

International Trade

Comparison Study Influence The Third-Party Fund On Profitability With Bank Size As The Moderating Variable In Indonesia And Malaysia

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ABSTRACT

The objective of this research is to compare the correlation between third-party funds and profitability using bank size as a moderating variable of Islamic banking in Malaysia and Indonesia. The sample in this study used purposive sampling and obtained a sample of 10 Islamic banks in Malaysia, 10 Islamic banks Indonesia in 2016-2020. The data used is secondary data in the form of the annual reports or financial reports through the official website of each Islamic bank. To examine research data in the form of financial statements, this quantitative study used regression and moderate regression analysis. The results of the first analysis show that third-party funds from Indonesia and Malaysia Islamic banks show a significant effect on profitability (ROA), while the results of the second analysis show that third-party funds moderating the profitability of Indonesia and Malaysia Islamic banks.

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INTRODUCTION

The Ideas related to Islamic banking first emerged in the 1950s, leading to the establishment of some early generations of Islamic banks in Egypt and Dubai [1]. The Islamic banking system developed massively later in almost every continent [2]. Global Islamic Finance Report in 2018 stated that the total global assets of Islamic finance had reached 2,431 billion US dollars. This development brought a dramatic 400% increase compared to the one in 2007 [3].

In Indonesia, Islamic banking has been in high demand among groups of people for credit and debit activities. The main fund source of Islamic banks is a third-party fund from the public. The fund is the most important aspect for a bank to increase its assets and grow trusts from the public. According to Prasetyoningrum [4], third party fund based on regulation number 10/19/PBI/2008 refers to a sum of money collected from the public in the forms of regular savings, current accounts, or deposits.

To have high competitiveness, Islamic banks need to develop as healthy banks by maintaining adequate profitability. Banks are expected by the public to collect or distribute funds to the public efficiently to achieve maximum profitability. Petria [5] agrees that profitability can help construct policies. Mayer, et all [6] recorded a variety of profitability ratios, one of which can be used to measure investment effectiveness. In addition, profitability refers to a company's ability to earn profits over a set time [7].

This study examined an Islamic bank's profitability in connection to third-party funds and bank size, as well as the utilization of return on assets (ROA) to earn bank income [8]. Because Bank Indonesia, as the regulator, encourages large levels of assets in

the form of deposits or public savings, the degree of return on assets measures bank profitability. The larger the return on assets, the bigger the potential benefits.

To investigate the relationship between third-party fund profitability and bank size, this study utilizes bank size as a moderating variable. The total asset is used to determine the size of a bank [9]. Total asset is important for banks [10]. Larger banks gain more profits from high efficiency. The total asset value of a bank can be measured [11].

According to Said [12] and Sari, et all [13], third-party funds have a major impact on profitability. Masood [14] did another fascinating study, which found that third-party funds can harm profitability. Battarai [15] and Saeed [16] emphasize that the size of the company has a substantial impact on return on assets. In this sense, the authors believe that it is critical to look into the relationship between third-party funds and profitability (ROA) in Islamic banks using bank size as a moderating variable. This study stands out from the rest since it uses bank size as a moderating variable. This research adds to the body of knowledge in the field of Islamic banking profitability. Research hypotheses in [figure 1](#):

H₁ : The third-party fund positive affects profitability [12]

H₂ : The company size moderates the correlation between the third party fund and profitability [17].

The total sales of a company are used to calculate the company's size. The size of a company is an important determinant because it reveals a bank's assets. The following is the formula used to measure the size of a company in this study, which is based on the one proposed by [18].

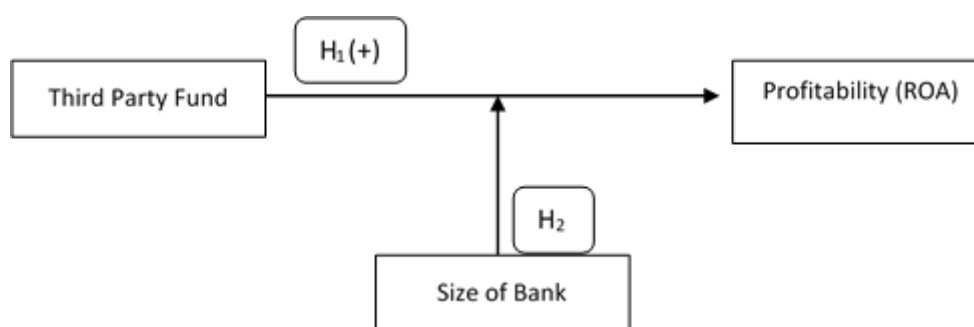


Figure 1. Research Framework

RESEARCH METHOD

Population And Sample

The number of Islamic banking in Indonesia registered with the Financial Services Authority (OJK) in 2016-2020 amounted to 14 companies. There are 16 registered Islamic banking companies in Malaysia. Based on the saturated sample method, the number of samples (n) from the combined time series data (6 years = 6 annual reports) during the period 2013 – 2020. Then cross sectional data Indonesia 10 banks, Malaysia 10 banks (2 countries 15 banks). This study uses secondary data sources. The document taken in this study is the annual financial report (annual report). With this method, sampling is carried out based on the consideration of criteria that are in list accordance with the purpose of the study, while the criteria are as follows in [table 1](#).

- a. Sharia-based banks, not conventional banks, whether owned by the government, private, or foreign in their respective countries.
- b. Has the largest aggregate strength score of all Islamic banks in each country taken from the Asia Banker data, aggregate strength score data for the whole world is in the appendix. Because only has five Islamic banks, only five Islamic banks from Indonesia and Malaysia are taken according to criteria (b) to equalize (the aggregate strength score with the largest 5 banks is taken).
- c. The sample company has all the necessary data in full to calculate the ratio of thirt-party, size, and profitability (data needed related to the measurement of the variables used) for research during the period 2016-2020 (as of December 31).

Table 1. List of Company

No	Indonesia Company	Malaysia Company
1	Bank BCA Syariah	Maybank Islamic Berhad
2	BNI Syariah	HSBC Amanah Malaysia Berhad
3	Muamalat	Public Islamic Bank Berhad
4	May Bank	RHB Islamic Bank Berhad
5	Bank Mega Syariah	Ocbc Al-Amin Bank Berhad
6	Bank Syariah Bukopin	Affin Islamic Bank Berhad
7	Bank Tabungan Pensiun	Bank Muamalat Malaysia Berhad
8	Bank Viktoria	CIMB Islmaic Bank Berhad

No	Indonesia Company	Malaysia Company
9	Bank Panin	MBSB Bank Berhad
10	Bank Net Indonesia	Standard Chartered Berhad Saadiq

Data Source and Data Collection Method

The data for this study were derived from media-published journals, relevant books, and annual financial statements of Islamic banks, all of which may be found at www.idx.co.id. Other supporting information was gathered from Google or websites.

Research Variable

This study has three variables. The table below shows the definition and measurement of research variables mention in [table 2](#).

Table 2. Research Variable

	Variable	Definition	Parameter
Independent Variable	Third Party Fund	The third-party fund measured the sum of funds raised from the public through deposits, current accounts, and savings accounts.	TPF = Deposit + Current + Savings [28]
Dependent Variable	Return On Assets	The ability of a bank is measured by its return on assets (ROA) because the higher net profit that is efficiently managed demonstrates Islamic banks' strong management. According to Haris (2015), the proportion of asset rotation can be used to measure ROA.	ROA : $\frac{\text{Profit before tax}}{\text{Total asset}} \times 100$ [6]
Moderating Variable	Size	The company size is the sum of current and fixed assets derived from the assets of the Islamic bank company.	Ln Total Asset [18]

Method of Analysis

This study uses multiple statistical regression tests to evaluate the data, as well as

interaction regression or moderated analysis to test the hypothesis (MRA). These tests determine whether the factors are moderating or unrelated to the other

variables. A moderating variable is a variable that modifies the relationship between the dependent and independent variables in a systematic way [19]. The following is the regression equation applied in this study.

For the H₁, equation (1) below applies:

$$Y = \alpha + \beta_1 X_1 + e \quad (1)$$

For the H₂, equation (2) below applies:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_1 \cdot X_2 + e \quad (2)$$

where:

α = Constant

Y = Profitability (ROA)

X_1 = Third Party Fund (DPK)

X_2 = Bank Size

β = Slope

e = margin of error

RESULTS AND DISCUSSION

Classic Assumption Test

This study intends to determine whether or not the data meet the classical assumptions. The classical assumption test is discussed in the next section as mention in [table 3](#).

Table 3. Classic Assumption Test

	Indo nesia	Mala ysia	Indo nesia	Mala ysia	Indo nesia	Mala ysia	Indo nesia	Mala ysia	Indo nesia	Mala ysia	Indo nesia	Mala ysia
Variable	dn		Kolmogorov-Smirnov		VIF	Tolerance		Sig (p)		Dubin-Watson		
Third Party Fund	50	50	0.186	0.716	1.001	1.014	0.999	0.987	0.296	0.951		
Size	50	50	0.200	3.090	1.001	1.014	0.999	0.987	0.107	0.226	1.736	2.191
ROA	50	50	0.200	1.010								

The Kolmogorov-Smirnov test revealed that the data were normal, with a value greater than 0.05 indicating that they may be used. The VIF and tolerance values were used to perform a multi-collinearity test, which confirmed that the variables were not multi-collinear. The VIF scores were below 10 and the tolerance value was more than 0.1, suggesting that the variables were not multi-

collinear. When the Durbin Watson (DW) score approaches 2, autocorrelation is not noticeable. According to the table above, no autocorrelation occurred. The Glejser test was used to determine heteroscedasticity. There is no heteroscedasticity in the preceding table because the significance value (p) is greater than 0.05.

Descriptive Statistics Test

The following are the descriptive statistics for each variable based on the results of descriptive statistics in [table 4](#).

a. Third-Party Fund (TPF)

The third-party fund obtained a 2.32 minimum score in Indonesia, the

thirdparty fund obtained a 1.03 minimum score in Malaysia, a 3.98 maximum score in Indonesia, a 5.14 maximum score in Malaysia, a 2.95 average score in Indonesia, a 3.15 average score in Malaysia, a 0.37 standard deviation in Indonesia, and a 1.03 standard deviation in Malaysia.

- b. Profitability (ROA)
 Profitability (ROA) obtained a minimum score of 0.58 in Indonesia, Profitability (ROA) obtained a minimum score 0.16 in Malaysia, a maximum score of 3.90 in Indonesia, a maximum score of 3.89 in Malaysia, an average or mean score of 2.05 in Indonesia, an average or mean score of 1.60 in Malaysia, a standard deviation of 0.85 in Indonesia, and standard deviation of 1.04 in Malaysia.
- c. Size
 Size obtained a 2.84 minimum score in Indonesia, Size obtained a 3.25 minimum score in Malaysia, a 3.47 maximum score in Indonesia, a 4.78 maximum score in Malaysia, a 3.20 average score in Indonesia, a 3.57 average score in Malaysia, a 0.15 standard deviation in Indonesia, and a 0.35 standard deviation in Malaysia.
- d. Interaction between the third party fund and company size
 The interaction between the third party fund and company size showed a minimum score of 1.98 in Indonesia while in Malaysia there is a value of 1.20, a maximum score of 3.25 in Indonesia, a maximum score of 4.52 in Malaysia, a mean score of 2.33 in Indonesia, a mean score of 2.59 in Malaysia, a standard deviation of 0.30 in Indonesia, and a standard deviation of 0.73 in Malaysia.

Table 4. Descriptive Statistics

	Indon esia	Mala ysia	Indon esia	Mala ysia	Indon esia	Mala ysia	Indon esia	Mala ysia	Indon esia	Mala ysia
	N		Minimum		Maximum		Mean		Std. Deviation	
Third Party Fund	50	50	2.32	1.03	3.98	5.14	2.95	3.15	0.37	1.03
Profitability (ROA)	50	50	0.58	0.16	3.90	3.89	2.05	1.60	0.85	1.04
Size	50	50	2.84	3.25	3.47	4.78	3.20	3.57	0.15	0.35
Third Party Fund dan Size	50	50	1.98	1.20	3.25	4.52	2.33	2.59	0.30	0.73
Valid N (Listwise)	50	50								

Regression Analysis

The regression test results are shown in the following table 5. The following equations were derived from the moderator regression using the SPSS 17.00 program:

- a. Regression step 1 in Indonesia
 $Y = 1.244 + 1.118X_1$ and $R^2 = 0.175$.
 Based on this result, the Constants (α_1) was 1.244, indicating that without the Third Party Fund variable (X_1), or

mathematically $X_1 = 0$, the profitability variable (Y) would only be worth 1.244. The Third Party Fund variable coefficient (β_1) 1.118 showed that Third-Party Fund has an impact on the profitability variable. Higher Third Party Fund derived from the higher community signifies optimal profit and the company's potential to prosper.

The coefficient of determination (R^2) shows that the Third Party Fund has an impact on profitability with a coefficient of 0.175 or 17.5 and the remaining coefficient 82.5%, which is influenced by other ratios in addition to this study. Regression step 1 in Malaysia $Y = 0.314 + 0.410X_1$ and $R^2 = 0.162$. Based on this result, the Constants (α_1) was 0.314, indicating that without the Third Party Fund variable (X_1), or mathematically $X_1 = 0$, the profitability variable (Y) would only be worth 0.314.

The Third Party Fund variable coefficient (β_1) 0.410 showed that Third-Party Fund has an impact on the profitability variable. Higher Third Party Fund derived from the higher community signifies optimal profit and the company's potential to prosper. The coefficient of determination (R^2) shows that the Third Party Fund has an impact on profitability with a coefficient of 0.162 or 16.2 and the remaining coefficient 83.8%, which is influenced by other ratios in addition to this study.

b. Regression Step 2 in Indonesia

$Y = -5.846 + 1.788X_1 + 1.733X_2 + 1.255X_3$ and $R^2 = 0.416$. Constants (α_2) of -5,846 shows that without the Third Party Fund variable (X_1), Size (X_2) and Third Party Fund interaction with the

variable size ($X_1.X_2$). Regression coefficient (β_2) on the Third Party Fund variable (X_1) of 1.788 shows that the Third Party Fund has a positive influence on profitability. The higher the public-sourced Third Party Fund, the better the profitability. The size of the Third Party Fund and its interaction with variable size will be treated as Constants. Regression coefficient (β_3) and variable size (X_2) 1.733 shows that size has a positive effect on profitability. Islamic banks will benefit from larger company sizes since their operational activities will improve, allowing them to obtain higher profitability.

Regression coefficient (β_4) Third Party Fund interaction variable with size ($X_1.X_2$) of 1.255 indicates that the Third Party Fund interaction variable with size ($X_1.X_2$) has a positive impact on the profitability variable (Y).. The 0.416 coefficient of determination (R^2) implies that the influence of the Third Party Fund variable, size, and interaction of party funds with size on profitability is 0.416 or 41.6%, with the remaining 56.4% influenced by other ratios beyond this study.

c. Regression Step 2 in Malaysia

$Y = 2.289 + 0.286X_1 + 0.792X_2 + 0.480X_3$ and $R^2 = 0.334$. Constants (α_2) of 2.289 shows that without the Third Party Fund variable (X_1), Size (X_2) and Third Party Fund interaction with the variable size ($X_1.X_2$).

Regression coefficient (β_2) on the Third Party Fund variable (X_1) of 0.286 shows that the Third Party Fund has a positive influence on profitability. The higher the public-sourced Third Party

Fund, the better the profitability. The size of the Third Party Fund and its interaction with variable size will be treated as Constants. Regression coefficient (β_3) and variable size (X_2) 0.792 shows that size has a positive effect on profitability. Islamic banks will benefit from larger company sizes since their operational activities will improve, allowing them to obtain higher profitability.

Regression coefficient (β_4) Third Party Fund interaction variable with size ($X_1 \cdot X_2$) of

0.480 indicates that the Third Party Fund interaction variable with size ($X_1 \cdot X_2$) has a positive impact on the profitability variable (Y). Greater values indicate increased profitability for Islamic banks, allowing them to gain greater community trust to undertake investments mention in [table 5](#).

The 0.334 coefficient of determination (R^2) implies that the influence of the Third Party Fund variable, size, and interaction of party funds with size on profitability is 0.334 or 33.4%, with the remaining 66.6% influenced by other ratios beyond this study mention in [table 6](#).

Table 5. The Results of Moderator Regression

Regression Step	Variable	Indonesia		Malaysia	
		Regression Coefficient	R Square	Regression Coefficient	R Square
1	Constants	1.244	0.314		
	Third Party Fund (X_1)	1.118	0.410	0.175	0.162
2	Constants	-5.846	2.289		
	Third-Party Fund (X_1)	1.788	0.286		
	Size (X_2)	1.733	0.792	0.416	0.334
	Third-Party Fund and Size ($X_1 \cdot X_2$)	1.255	0.480		

Table 6. The Results of Hypothesis Testing

Regression Step	Variable	Indonesia		Malaysia		Indonesia	Malaysia
		Coefficient	t-count	Coefficient	Significance		
1	Constants	-1.244	0.314	-1.093	0.704	0.261	0.485
	Third-Party Fund	1.118	0.410	2.918	3.048	0.006	0.004
2	Constants	-5.846	2.289	-2.368	1.680	0.023	0.100
	Third-Party Fund (X_1)	1.788	0.286	4.542	2.059	0.000	0.045
	Size (X_2)	1.733	0.792	2.502	2.197	0.017	0.033
	Third-Party Fund and Size ($X_1 \cdot X_2$)	1.255	0.480	3.053	2.490	0.004	0.016

The following is an explanation of the hypothesis testing results:

1. Results of the first hypothesis testing

According to the table for the Indonesian part, the Third Party Fund variable in bank Indonesia the first stage regression has a t-value of 2.918 and a significant level of 0.006, which is less than 0.05. Therefore, H_0 is accepted and H_a is rejected. If the third-party fund increases, customers and the general public will be more likely to trust the bank with their money, helping the bank to meet its goals. This is in line with other studies that show the Third Party Fund has an impact on the company's profitability, it can be shown in [figure 2](#).

While based on the table in the malaysia section, the third party funds variable in the first stage of the regression has a t-value of 3.048 and a significant level of 0.004 which is smaller than 0.05.

Therefore, H_0 is accepted and H_a is rejected. Third party funds affect profitability due to the balance of the number of sources of funds owned by Malaysian Islamic banks, including the amount of credit extended to the public. The higher the DPK in Malaysian Islamic banks which is balanced with lending, the Islamic banks will experience profits or increased profitability.

2. Results of the second hypothesis testing

According to the table, a t-count of 3.053 corresponds to a significant level of 0.004 less than 0.05 for the Third Party Fund and company size. Hence, H_0 is rejected and H_a is accepted. While based on the table in the malaysia section a t-account of 2.490 corresponds to a significant level of 0.016 for the Third Party Fund and company size. Hence, H_0 is rejected and H_a is accepted like mention in [figure 3](#).

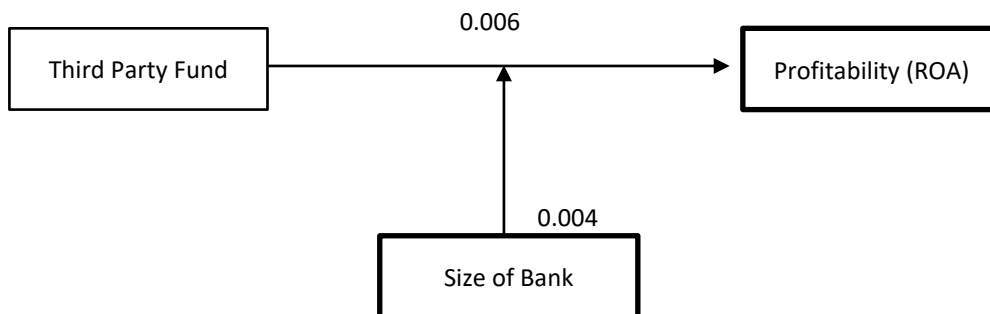


Figure 2. Research Framework In Indonesia

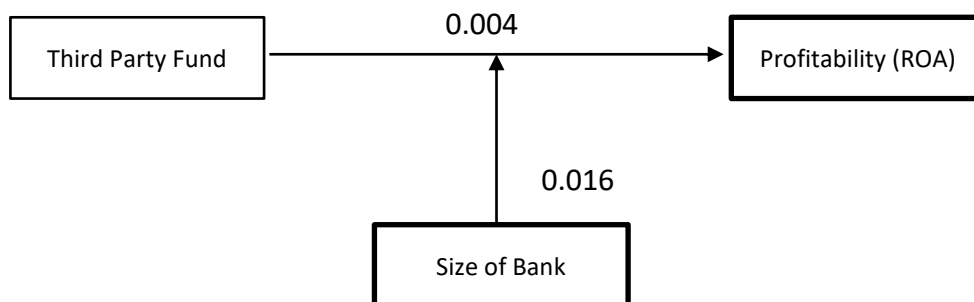


Figure 3. Research Framework in Malaysia

The results of the study on 10 samples of Islamic banks in Indonesia and 10 samples of Islamic banks in Malaysia show that with a significant level of 0.006 in Indonesia while the significant level in Malaysia is 0.016. Third Party Funds affect Islamic Commercial Bank profitability (ROA). This occurs due to the higher amount of funds raised from customers. Thus, Islamic banks can divert cash into productive areas such as financing, securities, and business. Banks' primary sources of money are public funds, which support the following functions: collecting funds from a variety of sources in the community that exaggerate funds [20]. An increase in the Third Party Fund will boost an Islamic bank's profit and improve its overall prosperity. This outcome is inconsistent with the research of Haron, et all [21]. The results back up the idea that the Third Party Fund is significant and has an impact on profitability [22].

The size is influenced by the Third Party Fund, The findings of this study support the research waissuzaman [23] that claims that the bigger the overall assets collected by banks, the higher the funds obtained by Islamic banks, resulting in increased profitability [9]. In addition, this research confirms by nodeh , et all [24], who claimed that the extent of the third-party fund collected by banks determines profitability. This result is consistent with theory and empirical evidence that suggests that a company's size has an impact on its financial performance[25].

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CONCLUSION

Based on the testing, processing, and analysis that have been carried out, conclusions can be drawn from this research. First, in Indonesian and Malaysian Islamic banks, the third party fund variable has a significant effect on profitability. In Islamic banks, third-party funds are the most common source of funding. This means that the third-party fund has a lot of advantages, such as helping banks appropriately manage these funds and gaining community trust in the bank. Meanwhile, raising the third-party fund's market share will enhance the amount of money returned to the public, according to the theory stated by [4]. Second Second, in Indonesian and Malaysian Islamic banks, the firm size variable is able to moderate third party funds on profitability. This implies that Islamic banks with a high third-party fund can maximize their profitability. Banks Islamic in Indonesia and Malaysia are expected to raise more third-party funds from the public and improve their efficiency in operating total assets to boost profitability. This research supports the claim made by Sari, et all [13] that the third-party fund has a major impact on ROA. Implications according to the agency theory, the larger a bank's third-party fund is, the higher public trust in the bank, which encourages consumers to save their funds there. In this instance, the bank can correctly distribute its finances, which will have an impact on the bank's income and financial condition.

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