OFFICE CHANNELING AND ITS IMPACT ON THE PROFITABILITY OF ISLAMIC BANK

M. Nur Rianto Al Arif
Yuke Rahmawati
UIN Syarif Hidayatullah Jakarta

Abstract: The purpose of this paper is to analyze that the office channeling policy that based on Bank Indonesia's rule no. 8/3/PBI/2006 had an on the profitability of Islamic banking industry in Indonesia. This research used ordinary least square regression to analyze the impact that office channeling as a dummy variable in this model. The result showed that office channeling didn't have a bearing on the profit rate of Islamic banking industry that measured. According to from this result, either regulator, parent's bank, and Islamic business unit had the obligation increase the socialization, education, and services to the customers

Keyword: *Office channeling, profitability, OLS regression*

The banking sector is the heart of the economic system of a country and becomes a tool in the implementation of government's monetary policy. To know the financial condition of a Bank, whether in a good condition (healthy) or in a financial difficulty, an assessment of bank performance should be done. To do performance assessment of bank, then financial statements of the bank is required because, in bank's financial statements, banking financial ratios can be calculated to assess the financial circumstances of the bank in the past, present, and probability in the future. Islamic banking and financial institutions continue to have significant developments. According to the annual report of Islamic Development Bank (IDB) in 2009, this industry is estimated to grow more than 15 percents per year with more than 300 Islamic financial institutions spread over 75 countries, with estimated total assets of 500 billions dollars or around 4.600 trillion rupiahs. In other words, the market that has been reached now is only about 10 percents. This means that industry is still promising great development in the future.

The blueprints released by Bank Indonesia mentioned that the development of Islamic business unit banking of conventional banking or Islamic banking itself has grown, both in terms of the growth of assets and the institutional or network growth. However, the growth of Islamic business unit banking of conventional banking or Islamic banking is inadequate compared to the society's needs of community service. One of the obstacles is office network.

Due to the problem of office network, in 2006, there was published Bank Indonesia Regulation (PBI) No. 8/3 / PBI / 2006 about Change of Business Activities from Conventional Bank to Commercial Bank Which Conducts Business Activity Based on Islamic Principle and The Opening of Bank Office Which Conducts Business Activity Based on Islamic Principle of Conventional Public Bank. In this PBI, a conventional bank which has Islamic business unit is allowed to serve the transaction based on Islamic principle on the branch office of the conventional bank; the system is known as office channeling. Before this PBI was released, customers who needed Islamic transaction could only be served in Islamic branch office of the conventional bank. Therefore, with this PBI customer who needs Islamic transaction can be served in the branch office of the conventional bank. An expectation arisen after the publication of PBI No. 8/3 / PBI / 2006 is office channeling, that Islamic Bank can grow rapidly in Indonesia

The setting which can expand the service range of Islamic Bank is the implementation of office channeling concept, which is the use of the conventional public office in serving transactions with Islamic principle, in which the Bank has had Islamic business unit. Therefore, since 2006 there has been business conducted by conventional banks that have Islamic business unit by opening office networks or Islamic services in the parent office (conventional bank).

Suryani (2012), stated that this policy is aimed to develop public access in Islamic bank service. In addition, this policy is expected to be able to support the development of Islamic banking industry. Rohaya (2008), also stated that office channeling policy gives positive effect on the growth and performance of banking, such as: (1) after office channeling policy was applied, the total assets of banking, especially Islamic banking, increases from year to year significantly; (2) the performance of fund collection of Islamic banking increases, which is reflected in the growth of Third Party Fund (DPK)

Ade Candra Kusuma (2007) mentions that office channeling policy gives positive impact, namely: (1) In carrying out Islamic services on be-

half of Islamic branch office in similar conventional bank, office channeling policy of branch office or office under the branch office of conventional banks can do business expansion widely without having to build a branch office or office under the branch office itself with expensive cost; (2) Office channeling policy will open greater opportunities for co-operation both between Islamic banks and with conventional banks. Winny (2006) stated in her research that with service expansion through office channeling, 10 Bank offices in Jakarta increased to 20 channel offices since last mid-October. In addition, the financial performance of Islamic banking and a business unit of Bank DKI Jakarta is increasing.

Based on a variety of exposure above, the researchers are interested in doing related research entitled "Office Channeling and Its Impact on the Profitability of Islamic Bank in Indonesia", to see the effectiveness of office channeling policy in the growth of Islamic banking in Indonesia as an attempt to achieve five percent market share of national bank that had not been achieved in 2008.

Method

To achieve the goals related to the impact of the implementation of office channeling on the profitability level of Islamic banking in Indonesia, regression analysis technique used was ordinary least square (OLS). The mathematical model proposed in this study is:

$$Y_t = \beta_0 + \beta_1 D_1 + \beta_2 X_{1t} + \beta_3 X_{2t} + \varepsilon$$

In which:
Y_t = Profit/Loss of Islamic Bank
D_1 = 0 before the implementation of *office channeling*
     1 after the implementation of *office channeling*
X_{1t} = Margin deposit in 1 month
X_{2t} = NPF

Variable Y_{t-1}, $X_{1t,}$ and X_{2t} are control variables in the model

While the mathematical equation to measure the impact on the profitability of financial ratio by using Return on Assets (ROA) is:

$$Y_t = \beta_0 + \beta_1 D_1 + \beta_2 X_{1t} + \beta_3 X_{2t} + \varepsilon$$

In which:
Y_t = ROA
D_1 = 0 before the implementation of *office channeling*
1 after the implementation of *office channeling*
X_{1t} = Margin deposit in 1 month
X_{2t} = NPF

After regression is processed, it should be seen whether the model is good or bad, or in the language of statistics, it is known as "the goodness of fit" of the model. The goodness of fit of the model can be seen by looking at the results of T statistic, F statistic, coefficient of determination (R^2), and classic assumption test, including heteroscedasticity, autocorrelation, and multicollinearity.

Results and Discussions

Results

Based on the data process obtained from the statistics of Islamic banking, the estimation results of profit equation obtained is:

Profit =	108.3544269	+ 24.6434245*D_OC	- 64.897378121*NPF
	(0.82573)	(0.431556)	(-3.493702)
	+ 49.6374919581*MARJIN		
	(2.685483)		

R^2 = 0.988309
Adj R^2 = 0.968452
F-stat = 14306.15

From the results obtained above, it can be seen that the value of the constant coefficient is 108.354. It means that if the whole other variables are assumed to be zero, the profit will continue to grow in every month with the same value. However, because the t-test did not produce significant results, thus the value of the coefficient for constant does not mean anything in this research.

The next analysis related to dummy coefficient of office channeling, which is zero before the implementation of office channeling policy and is one after the implementation of policy office channeling, have a positive sign, which means that there is a unidirectional relationship between office channeling policy and the increase in profits in an Islamic bank. However, because the value of t-test does not show significant results, it means that there is no increase in profits in Islamic Bank between

before and after office channeling policy. Related with the first control variable, the ratio of problematic financing in Islamic Bank (NPF) which gives a negative sign, shows that there is an opposite relationship between the amount of NPF with the profitability obtained by Islamic Bank. The higher the NPF value owned by Islamic Bank, the profit level obtained by Islamic Bank is decreasing. The results of t-test that gives significant value indicate that there is an impact of the amount of NPF value on the level of profit achieved by Islamic Bank. The coefficient value indicates that decrease of NPF by 1% will be able to the raise profit level approximately by 64 billion dollars.

The second control variable, which is a number of margin deposits in 1 month in Islamic Bank, gives a positive sign. This shows that there is a positive relationship between the amounts of value of

margin deposit with the amount of profitability achieved by Islamic Bank. The value of t-test conducted gives significant results. It shows that there is an impact of the amount of margin deposit in 1 month in Islamic bank on the increase of assets in Islamic banking. The coefficient shows that the increase of margin deposit in 1 month is 1%, thus it will be able to raise the profitability approximately by 49 billion dollars.

Determination coefficient can be used to see how much this model is influenced by the existing variables. The value of adjusted R2 of 0.9684 shows that the existing variables can explain this model of 96.84 percent, the rest is described by other variables outside the existing models. To see the impact of the existing variables, test by using F-count is conducted. Based on the calculation done, the value of F test amounted to 14306.15 is obtained. It means that existing variables influence the amount of profit/ advantage contained in Islamic banking.

Based on data process obtained from the statistics of Islamic banking by using the help of software E-views for 2004 until 2011, the result of estimation for ROA equation obtained is:

$$\text{ROA} = \begin{array}{ccc} 148.3529 & + 129.361277*D\_OC & - 0.5312532*NPF \\ (0.4378) & (0.857891) & (-2.853834) \\ + 0.272449071*MARJIN & & \\ (3.234671) & & \end{array}$$

R^2 = 0.965143
Adj R^2 = 0.957221
F-stat = 10653.54

From the results obtained above, it can be seen that the value of the constant coefficient is 148.3529. It means that if the whole other variables are assumed to be zero, then ROA will increase in every month with the same value. However, because the t-test shows not significant results, the value of the coefficient for constant does not mean anything in this model. Then, the dummy coefficient of office channeling, which is zero before the implementation of office channeling policy and is one after the implementation of office channeling policy, has a positive sign which means that there is a unidirectional relationship between office channeling policy and the increase of ROA in Islamic Bank. However, the value of t-test shows not significant results, which means that there is no effect of ROA in Islamic bank before and after policy office channeling is implemented.

Then, the first control variable, which is the ratio of problematic financing in Islamic Bank (NPF), shows negative sign. This shows that there is opposite relationship between the amount of NPF and ROA owned by the Islamic bank. The higher the NPF value owned by the Islamic bank, the ROA in Islamic bank is going decrease. T-test result, that gives significant values, indicates that there is significant effect between the amount of NPF value and the amount of ROA in the Islamic bank. The coefficient value indicates that every decline of NPF of 1% will raise ROA of 0.53%.

The second control variable is the amount of margin deposit in 1 month in the Islamic bank, which gives a positive sign. This shows that there is a positive relationship between the amount of margin deposit value and the amount of ROA in the Islamic bank. The value of t-test conducted gives significant results. The t-test shows that there is significant effect between the amount of margin deposit value in 1 month in Islamic bank and ROA in Islamic banking. The coefficient value indicates that the increase by 1% of margin deposit in 1 month will raise the ROA of 0.27%.

Determination coefficient can be used to see how much this model is influenced by the existing variables. The value of adjusted R^2 amounted to 0.9572 shows that the existing variables can explain this model by 95.72 percent; the rest is described by other variables outside the existing models. F-count can be done together to see the influence of the existing variables. Based on the calculation done, the value of F test amounted to 10653.54 is obtained. It means that together the existing variables affect the amount of ROA in Islamic banking.

Discussion

Based on the results obtained above, there are some things that can be discussed related to the influence of office channeling policy on the profitability of Islamic banking. Office channeling is defined as the term given to mark the probability of doing banking business activities based on Islamic principle in a branch office and or sub-branch office of the conventional public bank. Previously, based on Islamic principle, Windows in the version of Bank Indonesia Regulation number 4/ 1/ PBI/ 2002 explains that two windows system allows public banks (conventional), which does not have UUS or Islamic branch office, to do a transaction with Islamic scheme in one office. In other words, there are two system services in one Bank: Islamic scheme and conventional scheme.

The results of statistic test apparently indicate that both the independent variable of profit and ROA show that dummy variable of office channeling shows not significant results. It means that office channeling policy has not given good significant effect for the profitability level in Islamic banking. The result shows justification why up to the end of 2015 Islamic banking still did not reach the target of national banking market share by five percents, which actually was the achievement of the target in 2008. Badina, et al (2009) found that office channeling policy affects the third party funds, but it does not affect the return on asset.

The result that is slightly different from this research is a research conducted by Haryanto (2007), which is aimed to analyze how big the influence of office channeling policy on the financial performance in Islamic business unit of PT Bank "X" Tbk reviewed from the financial ratio of PT Bank "X" Tbk, third party funds, finance, assets, and profit of Islamic business unit of PT Bank "X" Tbk. The result of a research conducted by Haryanto shows that there is a significant effect on the financial performance of third party fundraising, and assets and financing. Therefore, from this research, it can be concluded that office channeling policy affect the condition of third-party fundraising, assets, and financing, especially in the Islamic business unit of PT Bank "X" Tbk. The thing that might be a difference between this study with the research conducted by Haryanto is that the research conducted by Haryanto took one sample from one of Islamic business unit, while this study used data from the statistics of Islamic banking which was released by Bank Indonesia, which includes data from the whole Islamic Bank, both Islamic business unit, and Islamic public bank.

The results which are almost similar to the results obtained by the study conducted by Haryanto were obtained by a study conducted by Hadiyati (2010), who conducted a research aimed (1) to prove that the number of Islamic service unit significantly gives effect on the increase of DPK BNI Syariah (2) to see how much the level of significance of the influence of the number of unit services on the increase of DPK BNI Syariah (3) to prove that there is structural change to the increase of DPK before and after the implementation of office channeling policy. By using linear regression data process with Chow test, the results show that (1) There is an effect of the number of service units on the increase of DPK BNI Syariah for all data period studied. (2) The effect of the number of service units on the increase of DPK BNI Syariah is quite significant, with R^2 value amounted to 11.92%, the value of t statistic above 2 is 2.18, as well as the probability value of t-test below 5%, is 3.64%. (3) The result of chow test shows that there is a structural change of the increase of DPK, which is caused by the number of service units in the period before and after office channeling.

Rohaya (2008) conducted a research related to office channeling by using quantitative approach. From the results of regression analysis conducted by Rohaya (2008) through hypothesis test, it is known that variable X1 (DPK) and variable X2 (office network of Islamic banking) give positive and significant effect on the total assets of Islamic banking, while variable X3 (office network of conventional bank) and dummy variable do not significantly affect the total assets of Islamic banking. The results obtained by Rohaya are similar to the results obtained in this study, in which office channeling policy gives no effect on the assets of Islamic banking in Indonesia.

Suryanitaningrum (2007), conducted a research which attempted to explain the volume change of a number of third party funds in the Islamic business unit of Bank Permata. From the result of that study, it can be seen that the growth of DPK Bank Permata Syariah is quite good from period to period and continue to increase. However, the study conducted by Suryanitaningrum has a weakness because it used data in a very short period of time, which was only seven months, so bias might occur in the research.

The other study related to office channeling was conducted by Santoso (2011), which aims to: (1) describe the strategy formulation of BRI in Islamic business development, (2) do the assessment of the middle manager of BRI to the office channeling pattern of Islamic services, (3) design and analyze the priority program of the implementation of office channeling of Islamic services in Bank BRI. The research was conducted in Bank BRI. The research method used was a descriptive approach. The results show that: First, the strategy formulation of Islamic business development through the pattern of office channeling of Islamic services in Bank BRI is contained in Decree of the Board of Directors of BRI about Bank Business Plan (RBB) of Bank BRI in 2007 and 2008. Islamic business development is the part of the business strategy of Bank BRI. Second, the motivation level of middle managers is quite high. The results of the assessment of middle managers of Bank BRI on the office channeling pattern of Islamic services obtained the score of 35. The middle managers also gave a quite good response to the strategy of office channeling of Islamic service which will be carried out by Bank BRI. Third, this study provided 12 priority programs of the implementation office channeling of Islamic service in BRI.

Nurnasrina (2007) conducted a research related to office channeling, which is aimed to determine the effect of customer's characteristics on office channeling in using products and services of Islamic banking, to know how the effect of customer's perception of the service of office channeling on the possibility of the use of office channeling and the estimation of customers intensity in using office channeling. Based on the results of logit analysis, a variable of products, social economy, and services give significant effect on the probability of customers in using office channeling. Variable of promotion and Islamic do not have a significant effect. Customer's perception of office channeling service on the probability of the use of office channeling gives significant effect and the intensity of customers in using office channeling is still little.

Al Arif (2014), found that office channeling policy has no effect on the growth of assets and third party funds of Islamic banking industry in Indonesia. Sastrawan (2013), found that by the presence of office channeling policy, there is a significant difference in the development of Islamic banking than before the implementation of office channeling. Khatimah (2009), found that there is a difference of the fund distribution of Islamic banking between before and after Islamic banking acceleration policy.

Conclusions

The regression model to see the influence of office channeling policy to the level of profit in Islamic banking obtained the results that only variable of NPF and margin which have a significant effect. While dummy variable of office channeling has no effect on the profitability level in Islamic Bank. The next equation model, which attempts to see the influence of office channeling policy on ROA in Islamic Bank, obtained only dummy variable of office channeling which is not significant in raising third-party funds in an Islamic bank.

While the other variables such as the variable of NPF and margin deposit in 1 month in Islamic Bank showed a significant effect on ROA in the Islamic bank.

Suggestions

Based on the results of this research above, some policies that can be suggested are: First, the regulators actively do socialization to the customers that Islamic transaction can be done in the conventional branch of the parent bank. The second is improving the service of the conventional branch to the customers of Islamic subsidiary. Third, Islamic Bank has to educate the customers that Islamic transaction can be served on a conventional branch.

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