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The Financial Performance Comparison of Islamic Bank in Indonesia with Islamic Bank in UK

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Abstract. The purpose of this study was to determine how the performance difference between Islamic banks in Indonesia by Islamic banks in the UK, which has cultural and religious backgrounds are different from each other. In this study use financial statements of Islamic banking in Indonesia and in the United Kingdom in the five-year period, existing data will be processed and calculated its financial performance using the Mann-Whitney U test. The results of this study found that there are differences in terms of profit and there is no difference in terms of capital structure in Islamic banks in Indonesia by Islamic banks in the UK. In this study, there are some limitations as to the number of samples is very little, many companies do not publish their financial statements, many companies that do not have separate financial statements (non-consolidated). The implications of this study showed that the difference of financial performance in Islamic banks in Indonesia by Islamic banks in the UK, this difference could have occurred because of cultural and religious backgrounds are different from each other between Indonesia and the UK. Suggestions for further research are expected to increase the number of samples in which more like adding a non-Muslim state in Europe, and also increase the ratio of the value of performance measurement used in comparing the financial performance of banks.

Keywords: financial performance, profitability, capital structure, islamic banks

Introduction

Islamic bank is a bank with a banking system based on the implementation of Islamic law (sharia). Sharia establishes a system with the prohibition in Islamic law to borrow or levy loans with loans charge interest (usury), as well as the prohibition to invest in efforts forbidden. Conventional banks cannot guarantee the absence of such matters in the banking activities, for example in the business associated with the production of food and drink unclean and others. Therefore, the authors argue that in the implementation of Islamic banks will be different and will be more successful in Islamic countries compared to non-Islamic countries. In Indonesia, Islamic banks have also grown rapidly. the financial performance of Islamic banks in Indonesia in the form of mudaraba musharaka ratio (MMR) and qordh ratio (QR) measured by using a variable size, return on assets and leverage, found that together the three independent variables affect the MMR and QR. Variable size and leverage have positive effect on MMR and QR, while ROA has negative effect which indicate that Islamic banks in Indonesia have not prioritize social performance yet (Yuliani, 2012). Research in the UK supported by Alkheil et al. (2012), which uses a two-stage model of data envelopment analysis (DEA) to determine the impact of internal and external factors on the efficiency of the bank.

According to the research background above, the problem in this research is as follows: "Is there a difference between the financial performances of Islamic banks in Indonesia by Islamic banks in the UK".

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This study aims to determine how differences in financial performance in the form of profitability and capital structure in Islamic banks in Indonesia by Islamic banks in the UK and also to determine the Islamic banking in the country of which one is better.

Literature Review

Financial Management Theory

This theory provides a lot of variety in the index measures of the performance of banks, which is a financial ratio. Many previous literatures are related to bank performance appraisal using financial ratio indicators, namely: Payamta and Machfoedz (1999), which measures a bank's financial performance using ratios such as CAMEL (capital adequacy, asset quality, management, earnings and liquidity). Lo (2001), using financial ratios to measure the association of liquidity, capital structure and asset quality of the bank's profitability.

Islamic Bank

Islamic bank is a bank with a banking system whose implementation is based on Islamic law (sharia). Sharia establishes a system with the prohibition in Islam law to borrow or levy loans with loans charge interest (usury), as well as the prohibition to invest in efforts forbidden. Conventional banks cannot guarantee the absence of such matters in the banking activities, for example in the business associated with the production of food and drink unclean and others.

Meanwhile, according to Sudarsono (2008), Islamic bank is a financial institution which engages in providing credit and services in which the payment as well as the circulation of money which operates tailored to Islamic principles. This is supported by Ibrahim et al. (2004) which states that Islamic banks should be able to provide optimum benefits for society and the responsibility of Islamic banks as Islamic financial institutions are not only limited to the financial needs of the various parties, but the most important is the certainty of all activities carried out by Islamic banks in accordance with Islamic principles (sharia).

Banking Financial Ratios

Financial analysis for financial statements of banks was using various ratios that were prepared according to the needs of the analyzer. The ratio used for the company's financial services (banking) with non-financial services companies are of course different (Arifin & Shukri, 2006).

Many in the earlier study only focused on a comparison of the financial performance of banks, namely in the form of financial performance comparison between Islamic banks and conventional banks about the financial performance of Islamic banks to Islamic banks. In Indonesia the development of Islamic banks today has been very rapid, according to research Yuliani (2012), which examines the financial performance of Islamic banks in Indonesia in the form of mudaraba musharaka ratio (MMR) and qordh ratio (QR) measured by using variable size, return on assets and leverage. In this study, the result states that together the three independent variables affect the MMR and QR. Variable size and leverage have positive effect on MMR and QR, while ROA has negative effect indicating that Islamic banks in Indonesia have not prioritize social performance. Yudisthira (2004) in his research also found that the performance of 18-GCC Islamic banks in the United States, Indonesia, Malaysia, Algeria, Cambia, Sudan, Egypt and Jordan, during the period 1997 to 2000 that uses the measurement of efficiency where the data envelopment analysis (DEA) is used to analyze the technical efficiency (ET) and scale efficiency (ES) of Islamic banks showed that the inefficiency of the Islamic banks in general less than 10%, which is quite low compared to many conventional banks.

Kamaruddin et al. (2008) in research to apply the technique DEA to present a new perspective on the operational performance of Islamic banking in Malaysia during the period from 1998 to 2004, found that Islamic banking is relatively more efficient in controlling the cost of making a profit, so the cost efficiencies derived from the management of resources and scale economy.

Research in the UK, supported by Alkheil et al. (2012) found that in his research used a two-stage model of data envelopment analysis (DEA) to determine the impact of internal and external factors on the efficiency of the bank. In their study shows that Islamic Bank of Britain (IBB) is not technically efficient and also have a relatively poor financial performance. In addition, IBB also has a rising trend in efficiency and profitability. If the adverse market conditions, the IBB has good prospects for increased efficiency and a strong potential for further growth in the UK. Other results also showed that the larger banks are technically more efficient, has an intensity of profitability, larger loans and on average have a lower market share. IBB is relatively superior in terms of loans intensity and capital adequacy.

Alkassim (2005) examined the determinants of profitability in the banking sector in the GCC countries found that the assets had a negative impact on the profitability of conventional banks and have a positive impact on the profitability of Islamic banks.

Hypothesis

In measuring the financial performance of Islamic banks, the previous literature only discusses the financial performance comparison between Islamic banks with conventional banks. In Indonesia research on the financial performance of Islamic banks only limited comparison of the performance of the two types of the same bank, namely between Islamic banks to Islamic banks, so in this study the authors will conduct research on how the performance differences between Islamic banks in Indonesia by Islamic banks in the UK.

The financial performance of Islamic banks in Indonesia by Islamic banks in the UK could have been different, these differences are based on cultural and religious backgrounds are different from each other between Indonesia and the UK. Indonesia is a country with people who are the majority religion of Islam that has been in accordance with the legal basis for the establishment of Islamic banks, while Britain is a country with people whose majority religion of non-Muslims, so that the financial performance of Islamic banks in Indonesia can be better than Islamic banks in the UK.

In Indonesia supported by the study (Kusumo, 2008) in a study that analyzes the financial performance of Islamic banks independently during the period 2002-2007 using the approach of PBI No. 9/1/PBI/2007 shows the ratio of capital adequacy ratio (CAR) indicate that BSM has a very strong capital, so that if there is a loss the banks can bear the loss with its equity. His research also found that the ratio of net operating margin (NOM) indicate that BSM is an Islamic bank that has a very good level of profitability. Short term mismatch of the ratio (STM) indicates that the BSM can meet its short term obligations without interfering with liquidity needs for its customers. From the sensitivity ratio against market risk (MR) showed that the BSM in cover risks arising from changes in the exchange rate is very weak and the implementation of market risk management is the implementation of ineffective and inconsistent.

This study measured the technical efficiency and costs of Islamic banks and conventional banks in Malaysia using stochastic frontier approach found that Islamic banking in Malaysia has assets, deposits and financing grew very rapidly during the period 1997-2003. These findings indicate that the average efficiency of Islamic banking industry as a whole has increased while conventional banks remain stable. However, the efficiency of Islamic banking level is still lower than conventional banks (Mokhtar et al., 2006).

On the financial performance of Islamic banks in Indonesia in the form of mudaraba musharaka ratio (MMR) and qordh ratio (QR) measured by using ROA and leverage, proved that together the three independent variables affect the MMR and QR. Variable size and leverage have positive effect on MMR and QR, while ROA has negative effect indicating that Islamic banks in Indonesia have not prioritize social performance (Yuliani, 2012).

Bashir (2011) examined the factors of performance of Islamic banks in the Middle East between 1993 and 1998 by using internal and external banking characteristics to predict the profitability and efficiency. Bashir research results show that high leverage and large loan to asset ratio will lead to higher profitability.

In the UK supported by research (Babatunde & olaitan, 2013), which examines the performance efficiency of conventional banks and Islamic banks in the UK in 2007 and 2011 by using financial ratios of liquidity, profitability, risk, solvency and efficiency. In the present study found a significant difference in the performance of liquidity, profitability, risk, solvency and efficiency between conventional banks and Islamic banks. The results in this study found that the conventional bank more profitable in addition to being more effective and timely in terms of financial liabilities, while Islamic banks are less exposed to liquidity risk and more cost-effective and conventional banks more dependent on external sources of funding.

By using a two-stage model of data envelopment analysis (DEA) to determine the impact of internal and external factors on the efficiency of the bank. In their study shows that Islamic Bank of Britain (IBB) is not technically efficient and also have a relatively poor financial performance. In addition, IBB also has a rising trend in efficiency and profitability. If the adverse market conditions, the IBB has good prospects for increased efficiency and a strong potential for further growth in the UK. Other results also showed that the larger banks are technically more efficient, has an intensity of profitability and larger loans and on average have a lower market share. IBB is relatively superior in terms of the intensity of the loans and capital adequacy (Alkheil et al., 2012).

H1a: Islamic banks in Indonesia are different from Islamic banks in the UK in terms of profitability.

H1b: Islamic banks in Indonesia are different from Islamic banks in the UK in terms of capital structure.

Research Design

Types and Sources of Data

In this study the authors use research methods quantitative approach in the form of secondary data because the data used are figures in the financial statement data of Islamic banking in Indonesia and in the United Kingdom in the five-year period. Source of data used on the official website of each bank were used as a sample in this study.

Location and Object Research

In this study the author uses secondary data obtained from the official website of each company that have been chosen to be the sample in this study. The object of this research is financial statements of a company engaged in the field of Islamic banking in the period 2010-2014.

Sampling

In this study the authors will use a purposive judgment sampling technique, which is done by taking a sample of the population based on criteria such as a particular consideration. Sample criteria used are Islamic banks operating in Indonesia and in the United Kingdom, Islamic banks publish financial reports on the official website of each bank from 2010, Islamic banks have separate financial statements not consolidated financial statements.

Data Processing

In this study to see financial performance which is better author uses secondary data will be processed using data processing techniques to perform data tabulation prior financial statements were obtained from each of the bank's website sampled. Data that has been tabulated and then will be processed using data processing tools that Mann-Whitney U and financial performance will be examined with five financial performances:

$$ROA = \frac{Net\ Income}{Total\ Asset} \quad (1)$$

$$ROE = \frac{Net\ Income}{Equity} \quad (2)$$

$$GPM = \frac{Operating\ Income - Operating\ Expense}{Operating\ Income} \quad (3)$$

$$NPM = \frac{Net\ Income}{Operating\ Income} \quad (4)$$

$$Equity = \frac{Equity}{Total\ Asset} \quad (5)$$

Results and Discussion

Characteristics of samples

In this study, the object to be used by the author as a sample is a company engaged in the field of Islamic banking operations in Indonesia and in the United Kingdom, Indonesia and the UK have been selected as representative of a country that has a population of majority and minority religion of Islam which has been in accordance with the system of implementation of the bank sharia is based on Islamic law (sharia).

Islamic banks used are Islamic banks to publish financial statements on the official website of each bank, has a financial report that contains the results of the activities of sharia without entering transactions other conventional and also for Islamic banks which are branches of other countries must have a report bank finances separate (non-consolidated).

Table 1 Table Sample Size Determination in Indonesia

Description	Total Companies
Islamic Bank	12
Islamic banks do not publish financial statements	0
Islamic banks that do not have separate financial statements (non-consolidated)	(3)
Total	9

Source: Data processed

Table 1 shows the number of samples used for Islamic banks in Indonesia, the number of Islamic banks in Indonesia based on statistical data of Islamic banking Indonesia amounted to 12 banks, but only 9 banks which can be used as a sample, because three of the 12 samples of existing bank still incorporate some conventional operations in its financial statements.

Table 2 Table Sample Size Determination in UK

Description	Total Companies
Islamic Bank	16
Islamic banks do not publish financial statements	(7)
Islamic banks that do not have separate financial statements (non-consolidated)	(7)
Total	2

Source: Data processed

Samples of Islamic banks in the UK amounted to 16 banks, the average Islamic banks operating in the UK is a branch of Islamic banks from Islamic countries such as middle-east area. The financial statements of the banks are still using the consolidated financial statements and therefore cannot be used as a sample, of the 16 banks that there were only nine banks that publish their financial statements and which can be sampled in this study only two banks only because of the nine banks were only 2 banks that have separate financial statements (non-consolidated).

Data Analysis

From the results of the Mann-Whitney U test, can be concluded that H1a supported. This can happen because Indonesia is indeed a Muslim-majority state that Islamic banks in Indonesia are increasing and developing well. These results are in line with Mokhtar et al. (2006) who found that the average efficiency of Islamic banking industry as a whole has increased while conventional banks remain stable. The development of Islamic banks in Indonesia is quite high, with an average asset growth of more than 65% in the last five years (Hasan, 2011).

Table 3 Table Results and Decision

Variables	Sig	α	Conclusion
ROA	0,001	0,05	There is a difference
ROE	0,000	0,05	There is a difference
GPM	0,000	0,05	There is a difference
NPM	0,005	0,05	There is a difference
Equity	0,614	0,05	there is no difference

Source: Data processed

From the results of the Mann-Whitney U test, it can be concluded that the H1b is not supported. Islamic banks in Indonesia and in the United Kingdom has an equally good number of capital assets owned by the bank, but Islamic banks in the UK have a better capital structure of Islamic banks in Indonesia. The growth of Islamic banks in terms of equity is more caused by the number of new entrants than the good performance of each bank (Engzell, 2008). According to Davies (2002) Islamic banking in the UK growing rapidly due to several things like the role of the government is willing to change the rules to support the development of Islamic bonds or sukuk in the UK.

Conclusion

This study aims to determine how differences in financial performance in existing Islamic banks in Indonesia with Islamic banks in the UK using the Mann-Whitney U. Results of the study found that from H1a that there is a difference in terms of profitability in Islamic banks in Indonesia with banks sharia in the UK but for H1b, there is no difference in terms of capital structure in Islamic banks in Indonesia by Islamic banks in the UK. These results support several previous studies including Kusumo (2008), Mokhtar et al., (2006), Babatunde & olaitan (2013), Alkheil et al., (2012), Hasan (2011), Engzell (2008), Davies (2002).

Limitations and Suggestions

In this study the authors realize there are some limitations as to the number of samples is very small, many companies do not publish their financial statements and many companies do not have separate financial statements (non-consolidated).

Suggestions for further research are expected to increase the number of samples in which more like adding a non-Muslim state in Europe, and also increase the ratio of the value of performance measurement used in comparing the financial performance of banks.

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