Factors Influencing the Amount of Mudarabah Savings Deposit in Public Sharia Banks

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Article Info

Abstract

This research aims at discovering the effect of public bank's interest rate, Rupiah exchange rate, deposit profit sharing of public sharia banks and number of branch offices on the amount of mudarabah savings deposit in public sharia banks in Indonesia. It used Multiple Linear Regression Analysis to test 60 data samples from 12 banks located in Indonesia based on the public sharia banks' monthly reports from 2017 to 2021. The research result showed that public bank's interest rate had no partial effect on the amount of mudarabah savings deposit and Rupiah exchange rate, deposit profit sharing and number of branch offices partially affected the amount of mudarabah savings deposit. Simultaneously, however, public bank's interest rate, Rupiah exchange rate, deposit profit sharing and number of branch offices had an influence on the amount of mudarabah savings deposit. As a primary funding source, mudarabah deposit plays an important role in a bank's stability since it is the main element to reduce the bank liquidity risk. The implication of this study is that it is important for banks to have a policy that (1) maintain a certain amount of deposit savings by considering the macroeconomic condition, namely the exchange rate of currency used in the global economic trade and (2) maintain the performance of bank's internal factors such as profit-sharing and number of branch offices as an attempt to expand the network to increase the mudarabah deposit market share

1. Introduction

Finance sector in a country as a motor to drive the real sector plays an important role in promoting economic growth in modern era. This is reflected from the quality of financial institutions which constitute key elements in forming and accumulating capital cost increase with relatively low risk (Paun et al., 2019). According to Kalim & Mushtaq (2016), sharia banking is a part of investment sector and offers interest-free funding products, making it special and attractive in many countries. Effendi et al. (2021) suggests that sharia bank's growth might affect a country's economic growth. The interrelatedness relationship between real sectors and banks shows that the interaction between the two will increase economic growth which cannot be separated from the use of banking products and services in developing the businesses being run (Kazarenkova et al., 2015).

It is predicted that sharia bank industry will keep on growing with an assumed growth at 9.4% using *Compound Annual Growth Rate* (CAGR) while the global sharia finance asset potential is predicted to reach US$ 3.782 billion up to 2022 (Linda, 2022). As an intermediary institution, banks should be capable of maintaining the trust of those saving their funds to be managed by them. Alshari & Lokhande (2022) reveals to what extent a financial institution is capable of adopting modern technology in providing their servies is also a key factor. The high interest that people have is especially because they are motivated with the idea that sharia banks are safer than conventional ones (Abdelhedi & Ghorbel, 2016).

Until recently, the growth of sharia bank's total assets in Indonesia is in a positive trend each year. In 2019 the total assets owned by sharia banks was 350,363.54 billion and in 2020 it was 397,072.97 billion, increasing 13.33%, and now in 2021 the total assets owned is 441,788.83 billion, growing at 11.26% (Otoritas Jasa Keuangan, 2022). This proves that in performing their main function as agents of development, sharia banks which play a role in collecting funds from third parties, particularly the one obtained from term investment saving product known as deposit, are highly necessary to help facilitate the management of liquidity and run the economy, especially when it comes to real sector. In terms of its number, the deposit product of sharia banks keeps on increasing significantly as depicted in Figure 1.
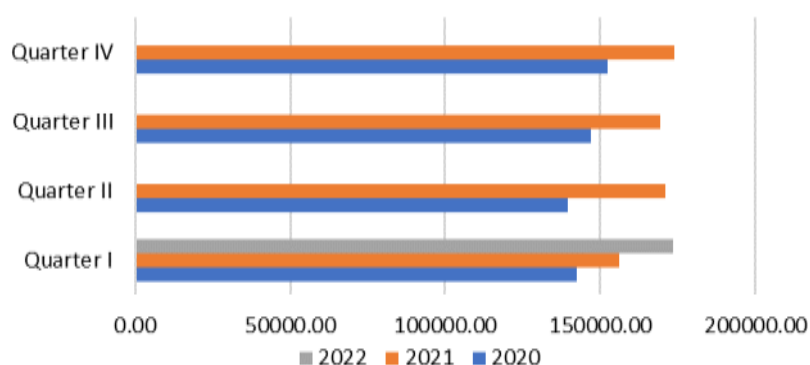
Figure 1. Growth of Public Sharia Bank's Deposit for Quarter Period of 2020-2022 (Billion)

Mudarabah deposit becomes a featured product of sharia banks in Indonesia for collecting third party's fund since, when it comes to source of bank's fund, deposit has the highest percentage or portion compared to other products such as savings and current account (Prihastuty & Sudana, 2016). Conclusions in the previous study shows that deposits

are important sources of funding for banks which will affect the stability of banking system (Jaaber, 2017; Turhani & Hoda, 2016; Vuong et al., 2020) since if it is the main source of funding then it is important for sharia bank management to figure out the factors that affect it.

Some previous studies show that the amount volume of deposit collected by banks are influenced by various factors (Almejyesh & Rajha, 2014; Asayesh et al., 2017; Gunasekara & Kumari, 2018). According to Yan et al. (2014), the fundamental factors in banks can affect their term deposit. This research focuses on external and internal factors which can affect the volume of mudarabah deposit obtained by sharia banks. Some previous studies suggest that deposits can be affected by factors which include macroeconomic conditions and also bank's internal affairs (Bakashbayev et al., 2020; Çekrezi, 2022; Morina & Osmani, 2019).

The macroeconomic conditions that the researcher used as the determinant factors of amount of mudarabah deposit were interest rate and exchange rate. The correlation which connects deposit return in a sharia financial instrument to interest rate is one of the issues that is being questioned even until now. In practice, the operation of sharia financial system uses an interest-free system known as profit and loss sharing. However, a previous study finds that the operation of sharia financial system is still, albeit indirectly, affected by the interest rate applied in conventional banks and determined by the institution holding the monetary authority, in this case Bank of Indonesia, implying a gap in theory and practice of Islamic banking (Anuar et al., 2014). Assertively, Beck et al. (2012) dan El-Gamal (2005) argue that the rate of profit and loss sharing in sharia deposits follows the conventional bank's deposit interest rate. Similarly, Chong & Liu (2009), Erdogan et al. (2020), Mushafiq & Sehar (2021), dan Suyyinah (2018) suggest that conventional bank's deposit interest rate and sharia bank's deposit have cointegration relationship. Meanwhile, exchange rate is thought to normally affect since it is needed in export and import transactions. Thus, a currency's exchange rate is fluctuating as a result of trading activity which gives rise to depreciation and appreciation because of the use of foreign currency (Widarjono & Mardhiyah, 2022).

This research investigated the roles of interest rate and profit and loss sharing as a form of deposit return system and tested their influences collectively on mudarabah deposit by analyzing an aggregate data of all public sharia banks in Indonesia. This study seeks to explore the implication by considering why interest rate, exchange rate, profit and loss sharing, and number of branch offices variables have an important effect, particularly for mudarabah deposit. It aims at testing and discovering the influence of bank's external and internal factors, namely interest rate, exchange rate, profit and loss sharing, and number of branch offices on mudarabah deposit. Furthermore, it is supported by the addition of theories from macro side in Islam which makes it different from previous studies. It is expected that this research can contribute to the concept of mudarabah deposit, particularly in regard to the influence of such variables as interest rate, exchange rate, profit and loss sharing, and number of branch offices.

2. Method

The population in this research was 12 public sharia banks in Indonesia on conditions that they had monthly financial statements for 5 years starting from January 2017 through December 2021. Samples were taken using saturated sampling, where all members of the population were used as the sample. The data used in this research was obtained from Statistics Indonesia (BPS), Financial Services Authority, Reports from the Ministry of Trade of the Republic of Indonesia, and monthly financial statements from public sharia banks

obtained from the banks' websites. The data was analyzed using multiple linear regression via SPSS where 60 samples were analyzed to test the hypotheses formulated in the following equation model.

$$Y = \alpha + \beta_1 X_1 + \beta_2 X + \beta_3 X_3 + \beta_4 X_4$$

Where:

Y : Amount of mudarabah savings deposit

X_1 : Public bank's interest rate

X_2 : Rupiah exchange rate

X_3 : Deposit profit and loss sharing of public sharia banks

X_4 : Number of branch offices

α : Constant

β_1 : Regression coefficient of interest rate

β_2 : Regression coefficient of Rupiah exchange rate

β_3 : Regression coefficient of deposit profit and loss sharing of public sharia banks

β_4 : Regression coefficient of number of branch offices

3.   Result and Discussion

Linearity Test

A good correlation should have linear relations between the independent and dependent variables. To test the linearity, the researcher used *Ramsey Reset Test* on a criterion that if the value of *Probability F-statistic* > 0.05 then there is a significant linear correlation between the independent and dependent variables and vice versa (Bawono & Shina, 2018).

Table 1. Test Linearity

Variable		Sig.
Deposit*interest rate		.000
Deposit*Rupiah exchange rate	Deviation from Linearity	.046
Deposit*profit and loss sharing		.142
Deposit*Number of branch offices		.020

Based on the significance (sig) value test of Table 1 above, the following result is obtained.

a.   It is found that the value of deviation of linearity was 0.000 < 0.05, thus it is safe to conclude that there is no significant linear correlation between interest rate and the amount of mudarabah savings deposit.

b.   It is found that the value of deviation of linearity was 0.046> 0.05, thus it can be concluded that there is a significant linear correlation between Rupiah exchange rate and the amount of mudarabah savings deposit.

c.   It is found that the value of deviation of linearity was 0.142> 0.05, thus it can be concluded that there is a significant linear correlation between profit and loss sharing and the amount of mudarabah savings deposit.

d.   It is found that the value of deviation of linearity was 0.20> 0.05, thus it can be concluded that there is a significant linear correlation between number of branch offices and the amount of mudarabah savings deposit.

Multiple Regression Analysis

Table 2. Multiple Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	-124.108	69.342		-1.790	.079
Interest rate	-1.819	1.763	-.053	-1.032	.307
Rupiah exchange rate	13.279	2.775	.263	4.785	.000
Profit and loss sharing	-10.318	2.971	-.287	-3.473	.001
Number of branch offices	236.842	29.160	.542	8.122	.000

Based on Table 2 above, the following regression equation was obtained.

$$Y = \alpha + \beta_1 X_1 + \beta_2 X + \beta_3 X_3 + \beta_4 X_4$$
$$Y = -124.108 - 1.819\, x_1 + 13.279\, x_2 - 10.318\, x_3 + 236.842\, x_4$$

From the equation above, it can be concluded that:

a. The constant (Y absolute value) was (-124.108) which suggested that if the interest rate, Rupiah exchange rate, profit and loss sharing and number of branch offices, then, the amount of mudarabah savings deposit was (-124.108).

b. The regression coefficient of interest rate was (-1.819) which suggested that if the interest rate decreases by 1 (unit), then the amount of mudarabah savings deposit would also decrease by (-1.819).

c. The regression coefficient of Rupiah exchange rate was (13.279) which suggested that an increase in the Rupiah exchange rate by 1 (unit) would lead to an increase in the amount of mudarabah savings deposit by (13.279).

d. The regression coefficient of profit and loss sharing was (-10.318) which suggested that if the profit and loss sharing decreases by 1 (unit), then the amount of mudarabah savings deposit would also decrease by (-10.318).

e. The regression coefficient of number of branch offices was (236.842) which suggested that an increase in the number of branch offices by 1 (unit) would lead to an increase in the amount of mudarabah savings deposit by (236.842).

Hypothesis Test (t-Test)

Based on Table 2 it is found that:

1) The sig value of interest rate variable for its effect on the amount of mudarabah savings deposit was $0.307 > 0.05$ and the value of t_{score} (-1.032) < 2.004), thus it can be concluded that H_0 is accepted and H_1 is rejected, meaning that interest rate (X_1) has no effect on the amount of mudarabah savings deposit (Y). Because based on the criteria that if the value of $t_{score} \leq - t_{table}$ then H_o is accepted at $-1.032 > -2.004$ and H_l is rejected.

2) The sig value of Rupiah exchange rate variable for its effect on the amount of mudarabah savings deposit was $0.000 > 0.05$ and value of t_{score} (4.785) < 2.004), thus it can be concluded that H_0 is rejected and H_2 is accepted, meaning that Rupiah exchange rate (X_2) has a positive effect on the amount of mudarabah savings deposit (Y).

3) The sig value of profit and loss sharing variable for its effect on the amount of

mudarabah savings deposit was 0.001 > 0.05 and the value of t $_{score}$ (-3.473) < 2.004), thus it can be concluded that H_0 is rejected and H_3 is accepted, meaning that profit and loss sharing (X_3) has a positive effect on the amount of mudarabah savings deposit (Y).

4) The sig value of number of branch offices variable for its effect on the amount of mudarabah savings deposit was 0.000 > 0.05 and the value of t $_{score}$ (8.122) < 2.004), thus it can be concluded that H_0 is rejected and H_1 is accepted, meaning that number of branch offices (X_4) has a positive effect on the amount of mudarabah savings deposit (Y).

Simultaneous Significance Test (F-Test)

Table 3. Anova[a]

Model	Sum Of Squares	Df	Mean Square	F	Sig.
1 Regression	44004.170	4	11001.043	137.429	.000[b]
Residual	4402.683	55	80.049		
Total	48406.853	59			

Based on Table 3 above, the hypotheses used in this research are:

H_o: Interest rate, Rupiah exchange rate, profit and loss sharing and number of branch offices has no significant effect on the amount of mudarabah savings deposit of public sharia banks

H_a: Interest rate, Rupiah exchange rate, profit and loss sharing and number of branch offices simultaneously have an effect on the amount of mudarabah savings deposit of public sharia banks

1) Determining *output* of F $_{score}$ at (137.429)
2) To determine this hypothesis, the statistic test F_{table} with the following formula was used.

F_{table} = (4; 60-4)
             = (4; 56)
             = 2.54

     Based on the calculation above, the sig values for the simultaneous effect of X_1, X_2, X_3 and X_4 on Y is found at (0.000 < 0.05) and the value of F $_{score}$ (137.429 > F $_{table}$ 2.54), thus it can be concluded that H_a is accepted, meaning that simultaneously interest rate, Rupiah exchange rate, profit and loss sharing and number of branch offices have an effect on the amount of mudarabah savings deposit of public sharia banks for 2017-2021 period.

The Coefficient of Determination (R^2)

Table 4. Model Summary

R Square	Adjusted R Square	Std. Error of The Estimate
.909	.902	8.94700

     Based on Table 4 above, the value of R explains the correlation level between the independent and dependent variables, meaning the correlation of interest rate, Rupiah exchange rate, profit and loss sharing and number of branch offices with the amount of mudarabah deposit was 0.953 or 95.3%. Meanwhile, the value of *Adjusted R Square* explains that the interest rate, Rupiah exchange rate, profit and loss sharing and number of branch offices variables can explain the dependent variable, i.e., the amount of mudarabah deposit at 0.902 or 90.2%, and the remaining 9.8% is affected by other untested factors.

Discussion

Public bank's interest rate has no effect on the amount of mudarabah savings deposit

The result of analysis of the first hypothesis indicated that interest rate (X_1) has no effect on the amount of mudarabah savings deposit (Y) at a sig value of 0.307 > 0.05 and value of t $_{score}$ at (-1.032) < 2.004. Statistically, the research result indicated that interest rate had no effect on the amount of mudarabah savings deposit. This means an increase in the interest rate will have no effect whatsoever since sharia banks have this quality of being based on interest-free transactions as a manifestation of trust that there are factors which dominate Muslim's economic behavior in the form of knowledge and concept of faith that affect their perception and decisions (Haron & Ahmad, 2000). Another study found the reason why bank interest has no effect, i.e. Because it contradicts their religious belief (Alinda, 2016). However, the effect of interest rate on sharia bank remains debatable even until now. Previous study revealed that savings and finance in sharia banks were more responsive to interest rate movement than conventional banks (Ergec & Arslan, 2013). Another study also showed that sharia banks cannot actually be separated from interest rate effect indication despite the fact that they were frequently considered interest-free (Kassim et al., 2009).

An increase in bank interest rate will be followed by deposit and loan interest rate increases in conventional banks. This indicates that the use of *time value of money* principle is tightly embedded with the concept which is based on interest rate theory (Asmin et al., 2021). The calculation of time value of money here is based on interest. The application of *time value of money* principle is eventually indicated closer to the usury practice since money is considered a commodity that can develop and give a guaranteed return. In monetary theory, the payment of interest to gain profit is referred to speculation motiff of money demand by Keynes. According to Asmin et al. (2021) as long as the interest rate (which reflects the fund price) is never negative, then the current money will always be more valuable than later. The higher the interest rate that is considered relevant, the greater the difference between the current value and the value to be received in the future. In conventional banks, the application of interest system is identical to the concept of risk transfer and speculative behavior with freedom to invest in various projects without putting an emphasis on the commodity physical existence (Parsa, 2022). According to Karim (2017) such concept is different from Islamic banking system which determine profit and loss sharing mechanism over the use of fund, both for the customers and the banks, and there is such thing as *time value of money* in Islamic economic concept.

Exchange rate has an effect on the amount of mudarabah savings deposit

The result of analysis of the second hypothesis indicated that Rupiah exchange rate (X_2) has an effect on the amount of mudarabah savings deposit (Y) at a sig value of 0.000< 0.05 and value of t $_{score}$ at 4.785> 2.004. Previous study indicated that annual mean exchange rate has an effect on deposit mobilization (Tun, 2019). According to previous study finding, the volatility of exchange rate may affect the bank balance with great market share (Libman, 2018). In another research, it was found that an increase in Rupiah exchange rate against US dollar triggered a *multiplier effect* which resulted in increased commodity goods price (Tho'in & Prastiwi, 2019). In support to this statement when a bank expands their assets and liabilities in the form of foreign and domestic currencies, this bank will be more vulnerable to exchange rate changes (Berg & Borensztein, 2000). Many developing countries are heavilt dependent on US dollar or Euro since they are considered more stable than their national

currency (Semenova & Shapkin, 2019). The weakening Rupiah exchange rate against US dollar serves as a reflection of an uncertain economic condition and, thus, will increase the business climate risk and affect the real sector some of which is supported by financing from banks. Hence, the banking sector is affected by the exchange rate position since in global exchange or transaction activity, foreign currencies are involved (Pratiwi & Lukmana, 2015).

In Islamic economic concept, money demand for speculation is unknown thus the faster the money circulation in real sector is, the better it is for the economy. According to Karim (2017), in Islamic economy the exchange rate system follows the market equilibrium. If a currency's exchange rate is correlated to mudarabah deposit, the effect is indirect since a currency exchange rate can fluctuate as a result of the influence of supply and demand of money market and investment profitability. In this case, if rupiah weakens against US dollar, then it will lead to decreased people's purchasing power and they will withdraw their money from the banks to fulfill their consumption needs (Pratiwi & Lukmana, 2015)

Profit and loss sharing has an effect on the amount of mudarabah savings deposit
The result of analysis of the third hypothesis indicated that profit and loss sharing (X_3) has an effect on the amount of mudarabah savings deposit (Y) at a sig value of 0.001< 0.05 and value of t $_{score}$ at (-3.473) < 2.004. Sharia banks have a unique paradigm in terms of profit and loss sharing which explains that lenders must bear the business risks together with borrowers since both of them have no power to control the success or failure of a business (Ergec & Arslan, 2013). Previous study found that sharia bank's management system that prioritized the transparency of profit and loss sharing affected public trust (Zuhroh, 2022). Another research also showed that sharia banks that provided profit and loss sharing and non-profit and loss sharing contracts would face lower risks than those that provided only non-profit and loss sharing contracts (Widarjono et al., 2022).

According to Fianto et al. (2020) dan Ozdincer & Yuce (2018), sharia banks uphold equity, asset-based contracts and particularly profit and loss sharing system which serves as the main differentiator of sharia banks from other banks. In their research, Haddad & Souissi (2022) suggested that according to the profit and loss sharing principle, the parties to the transaction should fairly share the risks of every project; business actors share the loss and profit with the banks and eventually will share the profit and loss with the depositors. The profit and loss sharing system is considered far more stable than interest rate financing system since it allows investors to not only share the risks but also to participate in making decisions and to propose ideas to reduce the risks (Osmanovic et al., 2022).

The main objective of bank business model is to provide financing to deficit units using mudarabah deposit product and, in turn, the risk transparency is also taken into consideration. For this reason, information on risk mitigation is needed to help manage the investment risks (Umam et al., 2021). Theoretically the banking model in Islam follows the principle of profit and loss sharing from the profit when making business transaction (purchase and sales) and refraining from taking a return in a fixed way (interest) in every form of money loan and investment (Samad, 2020). This shows that Islam actually does not acknowledge the concept of time value of money since money in itself has no time value (Karim, 2017). It is the time that has economic value (*economic value of time*), only if the time is used by adding other production factors that it becomes a capital and obtain profit or gives rise to economic added value. According to Karim (2017), the basis for calculation in the concept of economic value of time is *nisbah* (ratio). The obtained *nisbah* rate will depend on the application of profit and loss sharing system. In profit and loss sharing system, the

management of capital distributed in financing in real sector can generate added values since the money circulate in economic activities (Karim, 2017).

The number of branch offices has an effect on the amount of mudarabah savings deposit
The analysis result of the fourth hypothesis indicated that number of branch offices (X_4) has an effect on the amount of mudarabah savings deposit (Y) at a sig value of 0.000< 0.05 and t $_{score}$ value of 8.122> 2.004. Statistically speaking, number of branch offices has an effect on the amount of mudarabah savings deposit, which indicates that the greater the number of branch office, the easier it will be to make transactions and to collect fund for the bank. Bank expands their brach offieces aggresively to reach greater area and this will make the banking services more accessible to make more people to save their cashes and wealth (Tafa & Worku, 2022). This statement is supported by Sambe (2017) who found that banks' branch offices have a long-term correlation with their deposits. Increasing the number of branch offices is considered banks' geographical diversification strategy that increases the deposit mobilization (Kusi et al., 2022). Adding more branch offices is highly important to discover the inclusiveness of sharia banks in expanding their accessibility to the people. This was also supported by another finding from Aguirregabiria et al. (2016) who argues that despite the growth of communication and internet technology, the number of branch offices as an attempt to expand network remains an important part to increase deposit market share. Sarma (2012) found that increasing the number of branch offices has a desirable and significant effect on financial inclusion level.

Branch office is an important element that also plays a role in collecting the amount of bank liquidity since the potential of collecting deposits is one of the considerations taken to expand the area scope of bank branch offices and also one of some expansion strategies used by banks. Furthermore, number of branch offices serves as a financial intermediary connected through the increase in number of accesses to banking financial services. Increasing the number of branch offices implies that providing access to facilities and services will allow many parties to access financial products and be served more easily (Bongomin et al., 2018).

4. Conclusion

Mudarabah deposit is the main focus of this research since it plays an important role in sharia banks' stability and liquidity. This research analyzed the factors that determined the amount of mudarabah deposits obtained by public sharia banks in Indonesia. Our finding indicated that, Rupiah exchange rate, level of profit and loss sharing and number of branch offices have an effect on the amount of mudarabah deposit. Insofar, Indonesian sharia banks have attempted to expand their influence by providing various services and increasing the number of their branch offices, yet the macroeconomic situation also plays a role in affecting customers in investing their funds. The fluctuating exchange rates resulting from the uncertain global economy has so far showed its influence on the acquisition of mudarabah deposits by sharia banks. The correlation which connects deposit return in a sharia financial instrument to interest rate is one of the issues that is being questioned even until now. Nevertheless, the empirical evidence obtained from the analysis of this research showed that during the process the interest rate policy that had been implemented was found to have no effect on the acquisition of mudarabah deposits.

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