share (MS) of Islamic Banking in Indonesia by 3.49 percent. Meaning that when nisbah of financing increase one percent then Market Share will decrease 3.49 percent. Ceteris paribus.

Conclusion and implication

Conclusion

Based on the above analyses the conclusion on the research as follow. Independent variables, i.e. third party fund (DPK), return on assets (ROA), non performing financing (NPF), financing to deposit ratio (FDR), and Nisbah of financing (NISB), jointly had significant influence toward market share of Islamic banking in Indonesia. Partially the influence of independent variables are follow. Ceteris paribus. Related to third party fund (DPK), when third party fund (DPK) increase one percent then Market Share will increase 1.23 percent. The influence of return on assets is when return on assets (ROA) increase one percent then Market Share will increase 14.89 percent. For NPF, when non performing finance (NPF) increase one percent then Market

Share will decrease 8.28 percent. And for FDR variable was not significant influence toward Market share so statistically there is no meaning. For nisbah of financing (NISB) when nisbah of financing increase one percent then Market Share will decrease 3.49 percent.

Implication

Market share of Islamic banking in Indonesia is very important to increase participation in performing Islamic banking in Indonesia. Islamic banking in Indonesia must formulate the program related to third party fund (DPK), return on assets (ROA), non performing financing (NPF), financing to deposit ratio (FDR), and Nisbah of financing (NISB), to increase market share.

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