Analysis of Islamic Bank Financial Performance in Asia: Sharia Conformity and Profitability (SCnP) Approach

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Abstract. The performance of Islamic banks in Asia in 2020 experienced fluctuating from the previous year, which was allegedly due to the arrival of the Covid 19 outbreak that occurred in the first quarter of 2020 which hit all countries in the world. This study aims to describe how the performance of islamic banks in Asia based on the Sharia Conformity and Profitability (SCnP) approach in 2016–2020. The research method used is descriptive quantitative with panel data analysis while the sampling technique is purposive sampling as many as 10 islamic commercial banks in Asia. The financial performance of islamic banks is measured by two approaches namely sharia conformity (profit sharing ratio, islamic invesment ratio, islamic income ratio) and profitability measures (return on asset, return on equity, net profit margin). The results of research based on sharia conformity show that the average islamic banks in Asia have the good performance with Bank Meezan Pakistan having the highest sharia conformity score. As for the profitability approach, the average of islamic banks in Asia showed a fairly good performance with the highest profitability score at Brunei Islamic Bank on period 2016–2020. Based on the calculation of sharia conformity and profitability, the average of islamic banks in Asia is in the upper right quadran category. This indicates that islamic banks have good performance with a high level of sharia compliance and profitability. The implication of this research is that islamic banks must be able to maintance a balance between the achievement of sharia goals and the level of profitability so that in carrying out its business activities banks dot not only gain profits in the world but also the blessings of achieving the goals of sharia eventually they bring fallah for others.

Keywords: *Financial Performance* · Sharia Conformity and Profitability (SCnP) · Profit Sharing Ratio · Islamic Income Ratio · Return on Asset

1 Introduction

Banking, especially for commercial banks, is currently the core of every country's financial system (Marimin et al. 2015). According to the Islamic Financial Development Report 2021, Islamic banking contributed for 70% of the global financial industry assets

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by 2021, followed by sukuk, Islamic funds and other sectors. The sector grew 14% in 2020 to US$2.3 trillion in global assets (Revinitif 2021). The Asian region is an important part of the global economy as well as the Islamic financial system and is home to most of the world's Muslim population.

In the Asian region, Islamic banking and finance has experienced rapid growth and development, as evidenced by Islamic banking and sukuk which dominate the Islamic financial market in this region (Komijani and Taghizadeh-Hesary 2018). To analyze the development of Islamic banking, one of which can be seen in terms of profitability as a performance measure that is considered by stakeholders. As for the Asian region, the development of Islamic banking performance in terms of profitability as assessed by Return on Assets (ROA) Return on Equity (ROE), Net Profit Margin (NPM) experienced fluctuating developments. The Islamic banking industry recorded a slowdown in its growth rate in 2020, allegedly due to the arrival of the Covid 19 outbreak that occurred in the first quarter of 2020 which hit all countries in the world. The Islamic banking industry recorded a slowdown in its growth rate in 2020, allegedly due to the arrival of the Covid 19 outbreak that occurred in the first quarter of 2020 which hit all countries in the world. This can be seen from the average profitability of Islamic commercial banks in Asia which has decreased from the previous year (Fig. 1).

Healthy and sustainable profitability is very important in maintaining the stability of the banking system. Due to this situation, it is important for Islamic banking institutions to strengthen their business performance in order to face strong competition from domestic and foreign banks (Islamic and conventional banks) (Komijani & Taghizadeh-Hesary, 2018). The essence of the presence of Islamic banking is to realize fair business practices and is reflected in the form of financing with a profit-sharing pattern, where profits and loss sharing are based on the real business results of the business being financed. However, this financing has not been optimized by the current Islamic banking industry

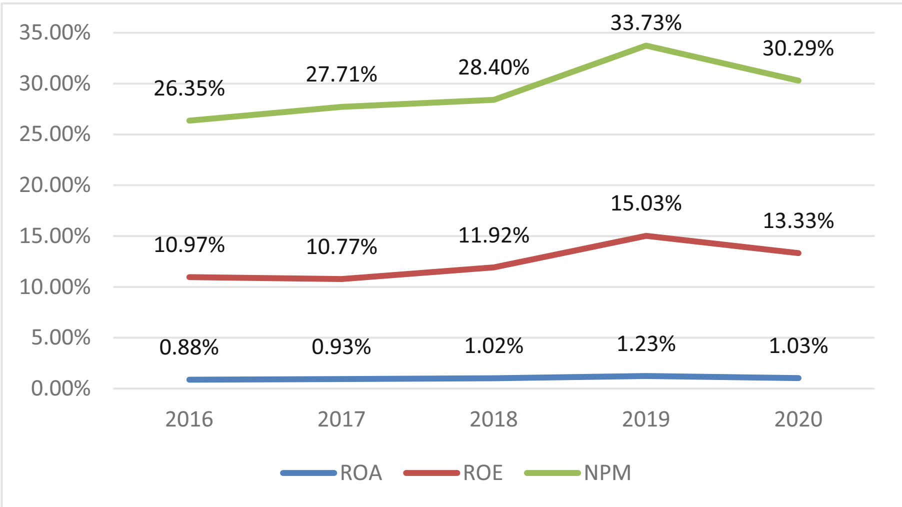

Fig. 1. Average Profitability of Islamic Banking in Asia **Source: Annual Report 2016–2020**

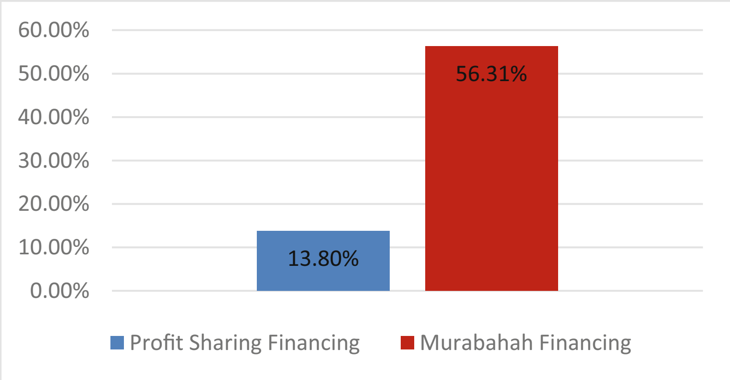

Fig. 2. Comparison of Profit Sharing and Murabahah Financing **Source: Annual Report 2016–2020**

(Priyanto et al., 2016). Based on the Islamic Finance and Wealth Management Report 2021, among the financing products offered by Islamic banking, the murabaha financing scheme is the most popular financing scheme when compared to profit-sharing financing schemes (Fig. 2).

Profit-sharing financing should be used as the main financing for Islamic banks in addition to other financing because this profit-sharing financing is a representation of real Islamic banks as a form of rejection of the interest system commonly applied by conventional banks (Kristianingsih et al. 2021). The low financing in the real sector (mudharabah and musharaka) and the increase on the one hand in financing in the consumption sector as stated earlier, gives a pessimistic picture of Islamic banking in improving the people's economy and is inversely proportional to the ideal assumption of its establishment for improving the real sector economy. If the financing with this profit-sharing scheme is high, the profit-sharing income received by Islamic banks will be high (Sofií & Romenah 2021). Seeing this phenomenon, the problem faced by Islamic banking is how to maintain the quality of these. Currently, the evaluation of the performance of Islamic banking seems to prioritize profit and overrides the achievement in fulfilling sharia aspects. Meanwhile, in contracts developed and carried out by Islamic banking based on sharia principles, the consequences are not only worldly consequences but also ukhrawi consequences (Mutia & Musfirah 2017).

Kuppusamy (2010) has formulated the measurement of Islamic banking financial performance with the Sharia Conformity and Profitability (SCnP) model. The financial performance of Islamic banks is viewed not only from profitability measurement such as Return on Assets (ROA), Return on Equity (ROE) and Net Profit Margin (NPM) but also be measured from sharia Islamic Investment, Islamic Income and Profit Sharing Ratio. In an effort to provide information on financial performance that is not only based on profitability, it is necessary to measure performance using the Sharia Conformity and Profitability (SCnP) approach. The aim of this study is to find out the extent to which the compliance of the operations of Islamic banks in Asia with sharia principles is at the same time measuring the level of profitability achieved by Islamic banks.

2 Literature Review

Stakeholder Theory

Stakeholder theory states that the company is not an entity that only operates for self interest, but must also provide benefits to its stakeholders (shareholders, creditors, consumers, suppliers, government, society and other parties) (Suryani & Hendrayadi, 2015). Muslim stakeholders need sharia-based performance information, which proves the company operates according to sharia. Because there are stakeholders in the community who need to evaluate and find out which amount of funds invested in Islamic banks can be operated optimally based on sharia principles, so that performance information based on Sharia Conformity and Profitability is a way to manage organizational relationships with a group of different stakeholders (Wahyuni, 2020).

Sharia Conformity and Profitability (SCnP)

Sharia Conformity and Profitability is a measurement of the financial performance of Islamic banks that does not only measure the level of profits obtained (profitability) but also the achievement based on sharia objectives (sharia conformity). In other words, this SCnP-based performance approach combine on profitability indicators with the sharia compliance index (Wahyuni, 2020). The sharia conformity variable is measured by the average Islamic Investment Ratio, Islamic Income Ratio, and Profit Sharing Ratio. While the profitability variable is measured by calculating the average profitability ratio which consists of Return on Assets (ROA), Return on Equity (ROE) and Net Profit Margin (NPM) (Fig. 3).

1. Islamic Investment Ratio, calculated by comparing halal investment with the total investment made by banks (halal investment + non-halal investment).

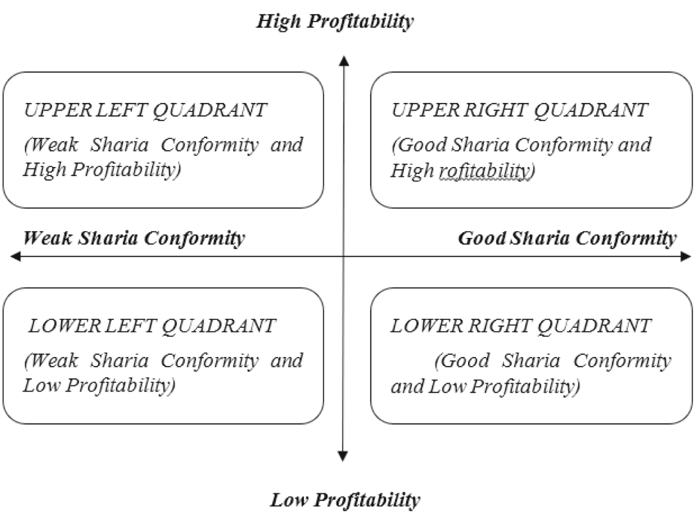

Fig. 3. Sharia Conformity and Profitability (SCnP) Quadrant Source: (Wahyuni, 2020).

2. Islamic Income Ratio
3. Sharia income is the bank's income obtained from the financing issued. It was obtained by comparing halal income with the total income (halal income + non-halal income) made by Islamic banks (Tri & Astuti, 2020).
4. Profit Sharing Ratio
5. Profit sharing ratio is the comparison between mudharabah and musyarakah financing with total financing made by the bank.
6. Return on Asset
7. Return On Assets (ROA) compares net income with the average total assets owned by the bank with the aim of measuring how much the bank earns by optimizing its assets (Anwar & Miqdad, 2017).
8. Return on Equity
9. Return On Equity (ROE) Is the ratio of net profit after tax to own capital used to measure the company's ability to provide profits for shareholders (Idrus, 2018).
10. Net Profit Margin
11. Net profit margin compares net income with income received to find out the real income earned by the company from bank operations (Rahmani, 2020).

Previous Study

A lot of research on financial performance has been done. Some of studies measure the performance of Islamic banks with various approaches such as maqashid sharia index, RGEC approach, CAMELS etc. Some of studies researched financial performance Islamic banking in Indonesia. The novelty of the research carried out is that the subject of the study was conducted on Islamic commercial banks in Asia so that there is a comparison of financial performance based on the SCnP of each country in Asia. The novelty of the research carried out is that the subject of the study was conducted on Islamic commercial banks in Asia so that there is a comparison of financial performance based on the SCnP of each country in Asia.

3 Research Methods

The research method used is a quantitative method with a descriptive research design. The population in this study is Islamic Commercial Banks in Asia. Sampling in this study was carried out by purposive sampling which was selected based on consideration (judgement sampling). The provisions and criteria in sampling in this study are:

1. At least it has been operating for 5 years until 2020;
2. Availability of financial statements for 2016–2020 on each object;
3. Have completeness of data for all components in the research variables;
4. Islamic banks in Asia are included in the top 20 countries in the Islamic Finance Country Index (IFCI) Ranks 2020 list.

The data processing procedure is carried out as follows (Sriwahyuni 2020):

1. Calculating the ratios contained in the SCnP variable.
   a. Sharia Conformity. The sharia observance variable measures the extent of islamic banks' adherence to established sharia principles. There are three indicators to

measure sharia conformity. To measure Islamic investment, Islamic income and profit sharing using a ratio formula that refers to the research of Kuppusamy, Saleh and Samudhram (2010) which was also used by Prasetyowati and Handoko (2016).

a) Islamic Investment

$$\frac{Islamic\ Investmen}{Islamic\ investment + Non\ Islamic\ Investment}$$

b) Islamic Income

$$\frac{Islamic\ income}{Islamic\ Income + Non\ Islamic\ Income}$$

c) Profit Sharing

$$\frac{Mudharabah + Musyarakah}{Total\ Financing}$$

b. b. Profitability is used to measure the ability of Islamic banks to make a profit. To measure profitability using 3 proxies: ROA, ROE, and NPM

a). ROA

$$ROA = \frac{Net\ Income}{Total\ Asset}$$

b). ROE

$$ROE = \frac{Net\ Income}{Share\ holder's\ Equity}$$

c). NPM

$$NPM = \frac{Net\ Income}{Total\ OperatingRevenue}$$

2. Calculated the average of each variable with the following formula:

$$\overline{\mathrm{X}}\ \mathrm{SC} = \frac{R1 + R2 + R3}{3}$$

$$\overline{\mathrm{X}}\ \mathrm{P} = \frac{R1 + R2 + R3}{3}$$

Notes:
$\overline{\mathrm{X}}$ SC: average ratio 1, 2 and 3 variable of sharia conformity
$\overline{\mathrm{X}}$ P: average ratio 1,2 and 3 variable of profitability

The average $\overline{\mathrm{X}}$ SC will be used as the X coordinate point (sharia conformity) and the average $\overline{\mathrm{X}}$ P will be used as the Y coordinate point (profitability). Furthermore, to get the SCnP scor, the sum of the average values of sharia conformity and average profitability is carried out:

$$\boxed{\mathrm{SCnP} = \overline{\mathrm{X}}\ \mathrm{SC} + \overline{\mathrm{X}}\ \mathrm{P}}$$

3. Create SCnP Graphs and interpret according to theory.
4. Rating the financial performance of Islamic Commercial Banks based on the SCnP approach.

4 Result and Analysis

Based on the data obtained, the following is conveyed the condition of financial performance as measured by the sharia conformity and profitability model in ten Islamic commercial banks in Asia during the 2016–2020 research period. Performance measurement based on the sharia conformity ratio is intended to measure how much the bank is able to meet its compliance with sharia rules, whether investment, income, or for the results using sharia rules or not. Meanwhile, performance measurement based on profitability ratio is intended to measure how much a Islamic bank can provide its profit or profit during a certain period by managing its business (Arimiko et al., 2020). The data in Table 1 shows the results of measuring the average sharia conformity ratio in Islamic commercial banks in Asia for the 2016–2020 period which was sampled in this study. Overall, Islamic commercial banks in Asia during 2016 to 2020 had an average sharia conformity performance of 0.634.

Based on the results of the study, Bank Meezan Pakistan had an average sharia conformity ratio of 0.829 during the research year, this made Bank Meezan Pakistan the Islamic commercial bank that had the largest average sharia conformity ratio value in this research period compared to nine other banks. The achievement of Bank Meezan Pakistan is due to the high achievement of islamic investment indicators and Islamic income with an average ratio value above 90%. This explains that the investment activities and income from Bank Meezan Pakistan are in accordance with the rules set by sharia. In addition, in the profit sharing indicator, Bank Meezan Pakistan also obtained the highest average ratio value of 50%, indicating that Bank Meezan Pakistan provides a large allocation for profit-sharing financing schemes compared to similar financing products in other Islamic commercial banks. For the lowest average sharia conformity performance, it is at the Islamic Bank of Brunei with the average value of sharia conformity during the research year of 0.461. This achievement is because it turns out that the Islamic Bank

Table 1. Average Sharia Conformity of Islamic Commercial Banks in Asia year 2016–2020

No	Nama Bank	*Sharia Conformity*
1	Bank Meezan Pakistan	0.829
2	Abu Dhabi *Islamic* Bank	0.608
3	RHB Bank Malaysia	0,722
4	Bank Syariah Mandiri	0,712
5	Al Baraka Bank Bahrain	0,648
6	Bank Nizwa Oman	0,64
7	*Islamic* Bank Qatar	0,61
8	*Islamic* Bank Bangladesh	0,569
9	Jordan *Islamic* Bank	0,536
10	Bank Islam Brunei	0,461

Source: Research results processed by the author of Brunei has a fairly low achievement for the profit sharing ratio indicator, which is an average of 4%. In addition, in the Islamic Investment Indicators, Bank Islam Brunei also obtained a lower value than other banks, namely with an average of 33% this means that many investment activities carried out by the Islamic Bank of Brunei are still not in accordance with sharia regulations.

Table 2 shows the profitability ratio resulting from measuring the performance of Islamic commercial banks in Asia for the 2016–2020 period. Overall, the average profitability was 0.142. Brunei Darussalam with the Islamic commercial banks studied, namely Bank Islam Brunei has an average profitability ratio of 0.198 which makes Bank Islam Brunei a Sharia commercial bank that has the largest average profitability ratio value in this research period when compared to nine other banks. Although Bank Islam Brunei does not excel in one of the indicators of profitability calculation, on average, Bank Islam Brunei obtains a greater profitability value than other banks. This means that the Islamic Bank of Brunei in the last five years has a superior average financial performance in terms of generating profits with owned assets and is efficient in using its own capital to generate profits or net profits compared to other Islamic commercial banks in Asia that were used as objects in this study.

The bank that obtained the lowest average profitability value was Bank Syariah Mandiri which obtained an average profitability value of 0.068. The acquisition of this value was due to one of the profitability indicators, namely the NPM (Net Profit Margin) ratio of Independent Islamic Banks obtained an average value of 0.107, where other Islamic commercial banks had an NPM value of more than 0.2. Net Profit Margin (NPM) ratio is a ratio that describes the level of profit (profit) that a bank earns compared to the income received from its operating activities (Sumanni Manullang et al., n.d.). This means that the level of efficiency of operating activities in nine other samples of Islamic commercial banks is better than the level of business efficiency and profitability achieved by Bank Syariah Mandiri (Table 3).

Table 2. Average profitability of Commercial Banks in Asia Year 2016–2020

No	Nama Bank	*Profitability*
1	Bank Islam Brunei	0,198
2	RHB Bank Malaysia	0,189
3	*Islamic* Bank Qatar	0,172
4	Abu Dhabi *Islamic* Bank	0,167
5	Jordan *Islamic* Bank	0,163
6	Bank Meezan Pakistan	0,153
7	*Islamic* Bank Bangladesh	0,121
8	Al Baraka Bank Bahrain	0,101
9	Bank Nizwa Oman	0,087
10	Bank Syariah Mandiri	0,068

Source: Research results processed by the author

Table 3. Sharia Financial Performance Conformity and Profitability of Islamic Commercial Banks in Asia year 2016–2020

No	Bank Name	Sharia Conformity	Profitability	SCNP	Category of SCnP
1.	Bank Meezan Pakistan	0.829	0,153	0,982	*Upper Right Quadran*
2.	RHB Bank Malaysia	0,722	0,189	0,911	*Upper Right Quadran*
3.	*Islamic* Bank Qatar	0,610	0,172	0,782	*Upper Right Quadran*
4.	Bank Syariah Mandiri	0,712	0,068	0,780	*Upper Right Quadran*
5.	Abu Dhabi *Islamic* Bank	0.608	0,167	0,775	*Upper Right Quadran*
6.	Al Baraka Bank Bahrain	0,648	0,101	0,749	*Upper Right Quadran*
7.	Bank Nizwa Oman	0,640	0,087	0,727	*Upper Right Quadran*
8.	Jordan *Islamic* Bank	0,536	0,163	0,699	*Upper Right Quadran*
9.	*Islamic* Bank Bangladesh	0,569	0,121	0,690	*Upper Right Quadran*
10.	Bank Islam Brunei	0,461	0,198	0,659	*Upper Right Quadran*
Mean		0,634	0,142	0,794	*Upper Right Quadran*

Source: Research results processed by the author

Meanwhile, the ranking of the level of sharia conformity and profitability as a whole in Islamic Commercial Banks in Asia based on ten Islamic commercial banks in the period 2016 to 2020 has a fairly good performance. This can be seen from the descriptive statistical analysis in the previous section which has a minimum value of 0.498578, meaning that no one gets a negative position at the same time. For the acquisition of financial performance with this SCnP model, Bank Meezan Pakistan obtained the highest value, meaning that Bank Meezan Pakistan was able to meet its compliance with sharia rules, whether investment, income, or profit sharing and was able to manage its business to provide its profits or profits during a certain period. The lowest sharia conformity and profitability financial performance value was obtained from the Islamic Bank of Brunei, but even so, the SCnP value from the Islamic Bank of Brunei was still in a positive position in this research period. Then in assessing the performance of the SCnP this is measured using the quadrant of the graph shown in Fig. 4. The picture shows that the average financial performance condition of Islamic commercial banks in Asia that was used as an object in this study during 2016 to 2020 as a whole shows performance in one quadrant, namely the Upper Right Quadrant (URQ). The Upper Right Quadran (URQ)

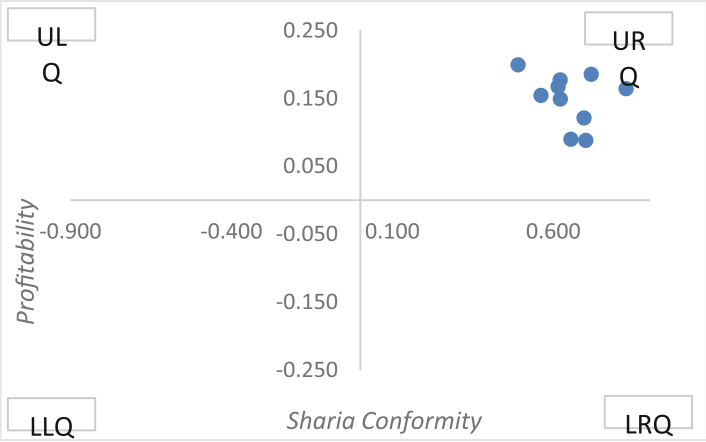

Fig. 4. Quadrant Chart of Sharia conformity and Profitability in Islamic Commercial Banks in Asia 2016–2020.

indicates that Islamic banks are performing well with a good level of sharia conformity and profitability.

5 Conclusion

The average financial performance condition of Islamic commercial banks in Asia as a whole shows performance in one quadrant, namely the Upper Right Quadrant (URQ). Bank Meezan Pakistan has the highest average sharia conformity ratio and for the profitability ratio Bank Islam Brunei obtained the highest average profitability ratio among nine other Islamic commercial banks. The recommendations of this study are for Islamic banks, it is necessary to continue to evaluate financial performance not only in terms of profitability but also in terms of sharia compliance. This is a control measure that can help Islamic banks improve their financial performance in the future while identifying the shortcomings of their operations throughout the financial year, for subsequent researchers, able to expand the analysis of islamic banks' financial performance such as adding research samples, adding other methods of measuring financial performance, and expanding other variables that are suspected to affect the performance of the future both in terms of micro and macro or other variables that have never been studied.

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