

How to Cite:

Susianti, N., Hasanah, U., Awwalunnisa, N., & Irwan, M. (2022). Determinants of increasing the number of third-party funds in Shariah banking. *International Journal of Health Sciences*, 6(S8), 1965–1976. <https://doi.org/10.53730/ijhs.v6nS8.12528>

Determinants of increasing the number of third-party funds in Shariah banking

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Abstract--The study aims to determine factors can influence the number of third-party of sharia banking in Indonesia. The type of research used in this study was quantitative research with a descriptive approach. The population in this research was sharia banking that was registered at the Financial Service Authority (Bahasa;OJK). The sample was sharia commercial banks and sharia business units with variable profit sharing, inflation, and interest rate. This research used secondary data, namely sharia banking data published by Financial Service Authority (Bahasa;OJK), Bank Indonesia (BI), and the Indonesian Statistic (Bahasa;BPS) in 2015-2021. The data analyzed using multiple linier regression analysis with SPSS 26 tools. The research results showed that profit-sharing has a positive and significant influenced on third-party funds of sharia banking in Indonesia in 2015-2021. SBI interest rate significantly influenced third-party funds of sharia banking in Indonesia in 2015-2021. Simultaneously, profit sharing, inflation and SBI interest rates significantly influence third-party funds of sharia banks and sharia business units in Indonesia in 2015-2021.

Keywords---profit sharing, SBI interest rates, inflation, third party funds, Sharia banking.

Introduction

The banking industry is a financial institution that plays a vital role in economic development as a financial intermediary, especially in providing funds for business actors. In addition, banking is needed because it has a function that supports economic growth. Banking has a strategic role in economic activities, namely as a intermediary financial institution (Financial intermediary) between community groups that need funds (surplus spending units) and community groups that raise funds (deficit spending units). (Awwalunnisa, 2021) The covid-19 pandemic that has hit the world since 2020 has disrupted all aspects of human life, not those that make humans have to adapt to new lives. Economic and financial aspects were also disrupted when the covid-19 pandemic occurred. When the covid-19 pandemic occurred, many people experienced disruptions in the financial sector; some workers lost their job, business actors rolled out due to falling incomes which led to an increase in unemployment.

As one of the financial institutions in Indonesia, sharia banking is here to provide solutions to people's financial problems in Indonesia. In 2021, there sharia banking in Indonesia, namely Bank BNI Syariah, Bank BRI syariah and Bank Syariah Mandiri, merged to become Bank Syariah Indonesia to encourage the growth of Islamic banking in Indonesia. The merger of the three banks was welcomed by the Indonesian people with the addition of total assets despite being amid challenging economic conditions due to the covid-19 pandemic. In July 2021, sharia bankimh assets in Indonesia grew by about 16,35%, financing grew by 6,82% and third-party funds (Bahasa;DPK) grew by 17,98% (<https://keuangan.kontan.co.id>). The development of sharia banking in Indonesia has changed positively form year to year, marked by an increase in the total assets of sharia banking in indonesia. An overview of the development of sharia banking assets in Indonesia can be seen in the following figure.

Figure 1. Development of Total Asset Shariah Banking Assets in Indonesia in 2015-2021



Source: Financial Services Authority (Bahasa:OJK), processed (2022).

In supporting the growth rate of sharia banking, to compete with conventional banks that the public has known, sharia banking must have solid and adequate

capital. The enormous capital in banking comes from public or third-party funds, other financial institutions, and liquidity loans from the central bank. Therefore, shariah banking must be maximal in rising funds. Third-party funds (Bahasa:DPK) are the key for banking, both in shariah and conventional banking, to carry out their duties as a fund dealers to the general public. Several factors can affect the increase in the number of third-party funds in shariah banking, both from internal and external shariah banking, such as macro and microeconomics. The development of third-party funds of shariah banking can be seen in the following figure.

Figure 2. Development of Shariah Banking Third-Party Funds (Bahasa: DPK) in Indonesia in 2015-2021



Source: Financial Services Authority (Bahasa:DPK), processed (2022).

The increasing number of third-party funds allows bank to distribute more funds to the community through financing or credit. Nelawani's (2013) found that the number of office networks also significantly positively affects third-party funds (Bahasa:DPK). Similarly, Yudho's (2010) the more existing the bank network, the more excellent the opportunity to collect DPK by banks. On the other hand, the increase in the price of goods or inflation will affect people to keep their funds in banking. The impact of inflation that will affect the amount of DPK on banking is shown in Yuliana's research (2009), which suggests that inflation does not significantly influence third-party funds of shariah banking. Another factor that affects the collection of DPK is the interest rate of Bank Indonesia. Prasetya's (2015) research shows the opposite influence to determine the determinants of increasing of number of shariah banking third-party fund in Indonesia. With the muslim-majority Indonesian population, Indonesia should be able to help the development of shariah banking nationally so that shariah banking can finally compete with conventional banking and the covid-19 pandemic. Shariah banking should not experience deep disruptions to their operational performance.

Literature Review

Third -Party Funds

Sharia banks are banks that operate without relying on interest, where the operating system uses sharia principles and refers to provisions of the Qur'an and Hadith. Sharia Commercial Bank (Bahasa:BUS), Sharia People's Credit Bank (Bahasa:BPRS), and Sharia Business Unit (Bahasa:UUS) can only be established if they have received approval from Bank Indonesia. Bank Indonesia's approval includes two stages, namely principle approval and business license. Third-party funds based on Banking Law No. 10 of 1988 are funds entrusted by the public to banks based on storage agreements in current accounts, deposits, certificates of deposit, savings, and other forms. Third-party funds raised from the wider community are the most critical funds for bank operations.

Third-party funds are public deposit funds deposited in shariah banks, where the withdrawal of funds can be made faithfully when without prior notice to the bank. Funds collected from the community are the largest source of funds relied on by banks reaching 80-90%. Deposit funds in shariah banks, wherever possible, are used for the operational activities of sharia banks (Wardiantika, 2014). Third-party funds are uncontrollable variables. Bank Indonesia has no control regarding the maximum or minimum ratio that regulates the obligation to distribute third-party funds in credit activities. Bank management's third-party funds management decision is a policy (Hersugondo, 2012).

Revenue Sharing

Generally, the principle of revenue sharing in shariah banking can be done in four central contracts; *musyarakah*, *mudharabah*, *muzara'ah* and *musaqah*. Of the four contracts, two contracts used in shariah banking are *musyarakah* and *mudharabah*. In comparison, the other two contracts are explicitly used for financing in agriculture (Investasi, 2019). The movement of the revenue sharing ratio in sharia banking affects savings. The community's desire with the agreement on the ratio of profit sharing received by both parties will affect the desire of the community to increase their savings. Because the higher the revenue sharing ratio, the higher the desire of customers to save in shariah banks (Slaviana, 2014).

Inflation

Inflation is an economic condition in a country with a tendency to increase the prices of goods and services in general for a long time (continuously) due to the imbalance of the flow of money and goods. Several factors affect inflation; the increase in demand and production costs. Economic conditions like this positively and negatively impact a country and society regarding income, exports, saving interest, and product price calculation. Inflation in the Islamic economic system is not a significant economic problem in the aggregate because the currency is stable using the dinar and dirham. Inflation is terrible for the economy because it disrupts the function of money, especially savings, upfront payments, and the function of the unit of calculation. Relax the spirit of saving and attitude towards

saving from the community. Increase the tendency to shop, especially for non-primary and luxury goods. People directing investment in non-productive things. Such as wealth accumulation, namely; land, buildings, precious metals, foreign currency, and sacrificing investment towards products such as agriculture, livestock, mining, industrial, trade, transportation, service, etc.

Because the rate of inflation has increased while the interest rate on deposits remains, this will decrease the interest rate of the banking rill. A consensus like this will affect people's behavior in using their wealth, where savers will reduce their deposits in the bank and use the money more to buy goods and services. Because an increase does not follow inflation in the nominal interest rate, it will decrease the urge of people to save in banking institutions. However, if a nominal interest rate follows the increase in inflation, people will invest their funds in both deposits and saving. Dyah's (2015) stated that inflation has a significant influence on the funds of conventional banks.

Bank Indonesia Certificate (Bahasa:SBI)

In the SBI interest rate rises, the bank will increase the return on the deposit funds entrusted to it. Conventional banks raise interest rates, while sharia banks use profit sharing; this is done, so the bank deposits still provide attractive risk-weighted returns. Considering that bank deposits are low-risk investment instruments, people will tend to move their funds to bank deposits when interest rises. If the SBI interest rate falls, the bank will tend to lower interest rates on conventional bank and profit-sharing at shariah bank to get a more significant margin of credit and deposits. This step can be taken because SBI is a risk-free instrument that compares how attractive interest rates or profit-sharing at shariah bank deposits fall. Suppose the decline is felt significantly by customers. In that case, this condition will encourage them to look for alternatives that provide more attractive returns (return vs risk), assuming that the returns of other investment instruments remain.

The effect of SBI interest rates on third-party funds in shariah banks benefits from changes in market interest rates. SBI considering the basic concept of shariah banking on the return of third-party funds, is the profit sharing of the management of these funds. While the provisions strictly regulate the funds management to follow Islamic sharia, the direction of fund management is more to the rill sector, which should impact changes in SBI interest rates (Saekhu, 2017).

Methods

This research is quantitative research with a descriptive approach. The quantitative research method is one type of systematic, planned, and structured from the beginning until the creation of research design (Sugiyono, 2016). This research uses a descriptive approach to describe the object of research or research results. The descriptive method describes or describes the object being studied through data or samples that have been collected as they are, without conducting analysis and making generally accepted conclusions (ibid).

The method of data collection using the documentation method is to collect the necessary data according to research to be carried out by related agencies or institutions (Arikunto, 2010). The data used includes data for the revenue sharing of commercial bank and Islamic business units, inflation, and SBI interest rates. The data is presented in the form of monthly data for seven years, namely 2015-2021, so that 84 data are obtained. Secondary data was obtained from published documents of Financial Services Authority (Bahasa:OJK), Bank Indonesia (BI), and the Central Statistics Agency (Bahasa:BPS). The collection is carried out by studying libraries from books, research reports, scientific journal, and other publications relevant to the research.

The independent variables in this study are revenue sharing, inflation, and SBI interest rates, in comparison, the dependent variables in this study are third-party funds. This study used a multiple linear regression model with the minor square method or Ordinary Least Square (OLS) to find out the impact of variable independent to variable dependent using SPSS 26 software, with the regression equation stated as follows:

$$Y = \beta_0 + \beta_1x_1 + \beta_2x_2 + \beta_3x_3 + e_i$$

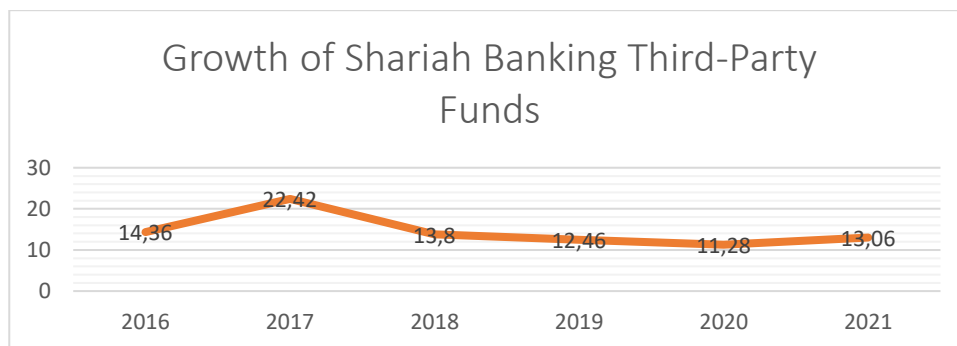
Hypothesis submission uses the t-test to determine the test to test the influence of independent variables on individual dependent variables. This t assumption test compares the t count with the t table or z table. The F test is used to test regression chemosis together. Before testing the hypothesis, a classical assumption test is carried out to determine whether the data used in the study is worth analyzing because not all data can be analyzed with regression.

Results and Discussion

Development of Shariah Banking Third-Party Funds in Indonesia

Third-party funds (Bahasa:DPK) are the most crucial aspect of banking world. DPK is source of shariah banking power in distributing financing its customers. The higher the DPK obtained, the higher the ability to distribute financing. The development of shariah banking DPK in Indonesia from year to year has increased quite encouragingly. The growth of DPK collected BUS and UUS in 2016 amounted to 14,35% and increased in 2017 by 22,41%, in 2018 by 13,79% by 12,46%, in 2020 by 11,27%, and in 2021 by 13,06%. The fluctuating movement toward shariah banking third-party funds in Indonesia is shown in the following figure.

Figure 3. Growth of Shariah Banking Third-Party Funds in 2016-2021



Source: Financial Services Authority, processed (2022).

Classic Assumption Test

This test is done to see if the model understudy has a deviation from classical assumption or not; then, it is necessary to hold testing against deviations of classical assumption with several test steps, namely:

Autocorrelation Test

The research results of Sharia Commercial Bank (Bahasa BUS) and Sharia Business Units (Bahasa: UUS) in Indonesia in 2015-2021 obtained the value of $dL=1,480$ and $dU= 1,689$ to determine whether or nit autocorrelation criteria can occur. The estimated DW value calculate 0,81 than 1,480, which means positive autocorrelation.

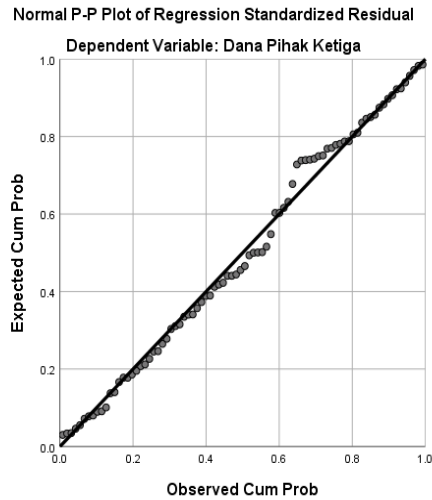
Multicollinearity Test

Multicollinearity test are used to see whether or not cholera is between independent variables in multiple linear regression model. If the value of $VIF>10$, then there is a multicolirity disorder. On the contrary, if the value of $VIF<10$, then there in no disruption of multicolirity. The results showed that rhe value of VIF in revenue share was 1,306, inflation was 1,358, and SBI interest rate was 1,380. The results showed that there was no multicollinearity in the study variables.

Normality Test

Normality testing aims to test that residual variables have a normal distribution. The normality test results are seen from the normally figure of the P-P Plot. If the distributions of points is close or close to a straight line (diagonal), then it is said that the data is normally distributed. However, if the distribution is away from the line, is not distributed normally.

Figure 4. Normality Test Results



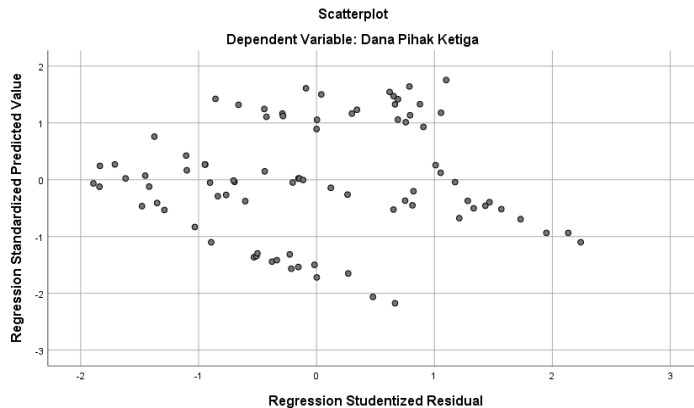
Source: Research data, processed by SPSS 26 (2022).

Based on the analysis results, the points of the Normal P-P Plot figure are relatively close to a straight line, so it can be concluded that the residual data is distributed normally.

Heteroscedasticity Test

The problem of heteroscedasticity occurs when the variant of each disturbing variable does not have the same variance for each observation. Heteroscedasticity testing is done by creating scatterplot (scatter flows) between the residual and the predictive value of the bound variable that has been standardized. The results of the heteroscedasticity that can be seen in the scatterplot figure.

Figure 5. Results of Heteroscedasticity Test



Source: Research Data, processed by SPSS 26 (2022)

The research analysis results found that the distribution of points formed a specific pattern or groove, so it can be concluded that the point distribution does not occur in heteroscedasticity. The classical assumptions about heteroscedasticity in this model are fulfilled.

Determinant of the Amount of Shariah Banking Third Party Funds

Significant variable, independent tests in revenue sharing, inflation, and SBI interest rates together are carried out with Test F. this is seen in following table.

Table 1. Analysis of Variance

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	4.967	3	1.656	61.290	.000
Residual	2.161	80	2.701		
Total	7.128	82			
R	R Square	Adjusted R Square		Std. Error of The Estimate	
.835	.697	.685		51973.568	

Source: Data Processed (2022).

Based on the table obtained a calculated value of F of 61,290 with a significant rate of 0,000, which is much smaller than 0,05, it can be concluded that the revenue share, inflation, and SBI interest rate simultaneously influence the sharia banking third-party fund in Indonesia. The R square figure obtained by 0,697 means that 69,7% of third-party funds are addected by variations in revenue share, inflation, and SBI interest rates. Factor outside this purchase influence of each independent variable on shariah banking third-party funds is used t-test, as seen in table 2 below:

Table 2. Results of Assessment With T-Test

Coefficients ^a								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	499981.064	34571.366		14.462	.000		
	Revenue Sharing	1.894	.782	.152	2.422	.018	.965	1.036
	Inflation	42616.853	8484.255	.360	5.023	.000	.736	1.358
	Interest Rate	-40778.865	5203.345	-.567	-7.837	.000	.725	1.380

a. Dependent Variable: Third-Party Funds

Source: Data Processed By SPSS (2022).

The partial hypothesis test each independent variable of revenue sharing, inflation, and SBI interest rates against third-party funds. The results showed that the revenue sharing ratio significantly influenced third-party funds

(Bahasa:DPK). This is indicated based on the calculated z value of 2,422 , and the calculated z probability value of 0,018 is smaller than the actual level of 5% ($0,018 < 0,05$). The regression result of 1,894 means the every 1% of the revenue share ratio will increase third-party funds by 1.894 billions rupiahs. The movement of revenue sharing ratios in sharia banks will affect saving that occur. That means the community's desire with the agreement on ratio of revenue sharing received between the two parties will affect the desire of the community to increase their savings further. Because the higher the ratio of revenue sharing, the higher the desire to save at shariah banks. Revenue sharing in shariah banking profits that have been agreed upon in advance and will continue to increase along with increase in finance obtained by shariah banking.

Inflation has a positive and significant effect on third-party funds. When inflation occurs, the cost of meeting people's living needs will increase due to the increase in the price of goods. To overcome the increased cost of fulfilling the needs of life, the community will reduce the savings or deposits it is not possible to save in shariah banking. The positive influence of inflation on third-party funds is also influenced by the covid-19 pandemic from the beginning of 2020 until now, which indirectly impacts all community economic activities.

The SBI interest rate has a negative and significant effect on third-party funds; if the SBI interest rate increases, the bank will increase the return on the deposit funds entrusted to it. Conventional banks raise interest rate, while shariah banks do so by profit sharing. That is done, so that banks deposits still provide attractive risk-weighted returns. Considering that bank deposits are low-risk investment instruments, people tend to move their funds to bank deposits when interest rises. Meanwhile, if the SBI interest rate falls, shariah bank will see the SBI interest rates. If customers feel the change is significant, this condition will make bank deposits a less attractive investment option, so shariah bank third-party funds will decrease. So shariah banks should lower the revenue share (ratio) of customers to get a more significant profit margin.

Conclusion

Based on the study results, it can be concluded that the revenue share has positive and significant influence on the funds of third-party shariah commercial banks and sharia business units in Indonesia from 2015- to 2021. Inflation had a positive and significant influence on the third-parti funds of sharia commercial banks and sharia business units from 2015-to 2021. The SBI interest rate had a negative and significant influence on the third-party funds of sharia commercial banks and sharia business unit from 2015-to 2021. Simultaneously revenue sharing, inflation, and SBI interest rate significantly influenced the third-party finds of sharia commercial banks and sharia business units in Indonesia from 2015-to 2021.

Shariah banking in increasing third-party funds to pay attention to factors that affect the rise and fall third-party funds. The government considers more regulations on third-party funds in shariah banking in Indonesia as controllers, calculating, supervising, and seeing growth or development of shariah banking

third-party funds. The market share in Indonesia continues to increase every year.

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