

The Contribution of Sukuk Placement and Securities to The Islamic Bank Profitability (Bank Mandiri Syariah Case)

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Abstract. *The purpose of this study was to determine the effect of the placement of Islamic bank funds on government assets (Government-Sukuk), the placement of Islamic bank funds at the central bank, and the placement of Islamic bank funds on non-government assets (Corporate-Sukuk) on the return on asset (ROA) of Islamic banks. The method is quantitative with a multiple regression statistical model and the Stata version 13 as the statistical software. Based on data processing on research variables, it was found that investment in Government Sukuk has a negative and significant effect on return on assets. Furthermore, the variable investment in securities in Bank Indonesia instruments has a positive and significant impact on the return on asset (ROA). Nevertheless, investment in Sukuk corporates has a positive effect and not significant to the return on asset. Therefore, Islamic Banks must be able to select the investment options in placing their excess funds to get optimal returns which aims to maintain bank reputation and performance. Thus, the impact is the public trust increases with the performances of the Islamic Bank.*

Keywords: *Government Sukuk, Central Bank Investment Instruments, Corporate Sukuk, Return on Asset.*

Abstrak. *Tujuan dari penelitian ini adalah untuk mengetahui pengaruh penempatan dana bank syariah pada aset pemerintah (Sukuk-Pemerintah), penempatan dana bank syariah di bank sentral, dan penempatan dana bank syariah pada aset non-pemerintah (Sukuk-Korporasi) terhadap Return on Asset (ROA) bank syariah. Metode pada penelitian ini menggunakan metode kuantitatif dengan model statistik regresi berganda dan Stata versi 13 sebagai alat statistik. Berdasarkan hasil pengolahan diketahui bahwa investasi pada Sukuk pemerintah memiliki pengaruh negatif dan signifikan terhadap ROA. Selanjutnya, variabel investasi dalam sekuritas pada instrumen Bank Indonesia memiliki dampak positif dan signifikan terhadap return on asset (ROA). Namun demikian, investasi pada Sukuk korporasi memiliki efek positif dan tidak signifikan terhadap pengembalian aset. Oleh karena itu, Bank Syariah harus dapat memilih opsi investasi dalam menempatkan kelebihan dana mereka untuk mendapatkan pengembalian yang optimal, yang bertujuan untuk menjaga reputasi dan kinerja bank. Dengan demikian, baiknya kinerja bank akan berdampak semakin baiknya kepercayaan terhadap bank syariah.*

Kata kunci: *Sukuk Pemerintah, Instrumen Investasi Bank Sentral, Sukuk Korporasi, Return on Asset.*

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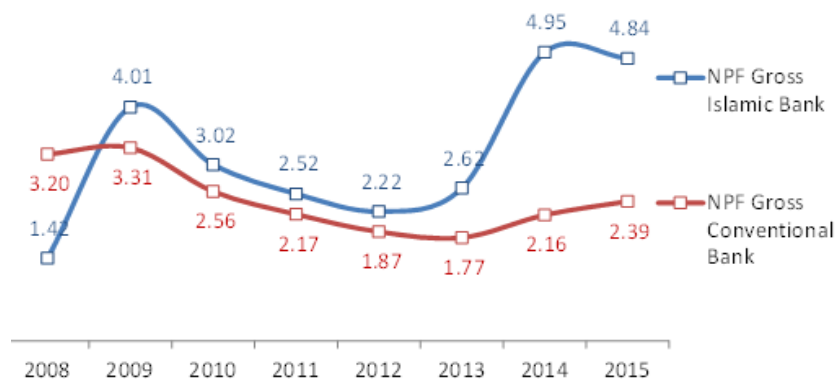
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Introduction

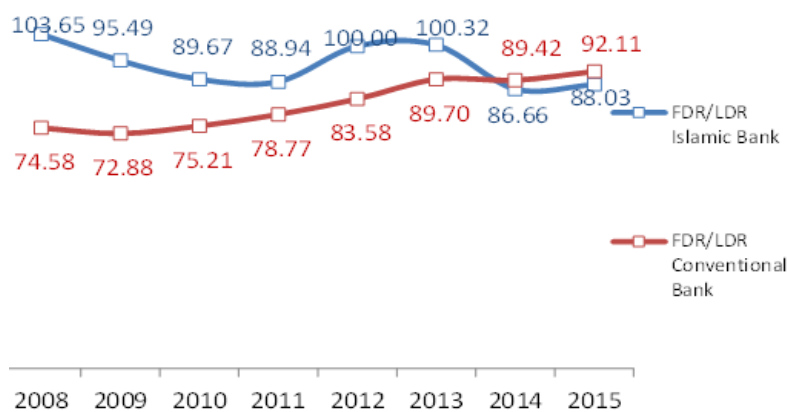
The contribution of Islamic banking in improving the Indonesian economy is however not optimal, and it was told by the Governor of Bank Indonesia (BI) Warjiyo (Firmansyah, 2018) when conducting the recent economic conditions in Indonesia that have been challenged to overcome disruptions in exchange rate stability at the halal bi halal (gathering) event with the Association of Islamic Economic Experts (IAEI). Furthermore, according to Perry Warjiyo, the causal agent of the disruption in exchange rate stability is due to the economy of usury. Besides Perry Warjiyo, some economists also have the same opinion that Islamic banking can contribute to maintaining economic stability (Masyita, 2015; Nugroho et al., 2017; Sudarsono, 2009) because Islamic banking has the principle of "Maghrib." Maghrib stands for sharia principles which are the operational basis of Islamic banks which include: (i) Prohibition of speculative actions; (ii) Prohibition against gharar/transaction actions that do not have an explicit underlying; (iii) Prohibition of the operation of usury/transactions that incriminate one party such as the application of interest rates.

The phenomenon the contribution of Islamic banking is also determined by the growth of the Islamic banking industry, which in the past five years still has challenges (Nugroho, Husnadi, Utami, & Hidayah, 2017). One of the problems is still trapped in the Islamic Bank's market share below 10% in 2015. Also, according to Nugroho et al., (2017 and Utami & Chotib (2014), the condition of the Islamic banking industry has not been better than conventional banking, it is indicated by several key financial indicators which include: non-performing financing or non-performing loans (NPF/NPL), financing deposit ratio or loan-deposit ratio (FDR/LDR) and return on assets (ROA). Detailed information regarding the comparison of financial key indicators between the Islamic banking industry and the conventional banking industry is shown in the figure as follows:



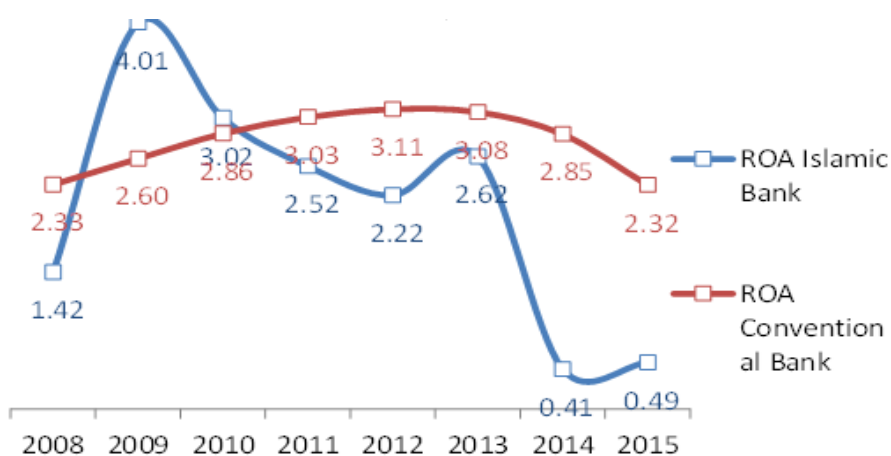
Source: Nugroho, Wiwik et al. (2017)

Figure 1. Comparison of NPF Islamic Banking Industry with NPF Conventional Banking (2008-2015)



Source: Nugroho, Wiwik et al., (2017)

Figure 2. The Comparison of FDR of the Islamic Banking Industry with Conventional Banking FDR (2008-2015)



Source: Nugroho et al., (2017)

Figure 3. The Comparison of ROA of Islamic Banking Industry with ROA of Conventional Banking (2008-2015)

According to figure 1 above, it can be explained that the quality of Islamic banking financing, as indicated by NPF, experienced a significant increase, namely from 1.42% in 2008 to 4.84% in 2015. In other words, bad debt in the Islamic banking industry growth 341,85% for eight years. Furthermore, when compared to the conventional banking industry of 2.39%, the NPF of the Islamic banking industry was also higher than that of conventional banking at 2.45%. This condition indicates that there is a possibility that the selection of financing segments in Islamic banking is not appropriate or in high-risk segments.

The ability of the Islamic banking industry to carry out its functions as an intermediary institution has also decreased over the past eight years. This condition is shown in figure 2, where FDR of Islamic banking in 2008 reached 103.65%, but in 2015 it decreased significantly, which only reached 88.03%. On the other hand, the performance of the conventional banking industry in carrying out its intermediation function is higher than the Islamic banking industry that in 2015 can achieve 92.11%.

The impact of bad debt increasing and declining capabilities of the Islamic banking industry in carrying out the intermediary financial function resulted in a decline in return on assets (ROA) which initially can reach 1.42% in 2008 and had reached the highest figure in 2009 of 4.01% refer to figure 3. Furthermore, the ROA of Islamic banks in 2015 dropped dramatically to 0.49%. Therefore, if the Islamic banking industry ROA was compared to the conventional banking industry in 2015, then the conventional banking industry ROA is still better at 2.32%.

The profitability of Islamic banks has decreased due to the high problematic financing or NPF from Islamic banks. Therefore, Islamic banks must find alternatives in placing their funds. There is an alternative placement of funds in addition to financing/credit, namely the investment of funds in securities, one of which is sukuk. Alternative investment of funds other than financing is needed to maintain the stability of Islamic banks that aim to keep

the trust of the community (Amin, Isa, & Fontaine, 2013; Nugroho, Hidayah, & Badawi, 2018).

Nevertheless, in the Islamic banking industry, there are several options for the placement of funds in addition to financing distribution which include: (1) Placement of funds in government assets (sukuk); (2) Placement of funds in the central bank (Bank Indonesia-BI); (3) Placement of funds in non-government assets. Based on these criteria, this study aims to find out the effect of placing funds on government assets (government sukuk) on ROA; To find out the effect of placement of funds at Bank Indonesia on ROA; To find out the effect of placement of funds for non-government assets (non-government sukuk) on ROA.

The results of this study are expected to contribute to an understanding of the selection of investments in addition to lending or financing to Islamic banking. Also, it is likely to contribute to the world of practice for sharia practitioners, including practitioners of Sharia Banks can offer input on activities that can be called for by the Board Management in overcoming declining performance problems due to improper placement of investments in securities and sukuk. This research is also expected to contribute to further research regarding the selection of Islamic banking investments. Community, the resulted expected to supply a broader understanding, especially to the public of the types of securities and sukuk investments in Islamic banking.

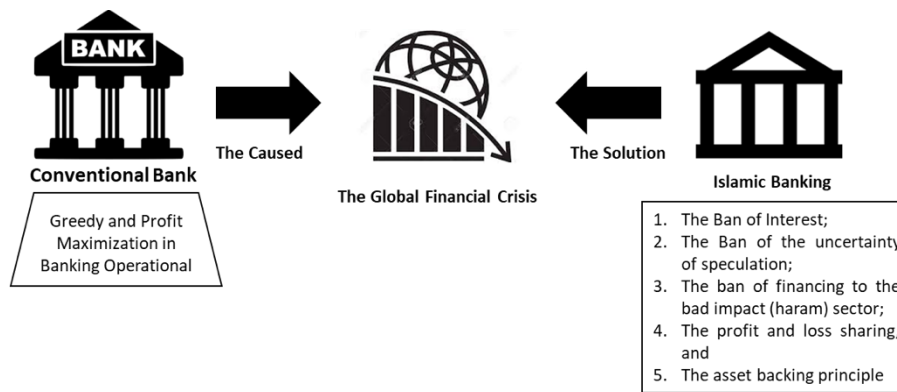
Literature Review

In this section of the literature review, it will provide a theoretical foundation for the operational principles of sharia banking, sharia bank risk management and theories about the placement of funds in Islamic banks.

The existence of Islamic banks in Indonesia began in 1992 which was a demand from Muslims who also as the majority of the population in Indonesia to the needs of carrying out their belief in a holistic way or kaffah (Nugroho & Husnadi, 2017). The phenomenon that occurs in Islamic banks, since the establishment of Islamic banks in 1992 until now there have been several

economic and monetary crises, but the crisis did not have a significant impact on the financial stability of Islamic banks (Masyita, 2015; Setiawan, 2006; Wibowo & Syaichu, 2013). According to Sukmadilaga & Nugroho, (2017), the ability of Islamic banking in survive from the crisis is because Islamic banking in carrying out its operations has the following principles: (1) Brotherhood (*Ukhuwah*), Islamic banking operations prioritizes harmonizing the interests of the parties which aim to help each other. Brotherhood in sharia transactions is based on the principle of getting to know each other (*ta'aruf*), understanding each other (*tafahum*), helping each other (*ta'awun*), mutual guarantee (*takaful*) and joint synergy/alliance (*tahaluf*); (2) Justice, the operation of Islamic banking is to provide something following its rights and position. Implementation of Islamic banks is a prohibition on usury, which can harm other parties due to the transfer of risk from the owner; (3) Maslahah or social beneficiaries, the operation of Islamic banks is not only aimed at seeking profit, but must be able to contribute positively to social aspects and environmental sustainability; (4) Balance (*tawazun*), the operation of Islamic banks prioritizes the balance of interests of related parties so that in its services Islamic banks is not aimed at maximizing profits, but to provide the maximum benefit for creatures of Allah to realize social well-being. (5) Universalism (*syumuliyah*), the operation of Islamic banking has the principle, not to discriminate its services based on religion, language, race, ethnicity, etc. Sharia banking operations are also intended to provide welfare for all humanity, not only for Muslims.

In line with this, the Islamic banking can be a solution to realize a social-wellbeing community, and Islamic banks have their mechanism (sharia principles) in operation (Choudhury & Hussain, 2005; Dusuki, 2008; Gilani, 2015; Nugroho & Husnadi, 2017) so that being able to maintain the financial stability of the country is shown in the figure 4 below:



Source: Author

Figure 4. The Contribution of Islamic Banks to Economic Stability

Furthermore, referring to figure 4 above, then Islamic banking through the implementation of 5 sharia principles pillars as below: The Ban of Interest; The Ban of the uncertainty of speculation; The ban of financing for the bad impact sector (haram); The profit and loss sharing, and The asset backing principle. Regarding the contribution of Islamic banks to the economic stability (figure 4), the Islamic principles can be a solution to the financial crisis caused by human greed in economic and business activities (M.Kabir & Kayed, 2009; Shafique, Faheem, & Abdullah, 2017).

The principle of risk management in Islamic banks is "*al ghoram bil ghurmy and al kharaj bil dhaman*" (Arafah & Nugroho, 2016). The principle of *al ghoram bil ghurmy and al kharaj bil dhaman* means that there is an action to take advantage, there will be potential risks to be borne, and those risks must be managed responsibly and with the appropriate method. The definition of risk principle in Islamic banks is also in line with the opinion of A.Bikker & Haixia (2006), and Köhler (2012) which declare that banks can recognize their income and profits if obtained from real economic activities or businesses. However, these benefits must be adequately mitigated so that the gains do not incur future costs or losses. Therefore, Islamic banks must be able to show excellent performance to increase the trust of the public and their customers. Thus the better the performance of the Islamic bank, the social impact of the existence of Islamic banks will be felt by the community.

Bank Mandiri Syariah (BSM) is the largest Islamic bank in terms of assets in Indonesia, amounting to IDR 81.9 trillion as of June 2017 and the only Islamic bank included in the core capital category of IDR 5 trillion to 30 trillion. As the largest sharia bank, of course BSM has a strategy in attracting the market through the selection of investments to get optimum results or income. The current segmentation at BSM is based on the business guidelines for financing customer segmentation in 2016 (BSM, 2016), stating that BSM has a category of types of investment in securities as follows:

First, securities investment in government instruments. (a) Bank Indonesia Certificates (SBIS), SBIS is the securities based on short-term sharia principles in rupiah currency issued by the Central Bank (Bank Indonesia). SBIS is one of the monetary instruments from Bank Indonesia to control the money circulating through open market operations. (b) SBSN Reverse Repo with Bank Indonesia (RR), SBSN Reverse Repo Transactions (State Sharia Securities) are SBSN purchase transactions by Banks from Bank Indonesia, with promises of resale by the Bank following the agreed price and period. SBSN Reverse Repo Transaction (State Sharia Securities) is one of the monetary instruments of Bank Indonesia to be able to control the money circulating through open market operations. (c) Bank Indonesia Syariah Deposit Facility (FASBIS), FASBIS is a deposit facility in rupiah provided by Bank Indonesia to Banks to place their funds in Bank Indonesia as Sharia standing facilities. (d) Government Sharia Securities (SBSN) - Government Sukuk, PT Bank Mandiri Syariah also manages financial assets in the form of Islamic securities issued by the government or the private sector. Government Sharia Securities (SBSN) or so-called Government Sukuk are Government securities issued based on sharia principles, as proof of the share of Government assets in Rupiah.

Second, Corporate Sukuk, The company can fund the company's expenditure needs by issuing Sukuk into the capital market. Sukuk issued by the company is called corporate Sukuk. Following the regulations of the Financial Services Authority No. 18/POJK.04/2015, Sukuk is Sharia Securities in the form of certificates or proof of ownership that have the same value and

represent a unified or undivided share, for the underlying assets. Assets that are the basis of the required Sukuk are not contrary to Sharia Principles in the Capital Market. Examples of assets that are contrary to Sharia Principles in the Capital Market are goods/services/ intangible assets related to activities as follows: (a) Gambling and gambling games; ribawi financial services; (b) Risk buying and selling that contains elements of uncertainty (*gharar*) and/or gambling (*maysir*); (c) Producing, distributing, trading, and/or providing, among other things: goods or services that are unlawful (*haram Li-dzatihi*), illicit goods or services not because of their substance (*haram lighairihi*) stipulated by the National Sharia Council - Indonesian Ulema Council, and/or products or services that damage morale and are harmful.

Following the type of investment in the securities mentioned above and several previous studies stated that the implementation of investment strategies could improve bank performance (Barber & Lehavy, 2004; Dugar & Nathan, 1995; Smith Jr., 1986). The investment strategy of the bank aims to determine the placement of funds collected by banks originating from the community, both for channeling financing or credit and investing in securities that aim to improve the performance of bank income and also maintain bank liquidity. Therefore, the strategy of investing funds in securities is vital to keep the stability of Islamic banks.

Method

The data analysis method used in this study is multiple regression. Regression analysis method, besides measuring the strength of the relationship between two or more variables, and also serves to determine the direction of the relationship between the dependent variable and the independent variable. Furthermore, according to the independent and dependent variables discussed in the literature review section, the conceptual framework can be established on figure 5 as follows:

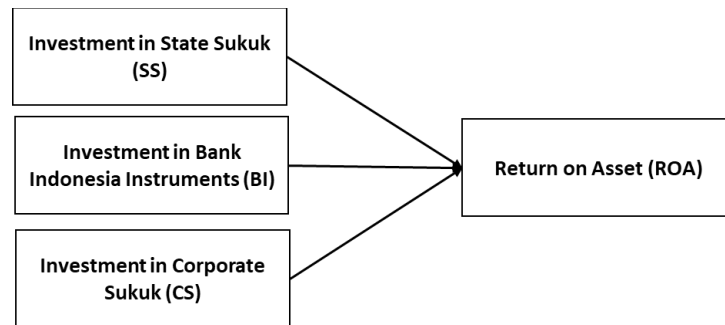


Figure 5. The Contribution of Islamic Banks to Economic Stability

Therefore, according to the conceptual framework (figure 5), a statistical model in this study is as follows:

$$ROA = \alpha + \beta_1SS + \beta_2BI + \beta_3CS + e \quad (1)$$

The description of the variables in the statistical model is as follows:

ROA: Return on Asset Ratio

α : Coefficient

SS: Investment in State Sukuk

BI: Investment in Bank Indonesia Instruments

CS: Investment in Corporate Sukuk

e: Other factors that cannot be explained in the research variable

The population in this study is securities investment and profitability at Bank Mandiri Syariah. The sample in this study was selected in the second semester period of 2014 until 2017. Therefore, the observation in this research are 42 samples that include:

Year 2014: 6 Samples

Year 2015: 12 Samples

Year 2016: 12 Samples

Year 2017: 12 Samples

Year 2018: 12 Samples

Total: 42 Samples

Result and Discussion

This section will find out the impact of investments in Government sukuk, investment in Bank Indonesia instruments, and investment in corporate sukuk on the profitability of Islamic banks. In this study, to process secondary data using the Stata Version 13 as a statistical tool. Furthermore, the results of secondary data processing from the variables in this study are as follows: Independent variables include (1) Investment in sukuk state; (2) Investment in Bank Indonesia instruments; (3) Investment in corporate sukuk; The dependent variable is the return on asset (ROA). The results of multiple linear regression of these variables are listed in table 1 below:

Table 1. Result of Multiple Linear Regression of SS, BI, CS and ROA

Source	SS	df	MS		
Model	.151290925	3	.050430308	Number of obs =	42
Residual	.163823119	38	.004311135	F(3, 38) =	11.70
Total	.315114043	41	.007685708	Prob > F =	0.0000
				R-squared =	0.4801
				Adj R-squared =	0.4391
				Root MSE =	.06566

ROA	Coef.	Std. Err.	t	P> t	Beta
SS	-.0411286	.0122901	-3.35	0.002	-.4071166
BI	.0002546	.0000545	4.67	0.000	.5532567
CS	.0004553	.000269	1.69	0.099	.2071868
_cons	.9388517	.2299759	4.08	0.000	.

Source: Regression by Stata Ver.13

Based on table 1 above, then the regression of equation model 1 from the statistical results with Stata version:

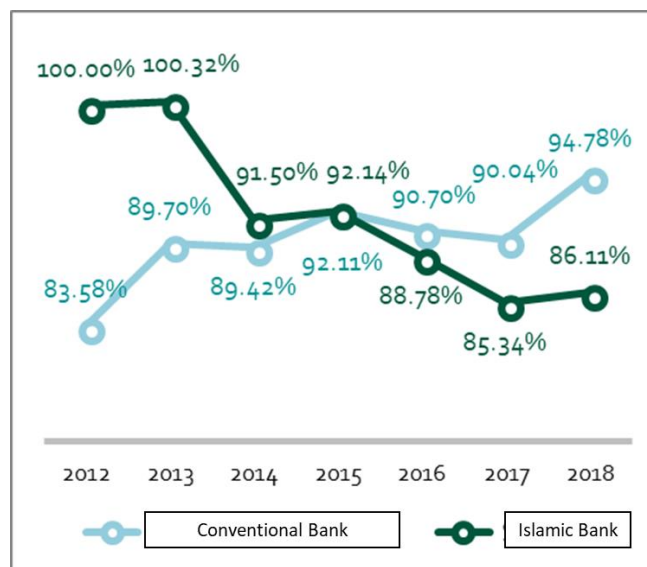
$$ROA = 0.9388517 + 0.0004553SS + 0.0002546BI - 0.0411286CS + e$$

Following the above equation and the regression results in table 1.1, it was found that investment funds in the sukuk state had a negative and significant effect on the bank's return on assets, whereas the placement of funds in securities investment in Bank Indonesia has a positive and significant influence on the return on assets of the bank. However, investment placement

in corporate sukuk has a positive, but not significant impact. The influence of the three independent variables (state sukuk, BI instruments, and corporate sukuk) on the dependent variable (return on assets) is 48.01%, and the rest is 51.99% is influenced by other independent variables that are not included in this research variable.

The influence of investment in the State Sukuk (Surat Berharga Syariah Negara-SBSN) on Return on Asset of Islamic Bank

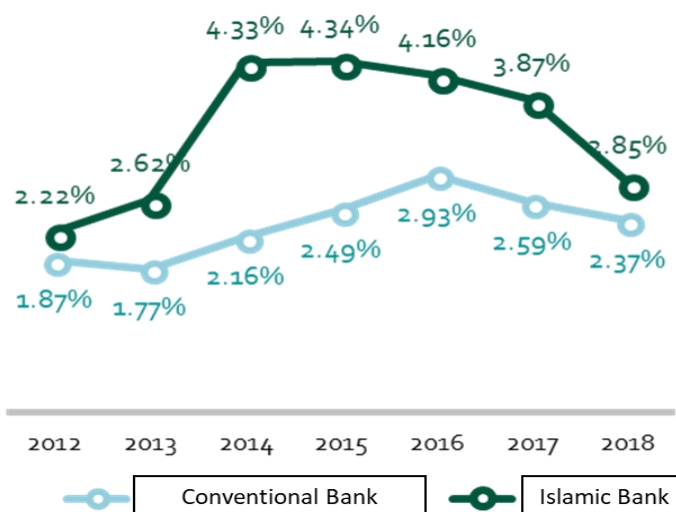
Management of liquidity in a bank has a vital role in getting the effectiveness of the placement of funds or investments that have an impact on the optimal income received by Islamic banks (Gatev, Schuermann, & Strahan, 2007). Of course, the primary function of banking is as a financial intermediary in the community in raising funds (savings) and channeling funds as loans or financing. In graph 1.4 below, it relates to the effectiveness of the function of Islamic banks as an intermediary institution indicated by the financing to deposit ratio (FDR), for the last 3 years, namely 2015 to 2017, Islamic bank FDR has decreased significantly, therefore to maintain excess funds, BSM places a portion of its unused funds to channel financing to the state sukuk-SBSN.



Source: Financial Service Authority (OJK) data already processed

Figure 6. The Comparison of FDR of the Islamic Banking Industry with Conventional Banking FDR (2012-2018)

Fund placements in sukuk countries are indeed not the core business in Islamic banks because the income earned will be smaller, if Islamic banks place their funds in channeling their funds directly to the public (DeYoung, Goldberg, & White, 1999). Therefore, the higher the placement of funds in the sukuk country, it indicates that the bank experienced a decrease in FDR, so that bank income decreased. If there is a decrease in FDR, the bank experiences excess funds, so the bank places it in sukuk and securities. The low sukuk revenue is in line with this research that investment funds in the sukuk state in BSM have a negative and significant effect on ROA in the period 2014 to 2017. However, it also needs to be considered that the Islamic banking industry is also suffering to reduce the NPF in the 2014-2017 period (figure 7).



Source: Financial Service Authority (OJK) data already processed

Figure 7. The Comparison of FDR of the Islamic Banking Industry with Conventional Banking FDR (2012-2018)

Nevertheless, the selection of investments in sukuk and bank Indonesia securities at the time of FDR has decreased, and the high NPF must be a concern of BSM management and Islamic banks in general. When low FDR and NPF are high, management must be able to conduct investments in an investment that aims to ensure that the income or return on assets of Islamic banks has excellent performance.

The influence of investment in the Bank Indonesia Instruments on Return on Asset of Islamic Bank

Placement of excess liquidity in the Central Bank or Bank Indonesia is an obligation for banks include Islamic bank (Alamsyah et al., 2005; Arndt, 1979). Therefore, investment funds in Bank Indonesia instruments are absolute in maintaining liquidity risk of Islamic banks. In this study, investment in Bank Indonesia instruments has a positive and significant influence on return on assets so that if the bank experiences excess funds, one of the investment choices is in Bank Indonesia instruments. Due to the placement of funds in Bank Indonesia instruments FDR and NPF from Islamic banks, it is different from investment funds in sukuk state which is influenced by FDR and NPF.

Furthermore, the placement of funds in Bank Indonesia instruments is a provision of regulators so that the amount of investment is inflexible or binding. This is because the government uses the Bank Indonesia securities instruments in regulating the circulation of money in the community. Therefore, investments in securities in Bank Indonesia instruments are macroeconomic policies from the government, and also reduce the liquidity risk of Islamic banks (Ismal, 2010).

The influence of investment in Corporate Sukuk on Return on Asset of Islamic Bank

The selection of alternative investment in corporate sukuk has a higher risk compared to investment in sukuk state and investment in securities in Bank Indonesia instruments (Anuar et al., 2019; Elton et al., 2001; Jobst et al., 2008). However, the return generated is also the highest so banks must apply the principle of prudence in placing their funds in corporate sukuk. Furthermore, in this study, it was found that investment in corporate sukuk has a positive, but not significant effect on return on assets. Corporate Islamic bank fund investment has a small portion because it is aligned with the risks inherent in corporate sukuk. Thus, the amount of investment in corporate sukuk tends to have the smallest portion so that the impact on return on assets is not significant. Furthermore, sharia bank management must be able to draw

the right choice in determining the measure of corporate sukuk to maintain income performance and likewise cause to mitigate risk, so that the investment will not harm Islamic banks in the future (Usman et al, 2018; Utami & Chotib, 2014).

Conclusion

Islamic banks as banks that have broad goals, not just to maximize net income but also aspire to make a social welfare community. Furthermore, Islamic banks, which are based on sharia principles also strive to make the ummah muslim carry out their educational activities in a way that is faithful to bring goodness in the universe and the hereafter. Moreover, Islamic banks must be capable to hold the confidence of the community by achieving excellent performance. The decision to put in excess funds is important to optimize the income received so that the return on assets of Islamic banks attract investors and the public. So, to manage the excess funds, Islamic banks must place sukuk and securities under Sharia principles

Several alternative placements or investment funds in sukuk and securities should be part of the priority of the management board. The management board must be able to create an alternative selection of these investments. Referring to the results and discussion of this study, investment funds in the sukuk state have a negative and significant impact on ROA so that the board of management must do the accurate calculation and be careful in placing their funds in the sukuk state. Likewise, investment funds in securities in Bank Indonesia instruments have a positive and significant influence so that Islamic banks can invest their finances according to their needs and as liquidity risk mitigation. Furthermore, investment funds in corporate sukuk have a positive and insignificant impact so that investing in the management of Islamic banks must be able to determine the amount and risks that will arise in the future.

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