

Health Level and Disclosure of Islamic Values of Indonesian Islamic Banking and Malaysian Islamic Banking: A Literature Review

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ABSTRAK: Bank syariah dianggap sebagai lembaga keuangan yang sesuai dengan prinsip-prinsip Islam, menarik minat masyarakat, khususnya umat Muslim, karena tidak melibatkan riba. Kinerja bank syariah, baik keuangan maupun non-keuangan, dinilai melalui metode RGEC yang meliputi profil risiko, tata kelola perusahaan yang baik, rentabilitas, dan permodalan. Selain itu, pengungkapan nilai-nilai keislaman dalam laporan tahunan menjadi indikator penting untuk menjamin kepatuhan syariah. Studi ini bertujuan untuk membandingkan tingkat kesehatan dan pengungkapan nilai-nilai keislaman pada bank syariah di Indonesia dan Malaysia, yang merupakan pusat pertumbuhan industri perbankan syariah di Asia Tenggara. Penelitian ini menggunakan studi pustaka dan data sekunder untuk mengukur kinerja dan pengungkapan tersebut. Berdasarkan penelitian terdahulu dihasilkan bahwa kinerja bank syariah di Indonesia dan Malaysia memiliki keunggulan masing-masing dalam aspek yang berbeda, baik dari segi rasio keuangan maupun pengungkapan nilai-nilai etis dan keislaman.

Kata kunci: Tingkat Kesehatan dan Pengungkapan Nilai-nilai Keislaman

ABSTRACT: Sharia banks are considered financial institutions that are in accordance with Islamic principles, attracting the interest of the public, especially Muslims, because they do not involve usury. The performance of Islamic banks, both financial and non-financial, is assessed using the RGEC method which includes risk profile, good corporate governance, profitability and capital. In addition, disclosure of Islamic values in annual reports is an important indicator to ensure sharia compliance. This study aims to compare the level of soundness and disclosure of Islamic values in Islamic banks in Indonesia and Malaysia, which are the centers of growth of the Islamic banking industry in Southeast Asia. This research uses literature study and secondary data to measure performance and disclosure. Based on previous research, it was found that the performance of Islamic banks in Indonesia and Malaysia has its own advantages in different aspects, both in terms of financial ratios and disclosure of ethical and Islamic values.

Keywords: Health Level and Disclosure of Islamic Values

1. INTRODUCTION

The existence of banking is important in the implementation of a country's development. Currently, banking growth in Indonesia can be said to be much better than the years when the monetary crisis hit. The first crisis occurred in 1998 where the rupiah exchange rate against the dollar decreased drastically, making it difficult for the Indonesian banking industry to conduct liquidity. Not only that, in 2008 the crisis occurred again where the banking industry lowered interest rates to increase the level of public consumption and investment. (Rahmawati, 2021)

Due to the repeated crises, many customers withdraw their funds on a large scale and reduce public interest in keeping their money in banks. Therefore, the banking industry has made various innovations aimed at attracting public interest in saving money again into the bank. Until there was interest in the banking industry to use the sharia system in carrying out its operations. Actually, sharia-based banks already existed before the monetary crisis in 1998, but the existence of Islamic banks has not received optimal attention in the order of the national banking sector. The legal basis for the operation of banks that use the sharia system is only accommodated in one paragraph about "banks with a profit-sharing system" in Law No. 7 of 1992, without any details of the legal basis of sharia or the types of businesses that are allowed. (*Perbankan Syariah*, n.d.)

After seeing that Bank Muamalat was not significantly affected by the monetary crisis in 1998, the government and the House of Representatives made improvements to Law No. 7 of 1992 into Law No. 10 of 1998, which explicitly explained that there were two systems in the country's banking system (dual banking system), namely the conventional banking system and the Islamic banking system. This opportunity was warmly welcomed by the banking community marked by the emergence of several other Islamic banks, such as Bank IFI, Bank Syariah Mandiri, Bank Niaga, Bank BTN, Bank Mega, Bank BRI, Bank Bukopin, BPD Jabar and BPD Aceh etc.. (*Perbankan Syariah*, n.d.)

The emergence of these Islamic banks has provided something new in the economy. Islamic banks are financial institutions that have the function of collecting, channeling, and providing financial services to the public using principles and rules in accordance with Islamic teachings. Islamic banking has its own appeal in the community, especially the Muslim community because there is no use of interest or usury. In its operations, Islamic banking must be able to provide the best service in terms of financial and non-financial performance. (Azhar Muttaqin, 2017)

Performance is an important thing that must be achieved by any company because performance is a reflection of the company's ability to manage and allocate its resources. (Munir, 2013) According to Fahmi (2011), financial performance is the implementation of the company using the rules of financial implementation properly and correctly which in turn is analyzed to assess the company's implementation. (Fahmi & others, 2011) While non-financial performance is other information that must be submitted in the Islamic bank performance report apart from financial performance. This information includes compliance with sharia principles, types of services (financing and collection), service standards to customers, as well as information about the field and quality of financing being carried out by Islamic banks. (Yaya et al., 2009)

In conducting operations, banks must pay attention to the risk aspects that will arise from their operational activities. The funds deposited by the public can be taken at any time. Therefore, banks must manage carefully and be able to maintain the trust of the public as the owner of funds. This management can affect the level of banking health. (Rahmawati, 2021)

Assessment of the health level of Islamic commercial banks and Islamic business units in Indonesia refers to the Circular Letter of the Financial Services Authority Number 10/SEOJK.03/2014 concerning the assessment of the health level of Islamic commercial banks and Islamic business units. Assessment of bank financial performance can be measured using several indicators with a risk-based approach. In this RGEC method uses four measurement factors, namely Risk Profile, Good Corporate Governance (GCG), Earning (Rentability), Capital (Capitalization). (*Surat Edaran OJK Dan Dewan Komisiner*, n.d.)

Islamic banking as an Islamic financial institution has more moral responsibility than other conventional institutions, this is because there are social values and values of justice that must be fulfilled by Islamic banking. (Fauziyah & Siswantoro, 2016) According to Haniffah and Hudaib (2007), there are five differences between Islamic banking and conventional banking which are derived from Islamic values, including fundamental

philosophical principles and values, products and services that are free from interest elements, tang agreements are only permitted through Islamic law, focus on development and social goals, and the role of the Sharia Supervisory Board (DPS).

From these five characteristics, then formulated into eight dimensions of ideal ethical identity called Islamic Corporate Identity that should be disclosed in the annual report of Islamic banking, the eight dimensions are the dimensions of vision and mission information, top management information dimensions, product and service information dimensions, information dimensions of zakat funds, alms and benevolent funds, dimensions of commitment to employees, dimensions of commitment to debtors, dimensions of commitment to the environment and society, and dimensions of Sharia Supervisory Board reviews. (Haniffa & Hudaib, 2007)

Southeast Asia is an area that is included as the center of the development of the Islamic banking and finance industry in the world. Indonesia and Malaysia are two regional countries that are driving the development of the Islamic financial banking system. (Rahmawati, 2021) These two countries have implemented a dual banking system that allows the existence of Islamic and conventional banking side by side. This study was conducted to measure and compare the Health Level and disclosure of Islamic values in Islamic banking in Indonesia and Malaysia.

2. METHOD

This research uses a literature study research method regarding the Health Level and disclosure of Islamic values in Islamic banking in Indonesia and Malaysia. In this study, the authors also used secondary data which is data that has been processed and is available in various forms, such as books, journals, theses, articles, websites and various data both offline and online.

3. RESULTS AND DISCUSSION

a. Performance

Performance is an important thing that must be achieved by any company because performance is a reflection of the company's ability to manage and allocate its resources. (Munir, 2013) According to Fahmi (2011), financial performance is the implementation of the company by using the rules of financial implementation properly and correctly which in turn is analyzed to assess the implementation of the company. (Fahmi & others, 2011) While non-financial performance is other information that must be submitted in the Islamic bank performance report apart from financial performance. This information includes compliance with sharia principles, types of services (financing and collection), service standards to customers, as well as information about the field and quality of financing being carried out by Islamic banks. (Yaya et al., 2009)

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1) Risk Profile

Risk assessment is divided into ten parts, namely:(Surat Edaran OJK Dan Dewan Komisioner, n.d.)

2) Credit Risk

Credit risk is the risk due to the failure of customers or other parties to fulfill obligations to the Bank in accordance with the agreed agreement.

3) Market Risk

Market Risk is the risk in balance sheet and administrative account positions due to changes in market prices, including the risk of changes in market prices, including the risk of changes in the value of assets that can be traded or leased.

4) Liquidity Risk

Liquidity Risk is the risk due to the Bank's inability to meet its maturing obligations from cash flow funding sources and/or high quality liquid assets that can be collateralized, without disrupting the Bank's activities and financial condition.

5) Operational Risk

Operational Risk is the risk of loss caused by inadequate internal processes, internal process failure, human error, system failure, and/or external events that affect the Bank's operations.

6) Legal Risk

Legal Risk is the risk arising from lawsuits and/or weaknesses in juridical aspects.

7) Strategic Risk

Strategic risk is the risk due to inaccuracy in taking and/or implementing a strategic decision and failure to anticipate changes in the business environment. Sources of Strategic Risk, among others, can come from weaknesses in the strategy formulation process and inaccuracy in strategy formulation, inaccuracy in strategy implementation, and failure to anticipate changes in the business

8) Compliance Risk

Compliance Risk is the risk due to the Bank's failure to comply with and/or not implement the prevailing laws and regulations, as well as sharia principles.

9) Reputation Risk

Reputation Risk is the risk due to a decrease in the level of stakeholder trust stemming from negative perceptions of the Bank.

10) Rate of Return Risk

Rate of Return Risk is Risk due to changes in the level of returns paid by the Bank to customers, due to changes in the level of returns received by the Bank from the distribution of funds, which can affect the behavior of the Bank's third party fund customers.

11) Investment Risk

Equity Investment Risk is the risk due to the bank bearing the loss of the customer's business financed in profit-sharing-based financing either using the net revenue sharing method or using the profit and loss sharing method.

b. Good Corporate Governance (GCG)

Good Corporate Governance is a set of processes, habits, policies and rules and institutions that can influence the direction, management and control of a company or corporation. Corporate governance also covers the relationship between the stakeholders involved and the purpose of managing the company. These stakeholders are shareholders, management, and the board of directors. In addition, there are many aspects that cover corporate governance. One of them concerns the issue of accountability and responsibility, in particular ensuring good behavior and protecting the interests of shareholders by implementing guidelines and mechanisms. There is also a main thing that must be considered, namely that good corporate governance must also be aimed at maximizing company results by prioritizing the prosperity of shareholders. However, there are also those who have

the opinion that there are things that need to be considered as well in addition to shareholders, namely employees and the environment.(Pertiwi & Pratama, 2011)
Basically, good corporate governance has the aim of making all parties who have a role in running the company can understand and perform their roles according to their responsibilities and authority.

c. Earning (Rentability)

The assessment of profitability consists of evaluating the performance of profitability, sources of profitability, sustainability of profitability, management of profitability, and implementation of social functions. The assessment is carried out by considering the level, trend, structure, stability of the Syariah Commercial Bank's profitability, and comparison of the performance of the Syariah Commercial Bank with the performance of the peer group, both through analysis of quantitative and qualitative aspects. In determining the peer group, Islamic Commercial banks need to pay attention to the business scale, characteristics, and / or business complexity of the Islamic Commercial Bank as well as the availability of data and information owned.(Surat Edaran OJK Dan Dewan Komisioner, n.d.)

d. Capital

Assessment of the capital factor includes an evaluation of the adequacy of capital and the adequacy of capital management. In calculating capital, the Islamic Commercial Bank refers to the applicable provisions regarding the minimum capital provision obligation for Islamic Commercial Banks. In addition, in assessing capital adequacy, Islamic Commercial Banks must also link capital adequacy to the Risk Profile. The higher the risk, the greater the capital that must be provided to anticipate the risk. In conducting the assessment, Islamic Commercial Banks need to consider the level, trend, structure, and stability of Capital by taking into account the performance of peer groups and the adequacy of capital management of Islamic Commercial Banks.(Surat Edaran OJK Dan Dewan Komisioner, n.d.)

e. Disclosure of Islamic Values

The disclosure of Islamic values in the annual report of Islamic banking is an important thing, this is because through the disclosure of Islamic values information in the annual report of Islamic banking, it is a guarantee of the shariah compliance aspect of Islamic banking activities. Disclosure of Islamic values can be assessed from the presence or absence of Islamic Corporate Identity, including:(Awwaludin & Suprayogi, 2020)

- 1) Dimensions of vision and mission information
- 2) Dimension of top management information
- 3) Dimensions of product and service information
- 4) Information dimension of zakat, sadaqah and benevolent funds
- 5) Dimensions of commitment to employees
- 6) Dimension of commitment to debtors
- 7) Dimensions of commitment to the environment and society
- 8) Sharia Supervisory Board review dimension.

Based on previous research, the following results were obtained:

Nurin and Dahlifah (2020) with the title "Comparative Analysis of Financial Performance of Indonesia Islamic Bank and Malaysia Islamic bank Using REC Method". When viewed as a whole, the financial performance of Indonesian Islamic banking is better in the FDR, ROA, and CAR ratios. Meanwhile, Malaysian Islamic banking is better in the NPF and BOPO ratios(Wijaya & Wijaya, 2020)

Nadrattuzaman and Muhari (2018) with the title "The Comparison of Soundness Level of Islamic Banks in Indonesia and Malaysia", this study revealed that Malaysian Islamic banking was better than Indonesia during 2012-2014. In other words, Indonesian Islamic banking has increased product diversification to compete in the ASEAN region.(Hosen & Muhari, 2018)

Syuhada, Komalasari, and Sudrajat (2019) with the title "Effect on The Performance of Disclosure of Identity in Islamic Bank Indonesia (Study in Islamic Banking Companies Listed in Bank Indonesia)", (2008-2018), This study reveals that Islamic Ethical Identity significantly affects the financial performance of Bank Indonesia.(Syuhada et al., 2019)

Fahlevi, Irsyadillah, and Randa (2017) with the title "Financial Performance and Sharia Compliance: A Comparative Analysis of Indonesian and Malaysian Islamic Banks". This study reveals that Malaysian Islamic banking is better in terms of its financial performance than Indonesia. Meanwhile, Indonesian Islamic banking prioritizes sharia principles.(Fahlevi et al., 2017)

Auliyah and Basuki (2020) with the title "Ethical Values Reflected on Zakat and CSR: Indonesia Sharia Banking Financial Performance". This study reveals that Zakat Disclosure has a significant effect on Financial Performance. Meanwhile, Ethical Value as measured by CSR disclosure does not have a significant effect on Financial Performance.(Auliyah & Basuki, 2021)

Chabachib, Windriya, Robiyanto, and Hersugondo (2019) with the title "A Comparative Study of Indonesia and Malaysia Islamic Banks". This study reveals that based on the Chow test, it can be concluded that there are significant differences between Indonesian and Malaysian Islamic banking.(Chabachib et al., 2019)

Baqir, Hussain, Islam, and Waseem (2020) entitled "Comparison of Financial Performance of Private Commercial Banks in Pakistan." The results of this study reveal that each of the different ratios directly impacts the performance of the bank.(Baqir et al., 2020)

Daryanto, Utami, and Rakhmawati (2018) entitled "Banking Health Assessment of Commercial Banks in Indonesia Using RGENC Methods: A Comparative Study". The results showed that the level of health of the financial condition of Commercial Bank Indonesia was quite healthy. This shows that the company's performance capabilities have been achieved very well.(Daryanto et al., 2019)

Prasetyo, Pantas, Ashar, and Pertiwi (2020) entitled "Performance Comparison of Islamic Banking in Indonesia and Malaysia: Islamicity Performance Index Approach" using the Profit Sharing Ratio, Zakat Performance Ratio, Equitable Distribution Ratio, and Islamic Income vs. Non-Islamic Income as a measuring tool. The results of the calculation of the four ratios show that Indonesian Islamic banking is superior in the Profit Sharing Ratio and Equitable Distribution Ratio, while the average score of Malaysian Islamic banking is only slightly higher in the Zakat Performance Ratio and Islamic Income vs. Non-Islamic Income Ratio.(Puji Prasetyo et al., 2020)

Octafilia and Wijaya (2019) entitled "Study of Conventional Bank Health in Indonesia from 2012-2017" using CAR, NIM, ROA, NPM, LDR, NPL, and IRR as measuring instruments. The ratios used in the CAMELS method to assess the health of conventional banks are averaged at a composite rating of 1-3 where the Capital Asset Ratio, Net Interest Margin, Operating Fee of Operational Revenue Ratio tend to show very healthy conditions while Return on Assets, Net Profit Margin, and Loan to Deposit Ratio of conventional banks tend to show quite healthy conditions. Meanwhile, those using the RGENC method used to assess the health level of conventional banks have an average rating of 1-5 where CAR, NIM, BOPO ratios tend to show very adequate conditions, NPL and IRR ratios tend to show strong conditions, ROA ratios tend to show adequate conditions while GCG ratios tend to show inadequate conditions.(Octafilia & Wijaya, 2020)

1. CONCLUSION

Financial and non-financial performance are important elements in assessing the health of banks, especially Islamic banks. Financial performance is measured through indicators such as Risk Profile, Good Corporate Governance (GCG),

Earning, and Capital, which are regulated by the Financial Services Authority. In addition, the disclosure of Islamic values in the annual reports of Islamic banks is also important to ensure sharia compliance. Previous research shows that the performance of Islamic banks in Indonesia and Malaysia have their own advantages in different aspects, both in terms of financial ratios and disclosure of ethical and Islamic values.

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