



Financial Performance of Islamic Banking in Indonesia with the *Maqashid Syariah* Indeks Approach

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Abstract

Banking performance is measured using financial ratios. However, for Islamic banking, it is much more complex compared to conventional banking. It's not just about testing profitability levels; it's more about compliance with Islamic principles, namely *Maqashid Syariah*. This makes the products and performance evaluation of Islamic banking distinct from conventional banking. The purpose of this research is to assess the financial performance of Islamic Commercial Banks in Indonesia using the *Maqashid Syariah* Index approach for the period 2017-2019. This research is classified as descriptive quantitative research. The objects of the study are Bank Muamalat Indonesia (BMI), Bank Syariah Mandiri (BSM), Bank Tabungan Pensiun Nasional (BTPN Syariah), and Bank Aceh Syariah (BAS). The research method used the *Maqashid Syariah* Index analysis technique. The data used are secondary data in the form of annual reports from 2017-2019 obtained from the official websites of each bank. The research results indicate that the financial performance of Islamic Commercial Banks (BUS) using the *Maqashid Syariah* Index for the period 2017-2019 is as follows: Bank Syariah Mandiri (BSM) achieved the highest ranking with an index value of 0.273841 or 27.38%. The second rank is held by Bank Muamalat with an index value of 0.267941 or 26.79%. The third rank is obtained by Bank Aceh Syariah with an index value of 0.260473 or 26.047%, and BTPN Syariah has the lowest ranking with an index value of 0.1735705 or 17.35%.

Keywords: *performance measurement; islamic bank; maqashid syariah; maqashid syariah index*

A. INTRODUCTION

The Indonesian economy relies heavily on financial institutions that play a vital role in supporting economic growth. These institutions serve as asset managers for those with surplus funds and those in need (Kasmir, 2014). They can be broadly categorized into banking and non-banking institutions. Banking institutions, in particular, can be divided into conventional banks, which operate based on conventional principles, and Islamic

banks, which adhere to Sharia principles and avoid interest-based transactions (Andrianto, 2019).

Islamic banking significantly differs from conventional banking, as it prohibits unfair practices and interest charges on loans, in accordance with Islamic law (Anshori, 2018). Data from the Financial Services Authority (OJK) in December 2019 shows substantial growth in Islamic banking, with assets totaling Rp. 524.564 billion. This growth is led by Sharia Commercial Banks with Rp. 350.364 billion in assets and Sharia Business Units with Rp. 174.200 billion (OJK, 2023). Performance assessment becomes crucial to maintain trust, but measuring Islamic banking performance is complex due to the need to consider Sharia compliance (Syofyan, 2017).

Although there are unique challenges in Islamic banking, performance measurement methods often resemble those used in conventional banking, focusing on financial ratios (Reni, 2013). This can lead to short-term thinking and neglect of non-financial aspects and long-term planning. The main challenge lies in clarifying the objectives of Islamic banking, as they are not yet well-defined, making it lag behind conventional banking, particularly financially (Antonio, 2012).

Islamic scholars emphasize the importance of promoting human well-being, protecting faith, life, intellect, lineage, and property. These principles guide economic activities and are particularly relevant for Islamic financial institutions, which are expected to embody these values. To achieve these objectives, the concept of Maqashid Sharia, which aims to realize the goals of Islamic law, is employed. It includes three main objectives: individual education, the establishment of justice, and the achievement of well-being (Aziz, 2018).

The Maqashid Sharia Index (MSI) is used to evaluate Islamic banking performance based on these objectives. It provides a distinct performance measurement system for Islamic banks compared to conventional banks, aligning with the principles of Sharia (Fadhila, 2018; Mohammed, 2008). This approach ensures that Islamic banking serves the broader objectives of Sharia while also considering social benefits. Consequently, the study explores "Financial Performance of Islamic Banking in Indonesia Using the Maqashid Sharia Index Approach" to better align Islamic banking with its unique objectives and values.

B. METHOD

This research is a type of descriptive research with a quantitative approach, often referred to as quantitative descriptive research. Quantitative research is a systematic, planned, structured, and clear research process from start to finish. This research utilizes numerical data, starting from data collection, data interpretation, to the presentation of results. Descriptive research is one of the research approaches aimed at systematically, factually, and accurately describing specific phenomena or populations. Its goal is to

provide answers to specific problems or gain deeper insights into a phenomenon using a quantitative approach (Sugiyono, 2020).

The method used in this research is the index number method, which is used to measure the development of variables or observed events. This method is commonly used in economics to depict economic developments. This research uses time series data, which is data collected in chronological order within a specific time range, such as daily, weekly, monthly, or yearly data (Supriadi, 2020). The data used in this research are the annual reports of Islamic commercial banks for the period 2017-2019.

The population in this research includes all Islamic commercial banks in Indonesia that have published annual financial reports during the research period. The research sample is determined using purposive sampling with specific criteria, such as banks that have operated as Islamic commercial banks during the period 2017-2019, national government banks with the largest assets, national private banks with the largest assets, regional development banks with the largest assets, and Islamic commercial banks that strictly adhere to Sharia principles. Four banks were selected as research samples: Bank Muamalat Indonesia, Bank Syariah Mandiri, BTPN Syariah, and Bank Aceh Syariah.

The variables examined in this research are the performance indicators of Maqashid Sharia, consisting of three main objectives: *Tahdzib al-Fard* (individual education), *Iqamah al-Adl* (establishing justice), and *Jabl al-Maslahah* (achieving well-being). These indicators are then measured using ten relevant performance ratios. Data are collected using secondary data obtained from the official websites of each bank. The data collection technique involves literature review and documentation. Data analysis is conducted using the Maqashid Sharia Index method, which involves weighting the Maqashid Sharia performance measurement model. Each performance ratio is calculated and summed to obtain the Maqashid Sharia Index (MSI) for each Islamic bank. This method helps measure the extent to which these banks fulfill the goals of Maqashid Sharia.

C. CONTENT

1. Description

The research involves Islamic banks, including *Bank Muamalat Indonesia*, *Bank Syariah Mandiri*, *BTPN Syariah*, and *Bank Aceh Syariah*. Here is a brief overview of each research object:

a. Bank Muamalat Indonesia

1) Brief Company History

Established on November 1, 1991, *Bank Muamalat Indonesia* is Indonesia's first purely Islamic bank. It was initiated by the Indonesian Council of Ulama (*Majelis Ulama Indonesia* or MUI), the Indonesian

Association of Muslim Intellectuals (*Ikatan Cendekiawan Muslim Indonesia* or ICMI), and Muslim entrepreneurs with support from the Indonesian government. Since its official operation on May 1, 1992, the bank has continuously innovated and introduced various Islamic financial products such as Takaful Insurance, Muamalat Financial Institution Pension Fund (DPLK Muamalat), and Islamic Multifinance (*Al-Ijarah Indonesia Finance*), all of which were pioneering efforts in Indonesia. Additionally, Bank Muamalat introduced Shar-e, the first instant savings product in Indonesia, in 2004, and Shar-e Gold Debit Visa in 2011. Since 2015, Bank Muamalat Indonesia has been working towards achieving its vision of becoming "The Best Islamic Bank and Top 10 Bank in Indonesia with Strong Regional Presence" (Bank Muamalat, 2023).

2) Business Fields

The bank's activities include gathering funds from the public through various types of accounts, such as current and savings accounts, based on the principles of Wadi'ah, Mudharabah, or other Sharia-compliant agreements. They also engage in investment activities, including time deposits based on Mudharabah agreements, and financing operations such as Murabahah, Istisna, Salam, and other Sharia-based contracts (Bank Muamalat, 2023).

b. Bank Syariah Mandiri

1) Brief Company History

Bank Syariah Mandiri's history is tied to the financial crisis in Indonesia during 1997-1998, which prompted the development of Islamic banking as a concept to stabilize the economy. The transition of BSB (*Bank Surya Bumi Surabaya*) to a full-fledged Islamic commercial bank was confirmed by the Governor of Bank Indonesia through Decree No. 1/24/KEP.BI/1999 on October 25, 1999. Subsequently, with the approval of Bank Indonesia's Senior Deputy Governor through Decree No. 1/1/KEP.DGS/1999, it officially began operations on November 1, 1999, as *PT Bank Syariah Mandiri* (BSM). BSM has thrived as a bank that harmoniously combines business idealism with spiritual values, distinguishing it in the Indonesian banking sector.

2) Business Fields

BSM conducts various banking activities in accordance with its Articles of Association, including gathering funds through savings accounts, current accounts, or similar accounts based on *Wadi'ah* or other Sharia-compliant agreements. It also engages in investment activities such as deposits and other

accounts based on *Mudharabah* or other Sharia-compliant agreements. The bank provides financing based on agreements such as *Mudharabah*, *Musyarakah*, *Murabahah*, and *Salam* (Bank Syariah Mandiri, 2023).

c. BTPN Syariah

1) Brief Company History

BTPN Syariah, a subsidiary of BTPN, was established as *PT Bank Purba Danarta* in 1991. It underwent several changes, including becoming *PT Bank Sahabat Purba Danarta* in 2009 and finally *PT Bank Tabungan Pensiunan Nasional Syariah*, with full Sharia compliance. This conversion process was officially approved by the Financial Services Authority (*Otoritas Jasa Keuangan* or OJK) and aimed to have a positive impact on the economic and social aspects of society.

2) Business Fields

BTPN Syariah operates with a focus on financial inclusion, providing financial products and services to underserved communities and the less fortunate. Its services include financial training to help customers improve their livelihoods. The bank engages in gathering funds through various Sharia-compliant accounts, financing based on profit and loss sharing, trade financing, leasing, debt assumption, and issuing Sharia-compliant debit and financing cards (BTPN Syariah, 2023).

d. Bank Aceh Syariah

1) Brief Company History

Bank Aceh Syariah has its origins in the initiative of the Peralihan Province of Aceh, now known as the Aceh Province, and was founded as PT Bank Kesejahteraan Atjeh, NV in 1957. The bank officially started the process of converting from conventional banking to fully Sharia-compliant banking in 2015, a transition overseen by the Financial Services Authority (*Otoritas Jasa Keuangan* or OJK). This conversion aimed to bring positive economic and social impacts to the community .

2) Business Fields

Bank Aceh Syariah conducts various banking activities in accordance with its Articles of Association. This includes gathering funds through accounts such as current accounts, savings accounts, fixed deposits, and other accounts based on Sharia principles. The bank also provides financing based on profit and loss sharing, trade financing, leasing, debt assumption, issuing Sharia-compliant debit and financing cards, and engaging in activities in the

capital market, all in accordance with Sharia principles and applicable regulations (Bank Aceh Syariah, 2023).

2. Analysis

In analyzing the financial performance of Islamic banks based on the Maqashid Syariah Index, there are three stages, including First, calculating the performance ratio of each bank. Second, calculate performance indicators based on the results of calculating the performance ratio according to the weights. Third, after the performance indicators are known, the next step is to accumulate performance indicators to determine a ranking based on the Maqashid Syariah Index. The results of measuring the performance ratio of Sharia Commercial Banks for the 2017-2019 period are as follows:

- a. First Goal Maqashid Syariah Performance Indicators (*Tahdzib al-Fard*)
 - 1) Education Grant Ratio (R11)

Based on the calculation results, four samples of Islamic commercial banks in Indonesia explain in detail the education grants distributed to the public from 2017-2019. Regarding the education grant ratio, there is one bank that does not implement this ratio, namely *BTPN Syariah*. This is because the company focuses more on training for the board of directors and all employees so that the company does not carry out educational grant activities in this area. In 2017 *Bank Syariah Mandiri* had the highest ratio value, namely 0.0041812 or 0.418%, in 2018 *Bank Syariah Mandiri* still occupied the highest position among research objects, namely 0.002425533 or 0.24%, and for the following year *Bank Aceh Syariah* has the highest value, namely 0.00211 or 0.211%. This ratio value means that the total expenditure is aimed at educational donations such as scholarship funds and aid to educational institutions.

Meanwhile, the lowest ratio for education grants in 2017 was *Bank Aceh Syariah* with a value of 0.000404 or 0.4%. This is because in that year the company increased the number of employees at each branch office, resulting in an increase in salaries, wages and employee benefits. Therefore, the company's cost saving efforts are by reducing the allocation of funds to the education grant ratio. Likewise, in the following year, *Bank Aceh Syariah* still had the lowest score. In 2019, the lowest acquisition of education grants was at *Bank Muamalat* with a value of 0.001483404 or 0.14%. This is because in that year the company increased research and training costs for employees, so that educational grant costs were reduced. With the ratio value above, the three banks that run educational grants are considered to have a better level

of sustainability because they have tried to apply the formula for guaranteeing corporate sustainability from the educational aspect by providing scholarship contributions, donations to employees and improving educational facilities and infrastructure. In the maqashid sharia framework, the allocation of funds is included in *hifzhul aql* (guarding reason).

2) Research Ratio (R21)

Of the four research samples, there was only one bank that explained research costs in detail, namely *Bank Muamalat Indonesia*. The increase in research costs occurred in 2019, namely 0.004969597 or 0.4%, from the previous year, namely 0.117%. Research and development is really needed by sharia banking to support the progress and sustainability of companies in facing competition. Within the maqashid sharia framework, research programs can also maintain and function reason (*hifzul aql*). With this research program, it is also used as a sharia banking business to facilitate employees, students and stakeholders who want to conduct research on the world of banking.

3) Training Ratio (R31)

Based on the results of the training ratio calculation, the entire sample of Islamic banks has explained the training ratio in detail and *BTPN Syariah* has the highest score in training areas during the observation year. *BTPN Syariah* always has the highest position among the three other banks. *BTPN Syariah* realizes that investment to improve the competence and professionalism of its human resources is one of the keys to the company's success. With this training program, it is hoped that all employees can understand the characteristics and operational activities of sharia banking so that compliance with work procedures and sharia compliance is maintained.

4) Publicity Ratio (R41)

Based on the calculation results of the publicity ratio above, the highest average score in 2017-2019 was at *Bank Syariah Mandiri*. This means that this ratio is the total expenditure of *Bank Syariah Mandiri* which is intended for promotional or publicity activities. With intensive publication and promotion, it is hoped that public awareness of sharia banking will increase. For the banking world, marketing activities are a primary need and a must to be carried out in order to gain profit. So the packaging of marketing activities is important to attract customer attention.

b. Second Goal Maqashid Syariah Performance Indicator (*Iqamah al-'Adl*)

1) Fair Return Ratio (R12)

This ratio describes the amount of profit generated by Islamic banks (Antonio, 2012). The greater the profits generated by Islamic banks, the greater the profit sharing that can be provided to customers and stakeholders. Based on this ratio, *BTPN Syariah* is the bank with the highest average yield, namely 0.41701 or 41.7% and Bank Muamalat Indonesia is the lowest yield.

2) Distribution Function Ratio (R22)

This ratio describes how much financing with *mudharabah* and *musyarakah* profit sharing agreements is compared to all financing agreements provided by sharia banks (Antonio, 2012). Based on the research results, there is one bank that does not implement this ratio, namely *BTPN Syariah*. This is due to the company's policy which focuses more on investment funds made in sales and purchase agreements (*murabahah*). The highest average ratio for the research year was obtained by Bank Muamalat, namely 0.507398154 or 50.7%. This means that the sharia bank provides financing with a profit sharing scheme for all financing carried out. Financing with a profit sharing scheme also reflects a long-term partnership relationship that relies on trust. This is in accordance with the main objective of sharia banking which states that sharia banking should not only focus on avoiding interest practices, but also the need to apply all sharia principles in the economy in a balanced manner.

3) Non Interest Products (R32)

In the future, Islamic banks must focus more on *mudharabah* and *musyarakah* schemes so that good opinions are formed in society. Thus, Islamic banks are better at improving risk sharing based products than risk avoidance based products. This is in accordance with the main objective of sharia banking which states that sharia banking should not only focus on avoiding interest practices, but also the need to implement all sharia principles in the economy in a balanced manner. Therefore, maximizing profits and complying with sharia must underlie sharia banking activities.

This ratio is calculated by comparing non-interest income with total income. A bank that gets a score of 1 means 100% of the income earned, net of interest and transactions that are not in accordance with sharia. In sharia banking in Indonesia, the one with the highest ratio of non-interest income is *Bank Muamalat*. Overall, Islamic banks have tried to avoid income originating from prohibited activities, so Islamic banks have implemented this ratio. In relation to *maqashid sharia*, sharia banks safeguard assets (*hifzul maal*). As stated by (Solihin, 2019) in his research, the existence of sharia

banking must be able to protect the people's assets, including from the risk of loss, mixing of illicit goods, and damage.

c. Third Goal Maqashid Syariah Performance Indicators (*Jabl al-Maslahah*)

1) Profit ratio (R13)

The ability of a sharia bank to manage wealth optimally and wisely to obtain high profits is a form of safeguarding assets (*hifzul maal*). Of the four research samples, BTPN Syariah was the bank with the highest income. This means that BTPN Syariah has a better ability to manage its assets to obtain high profits. This high profit ratio is because BTPN Syariah only focuses on the murabahah buying and selling scheme which is known as an investment that has the highest profits and the lowest risks.

The lowest value obtained in the profit or profitability ratio in sharia commercial banks is due to changes in the national economy so that the net profit of sharia banks has decreased, for example the number of expenses borne by the bank is high, but the net profit has decreased, so the profitability ratio of sharia banks will be low in that year.

2) Operating/personal income ratio (R23)

This ratio is about the zakat issued by Islamic banks against their net profit (Antonio, 2012). *Bank Muamalat* Indonesia had the best contribution during the observation year for income distribution through zakat funds. However, there is one bank, namely *BTPN Syariah*, which does not report the source of the use of zakat funds because this bank does not directly carry out the function of distributing zakat funds. By not carrying out the distribution of zakat funds, Sharia Bank does not carry out the role of a sharia bank which represents the trustee of social activity funds which are managed separately. As well as not implementing PSAK No. 101 (Presentation of Sharia Financial Reports) which explains that the completeness of Islamic bank financial reports where zakat is included in this component category. With the existence of zakat funds, it can be proven that sharia banks can protect the five elements of maqashid sharia through empowering zakat funds.

3) Investment Ratio in the Real Sector (R33)

The final ratio is real sector investment which is reflected by sharia bank investment in the real sector compared to the total investment made by sharia banks (Antonio, 2012). Based on the calculation results above, the four sharia banks have explained in detail investment activities in the real sector, this means that the four banks have fulfilled the maqashid sharia ratio in the third

objective. *Bank Aceh Syariah* occupies the highest position, namely 0.80773 or 80.7%, meaning that 80.7% of the total investment channeled by *Bank Aceh Syariah* is channeled to the real sector, which is expected to improve community welfare.

D. CONCLUSION

Based on the results of research regarding the financial performance of Sharia Commercial Banks for the 2017-2019 period using the Maqashid Syariah Index, it can be concluded that sharia banks are quite good in implementing sharia principles and operations, however there are sharia banks that do not publish the ratio based on maqashid sharia, even though they carry out these activities. This causes several sharia banks to be less than optimal in getting value when analyzed using the Maqashid Syariah Index. Each sharia bank has advantages and disadvantages in carrying out its operations based on maqashid sharia principles. The financial performance of Sharia Commercial Banks (BUS) using the Maqashid Syariah Index for the 2017-2019 period is in the best order, namely *Bank Syariah Mandiri* (BSM) with an index value of 0.273841 or 27.38%. *Bank Muamalat* achieved second place with an index value of 0.267941 or 26.79%. Then the third place is obtained by *Bank Aceh Syariah* with an index value of 0.260473 or 26.047% and *BTPN Syariah* is the lowest, namely 0.1735705 or 17.35%

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