

Performance measurement of Islamic banking in Indonesia using the maqashid sharia index method

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Abstract

This study aims to measure the performance of Islamic banking in Indonesia in 2014-2017 using MSI. This research is a quantitative descriptive study using the maqashid sharia index method, with 12 BUS as the object of research. The results of this research indicate that the highest MSI performance ratings were achieved by BPS (34.7%), BSB (32.6%) and BMI (31.6%), while the lowest rank was BTPNS. Islamic banking in Indonesia does not have consistency in applying maqashid sharia as a whole and has a fluctuating performance index. Another result is that the goal of achieving justice is Maqashid Sharia goal which is the main focus of Islamic banking in Indonesia in 2014 - 2017.

Key words: Performance, Islamic Banking, Indonesia, Maqashid Sharia Index

Abstrak

Penelitian ini bertujuan untuk mengukur kinerja perbankan syariah di Indonesia pada 2014-2017 menggunakan MSI. Penelitian ini adalah penelitian deskriptif kuantitatif dengan menggunakan metode indeks syariah maqashid, dengan 12 BUS sebagai objek penelitian. Hasil penelitian ini menunjukkan bahwa peringkat kinerja MSI tertinggi dicapai oleh BPS (34,7%), BSB (32,6%) dan BMI (31,6%), sedangkan peringkat terendah adalah BTPNS. Perbankan syariah di Indonesia tidak memiliki konsistensi dalam menerapkan maqashid syariah secara keseluruhan dan memiliki indeks kinerja yang berfluktuasi. Hasil lainnya adalah bahwa tujuan mencapai keadilan adalah tujuan Maqashid Syariah yang merupakan fokus utama perbankan syariah di Indonesia pada 2014 - 2017.

Kata kunci: Kinerja, Perbankan Syariah, Indonesia, Maqashid Sharia Index

Introduction

In the practice of banking in Indonesia there are two distinct characteristics, namely conventional banking that is identical to the interest system and Islamic banking with a profit sharing system, which both of them have relatively different operational activities in addition to carry out the main functions of banking namely receiving money, lending money and providing shipping services money. Based on the fatwa of the Indonesian Ulema Council No. 1 of 2004 about the prohibition of interest practices in banks which are linked to religious activities, and refers to Law No. 21 of 2008 about Sharia Banking that Sharia Banks are banks that carry out their business activities based on sharia principles and according to their types consist of Sharia Commercial Banks (BUS), Sharia Rural Financing Banks (BPRS) and including Sharia Business Units (UUS).

However, until now according to Prasetyowati and Handoko (2016) the majority of Islamic banking is still focused on the utilization of conventional benchmarks which are limited to financial ratios such as Capital, Assets, Management, Earnings, Liquidity and Sensitivity (CAMELS) with Data Envelope Analysis (DEA), Economic Value Added (EVA) and other methods are relatively low yields for Islamic banking and assume that their performance is bad when compared to the performance of conventional banks in Indonesia. The existence of different goals, theories and practices between Islamic banking and conventional banking is one of the causes of less suitable and low measurement results with conventional methods, as proposed by Mohammed, et al. (2008) that conventional benchmarks are uni-dimensional which focus on financial measures while Islamic banking should be multi-dimensional, so that the measurement of the performance of Islamic banking also requires other steps besides financial measures. This opinion is in line with what was suggested by Siddiqi (in Antonio et al., 2012) that in performance measurement of Islamic banking, it cannot be focused on financial measures alone, but needs to involve three indicators, namely economic, environmental and social performance indicators. If the Islamic banking system is expected to have sustainable growth, then its activities must be focused not only on the benefit approach for shareholders, but also socially and environmentally.

Al Jauzany (in Antonio et al., 2012) states that the concept of three basic lines is in line with the concept of maqashid sharia declared by Ibn Qayyim Al Jauzany, namely sharia in essence is to realize benefits for society. Mohammed, et al. (2008) conducted a study that is focused on the formulation of methods for measuring the performance of Islamic banking, namely Maqashid Sharia Index (MSI), which refers to Ibn Ashur's definition of sharia general objectives and subsequently classified by Abu Zaharah into three broad scope, namely educating individuals (tahdhib al-fard), building justice (iqamah al-'adl) and encouraging prosperity (jalb al-maslahah).

Research with the maqashid sharia index method is found in several research journals such as Mohammed, et al (2008), Antonio, et al (2012), Al Ghifari (2015), Prasetyowati and Handoko (2016), Rusydiana and Al Parisi (2016), Rusydiana and Firmansyah (2017). The researchers believe that the need for a new measurement model that is more in line with the characteristics of Islamic banking to assess bank performance. In fact, the related research journals have not been updated for both the year period and the number of research objects.

Departing from several things above, the researcher intends to use the maqashid index measurement method by Mohammed, et al (2008) by updating the number of objects and years of research. The aim is to measure the performance of Islamic banking in Indonesia, while at the same time compiling a performance rating of each BUS and looking for which sharia maqashid destination is the focus of current Islamic banking. It is hoped that this research can become a renewable source of information, more informative than previous research and more valid in terms of research period to assess the performance of Islamic banking in Indonesia over the past few years, during 2014 until 2017.

Literature Review

Islamic Banking

Islamic banking according to Sudarsono (2008) is state financial institutions that provide credit / financing and several other services that traffic payments or circulation of existing money, with references and use the principles of sharia or Islam. One of them is to stay away from usury practices with the sharing of profits or the principle of profit sharing and the application of contracts that guarantee the clarity of funds every day related to the responsibility for the yaumul qiyamah.

Islamic Banking Performance

According to Mohammed, et al. (2008) that Islamic banking is multidimensional so that it is less appropriate to only be judged from one side, such as conventional banking which tends to assess its financial performance which according to Sabir et al. (2012) financial performance is the result achieved by banks in managing the resources they have to achieve their goals. The need to consider various aspects of assessment in measuring the performance of Islamic banking such as finance, social and environmental which has been contained in the maqashid syariah concept.

Maqashid Sharia Index

Maqashid sharia index is the result of research from Mohammed, et al (2008) with the title "The Performance Measures of Islamic Banking Based on The Maqasid Framework". Based on the definition of Ibn Ashur regarding the purpose of sharia which is to create prosperity and avoid evil, which is then classified by Abu Zaharah into three main objectives, namely educating individuals (tahdhib al-fard), building justice (iqamah al-'adl), encouraging prosperity (jalb al-maslahah). The researcher developed these objectives using the Sekaran method (2000) into measurement aspects consisting of nine dimensions (D), ten elements (E) and ten ratios (R). The concept is illustrated in the following chart:

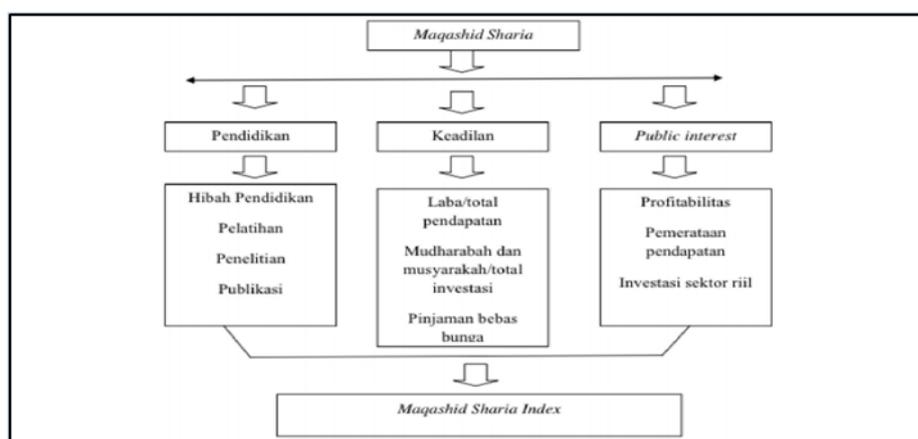


Figure 1. Framework Concept of Maqashid Sharia Index
Source : Prasetyowati and Handoko (2016)

Method

Data and Source

The data used in this study is secondary data taken from annual reports and sourced from the official website of each bank over the span of 2014-2017. BUS lists that are the object of research, namely Bank Muamalat Indonesia, Bank Victoria Syariah, Bank Rakyat Indonesia Syariah, Bank Jabar and Banten Syariah, Bank Negara Indonesia Syariah, Bank Syariah Mandiri, Bank Mega Syariah, Bank Panin Syariah, Bank Syariah Bukopin, Bank Central Asia Syariah, MayBank Syariah, and Bank Tabungan Pensiun Nasional. The object of research is only 12 BUS because Bank Aceh Syariah and BPD Nusa Tenggara Barat Syariah have only officially changed their operational systems in 2016, so that they are not included in the object of research so that the results of the study are more fair and valid.

Methodology

The performance calculation method of Islamic banking in this study is the Maqashid Sharia Index (MSI) method which refers to the research journal Mohammed, et al. from the definition

by Ibn Ashur and the classification compiled by Abu Zaharah, which was developed using the concept of Sekaran (2000) into three main goals / concepts (C) namely individual education (educating individuals), justice creation (establishing justice), and masalah achievement (public interest), then broken down into several dimensions (D), then the dimension is broken down into measurable behavior / characteristics called element (E). Then these elements are measured by predetermined ratios (R).

Table 1. Banking Performance Calculation through Maqashid Sharia Index

Objectives	Dimensions	Elements	Performance Ratios
1. Educating Individual	D1. Advancement of Knowledge	E1. Education grant or Scholarship/	R1. Education grant or Scholarship/ Total expenses
	D2. Instilling new skills and improvement	E2. Research	R2. Research exp/ Total Expenses
	D3. Creating awareness of Islamic Banking	E3. Training	R3. Training Exp/Total Expenses
2. Establishing Justice	D4. Fair returns	E4. Publicity	R4. Publicity exp/ Total Expenses
	D5. Cheap product and services	E6. Functional distribution	R6, Mudaharabah and musharakah modes/ Total investment modes
	D6. Elimination of negative elements that breed injustices	E7. Interest free product	R7. Interest free income/ Total income
	D7. Profitability of bank	E8. Profit ratios	R8. Net income/ Total assets
3. <i>Maslahah</i>	D8. Redistribution of income & wealth	E9. Personal income	R9. Zakah paid/ Net asset
	D9. Investment in vital real sector	E10. Investment ratios in real sector	R10. Investment in real economic sector/ Total investment

The following is the relationship between the objectives, elements and ratios of the maqashid sharia index that has been formulated :

1. The first goal which is the individual educational goals (educating individual) is described by R1; is the ratio of educational grants / total income. R2; is the ratio of research costs incurred by banks / total costs. R3; is the ratio of training costs / total costs. R4; is the ratio of publicity / total costs incurred by the bank. The interpretation of these four ratios is the higher the value of the ratio, in other words the higher the funds allocated for education, research, training and publications the better.
2. The second objective is the goal of establishing justice described by R5; is the bank's profit / total income ratio. R6; is the ratio of musyarakah and mudharabah / total investment banks. R7; is a ratio of non-interest income / total income. The profit / total income ratio shows

how much profit the Islamic bank gets, then the bank can increasingly implement the maqashid sharia because more funds will be used for banking zakat. The objective of creating R6 justice is distribution, namely the ratio of musyarakah and mudharabah financing / total bank investment. The more mudharabah and musyarakah financing means more and more are applying the principle of profit sharing. The third creation of justice is seen from the ratio of non-interest income / total income. This means that if the non-interest income is getting bigger, it shows that the bank has implemented the maqashid syariah concept.

3. The achievement goal (public interest) which is the third goal is described through R8, R9 and R10 based on this concept. The goal of achieving the people's welfare by Islamic banking is considered to be getting better if the R8, R9 and R10 are getting bigger. The greater the investment of the banking sector in the real sector, the more it is assessed by the national banking system to support the realization of this problem

In this study, the ratio that is used amounted to 9 ratios where the fair return ratio (R5) was not included in the calculation because the majority of the Profit Equalization Ratio (PER) component was not included in the BUS in Indonesia. Furthermore, the collected data will be multiplied by the weight of each predetermined component of the maqashid index. The following are the maqashid sharia index calculation weights, namely:

Table 2. Value of Banking Performance Calculation through Maqashid Sharia Index

Objectives	Average Weight (Out of 1)	Elements	Average Weight (Out of 1)
O1. Education (Tahdhib al-Fard)	0.30	E1. Education Grant/Scholarship	0.24
		E2. Research	0.27
		E3. Training	0.26
		E4. Publicity	0.23
		Total	1
O2. Justice (Al-Adl)	0.41	E5. Fair returns	0.30
		E6. Fair price	0.32
		E7. Interest free product	0.38
		Total	1
O3. Public Interest (Al-Maslahah)	0.29	E8. Bank's profit ratio	0.33
		E9. Personal income transfer	0.30
		E10. Investment ratios in real sector	0.37
Total	1	Total	1

Source : Mohammed et al (2008)

Then the calculation of index for each maqashid destination can be done in the ways below. The following is an example of calculating the objective performance index -1, namely individual education, i.e. :

$$IK(O1) = W_1^1 \times E1 \times R1 + W_1^1 \times E2 \times R2 + W_1^1 \times E3 \times R3 + W_1^1 \times E4 \times R4$$

or,

$$IK(O1) = W_1^1 (E1 \times R1 + E2 \times R2 + E3 \times R3 + E4 \times R4)$$

Information:

(O1) is maqashid sharia index, the first is that individual education W_1^1 1 is the weight for individual education

E 1,2, 3 is the weight for the first element in O1, O2, and O3

R 1, 2, 3 is a sample performance measure based on the ratio of the first elements O1, O2, and O3

From the summation above, the index of each of the maqashid sharia objectives will then be added up. The summation is as follows :

$$\text{Maqashid sharia index} = IK(O1) + IK (O2) + IK (O3)$$

Information:

IK (O1, O2 and O3) : First, second and third objective performance index

Result and Discussion

Total Ranking of Performance Achievement of Maqashid Sharia Islamic Banking in Indonesia

The results of the total performance ratings of Islamic banking from 2014 - 2017 in Indonesia based on Maqashid Sharia Index are as follows:

Table 3. Total Ranking Performance of 12 BUS Maqashid Sharia Index in Indonesia of 2014 – 2017

Islamic Bank Name	MSI Average of 2014-2017	Rank
Bank Syariah Mandiri	0.265335193	8
Bank Victoria Syariah	0.314330903	4
Bank Tabungan Pensiunan Nasional	0.166172713	12
Maybank Syariah	0.221167113	10
Bank Panin Syariah	0.347837875	1
Bank Central Asia Syariah	0.313303873	5
Bank Jabar Banten Syariah	0.290772043	6
Bank Muamalat Indonesia	0.316830635	3
Bank Mega Syariah	0.21107501	11
Bank Negara Indonesia Syariah	0.24754893	9
Bank Syariah Bukopin	0.326309813	2
Bank Rakyat Indonesia Syariah	0.276332713	7

Source: Data Processing (2013)

The first rank is occupied by BPS with a total performance of 34.7%, ranked second in the BSB with a performance of 32.6%, then BMI with a performance of 31.6%. At the top ten, BRIS was ranked seventh with a performance of 27.6%, BSM ranked eighth with a performance of 26.5% and BNIS ranked ninth with a performance of 24.8%. Meanwhile, at the bottom, BTPNS with a performance of 16.6%.

Maqashid Sharia Performance Ranking of Islamic Banking in Indonesia Per Year

The following are the results of the index value of 12 Islamic banks in the form of rankings for each year of the study, i.e:

Table 4. Ranking Performance of Maqashid Sharia Index 12 BUS Per Research Year

Bank Name	2014		2015		2016		2017	
	MSI	Rank	MSI	Rank	MSI	Rank	MSI	Rank
BSM	0.251892	8	0.26089	8	0.2729	7	0.2756606	7
BVS	0.310073	4	0.270219	7	0.34332	1	0.3337082	3
BTPNS	0.167303	12	0.162408	12	0.16666	12	0.1683226	12
MBS	0.241637	11	0.212807	10	0.24022	10	0.1900097	11
BPS	0.377491	1	0.37806	1	0.28778	5	0.3480132	1
BCAS	0.320164	2	0.319376	4	0.30817	4	0.305505	5
BJBS	0.301728	6	0.29255	5	0.28772	6	0.2810849	6
BMI	0.314441	3	0.319949	3	0.32004	3	0.3128909	4
BMS	0.245243	9	0.170466	11	0.21112	11	0.2174732	10
BNIS	0.244833	10	0.252694	9	0.24458	9	0.2480841	9
BSB	0.309613	5	0.323227	2	0.33089	2	0.3415124	2
BRIS	0.294339	7	0.287072	6	0.27221	8	0.2517077	8

Source: Data Processing (2013)

In the four years of this study, it was found that the performance of Islamic banking in Indonesia still experienced fluctuations, especially in 2014-2015, which was affected by the currency crisis. However, there are three banks that have consistently ranked in the top three in achieving their performance, namely BPS, BSB and BMI.

Achievement of Islamic Banking Performance in di Indonesia in 2014 – 2017 Based on Maqashid Sharia Index

The results of Islamic banking performance with maqashid sharia index in descriptive statistics are as follows:

Table 5. Descriptive Statistics of Results of Maqashid Sharia Index in 12 BUS in 2014 - 2017

Descriptive Statistic	Data
The Highest Score	0.378064
The Lowest Score	0.162408
Mean	0.274751
Deviation Standard	0.05578

Source: Data Processing (2013)

From the table, it was found that the highest maqashid sharia performance achievement was achieved by BPS in 2015 with a performance of 37.8%, and the lowest performance was BTPNS with 16.2% (2015). The average performance achievement of Islamic banking in Indonesia is 27.5%, the standard deviation value is 5%, which means that each maqashid sharia

performance data / value has a distance of about 5% of the average value. It was also found that there were three banks that were quite consistent in maintaining an increase in their performance index, namely BSM, BSB and BTPNS.

Islamic Banking Performance Based on Three Purposes of Maqashid Sharia Individual Education Goal Performance (*Educating Individual*)

The ranking of the performance of Islamic banking in individual education is as follows:

Table 6. Average Value of Maqashid Sharia Index 1st Goal (Educate Individuals)

Bank Name	Performance Index (1)	Rank
BSM	0.001664925	6
BVS	0.001347225	9
BTPNS	0.003298425	2
MBS	0.00109665	10
BPS	0.001484025	7
BCAS	0.001447425	8
BJBS	4.9653E-06	12
BMI	0.00289485	3
BMS	0.00033981	11
BNIS	0.005516775	1
BSB	0.00277155	4
BRIS	0.002537085	5

Source: Data Processing (2013)

In this first objective, the performance index value obtained is very small, one of them is because the majority of BUSs in Indonesia have not applied the four MSI ratios. The highest score was BNIS's performance of 0.55%, followed by the second rank of BTPNS with a performance of 0.3%, then ranked third in Bank Muamalat Indonesia (BMI) 0.28%. And for the most recent ranking is BJBS with a very small value of 0.005%.

Performance Objectives of Justice Creation (*Establishing Justice*)

The ranking of the performance of Islamic banking in individual education is as follows:

Table 7. Average Value of Maqashid Sharia Index 2nd Goal (Justice Creation)

Bank Name	Performance Index (1)	Rank
BSM	0.18606866	7
BVS	0.232351715	2
BTPNS	0.155780525	12
MBS	0.177559725	10
BPS	0.26929128	1
BCAS	0.21639226	5
BJBS	0.184905695	8
BMI	0.224259955	3
BMS	0.163569295	11
BNIS	0.181701135	9
BSB	0.2215681	4
BRIS	0.002537085	5

Source: Data Processing (2013)

BPS is bank with the highest performance achievement for the purpose of achieving justice, which is 27%, followed by BVS in the second rank of 23% and BMI of 22% in third place, while the lowest rank is occupied by BTPNS with a performance of 15%. The majority of Islamic banks with large assets have very large inequalities between profit sharing contracts and murabahah contracts so that the value of the ratio obtained is small as the case with state-owned banks.

Performance Achievement Objectives Maslahab (Public Interest)

The following are the results of the ranking for the third performance index of 12 BUS, namely:

Table 8. Average Value of Maqashid Sharia Index 3rd Goal (*Maslahab* Achievement)

Bank Name	Performance Index (1)	Rank
BSM	0.077601608	6
BVS	0.080631963	5
BTPNS	0.007624898	12
MBS	0.042510738	11
BPS	0.056993628	9
BCAS	0.095464188	3
BJBS	0.105861383	1
BMI	0.08967583	4
BMS	0.047165905	10
BNIS	0.06033102	8
BSB	0.101970163	2
BRIS	0.072268943	7

Source: Data Processing (2013)

The highest ranking is occupied by BJBS with a value of 10.6%, followed by BSB in the second rank with a value of 10.2% and BCAS in the third place with a value of 9.5%. And the last rank is consistent with BTPNS with a score of 0.8%.

Focus of Islamic Banking in Indonesia towards Three Achievement Purposes of Maqashid Sharia

The following is a table of averages of the calculation results for the three objectives of sharia maqashid, namely:

Table 9. Performance Index Purpose of Maqashid Sharia Index of Islamic Banking in Indonesia Year of 2014 – 2017

Performance Index (IK)	IK (1)	IK(2)	IK (3)
Average IK	0.002033643	0.20124792	0.06984169
Achievement (100 %)	0.20 %	20.12 %	6.9 %

Source: Data Processing (2013)

The focus of Islamic banking in Indonesia in 2014 - 2017 is on the goal of creating justice with the highest performance of 20.12%, while the goal of educating individuals is the goal with the lowest index even the number does not reach 1%.

Conclusion

1. Overall, MSI's performance rating tends to experience an increase in the performance index value in 2014 - 2017, where the highest ranking is occupied by BPS, then BSB then BMI, while banks with large size and assets tend to rank in the top ten, while the lowest rank is BTPNS
2. The performance of Islamic banking in Indonesia has not experienced a steady increase annually. However, there are banks that are consistently in the top three, namely BPS, BSB and BMI.
3. Overall the performance of Islamic banking in Indonesia is better than some previous studies. However, only three banks have consistently maintained an increase in performance each year, namely BSM, BSB and BTPNS.
4. Individually Islamic banks in Indonesia have not yet had the consistency to focus on the implementation of the overall sharia maqashid, except BMI.
5. The purpose of establishing justice is a sharia goal which is the focus of Islamic banking in Indonesia in 2014 - 2017.

Implication

1. Every sharia commercial bank needs to be more consistent in maintaining the performance of its company by increasing awareness of the maqashid sharia index ratios.
2. The need for policy makers in the Islamic banking industry to be more assertive in disseminating the performance measurement method with a sharia perspective.
3. Islamic banking in Indonesia needs to support research on measuring banking performance with a sharia-compliant concept.

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