

DETERMINANTS OF THIRD PARTY FUND DEPOSITS AND THE ROLE OF SERVICE QUALITY IN INCREASING POSITIVE CUSTOMER PERCEPTIONS: CHALLENGES FOR GROWTH SHARIA BANKING IN INDONESIA

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ABSTRACT

The development of the sharia banking industry in Indonesia has experienced rapid growth since the establishment of sharia banks in 1991, but the development is not commensurate with the growth in the number of Muslim population in Indonesia. Third party fund deposits in sharia banks have an important role in increasing bank assets. Therefore, research conducted using qualitative methods can answer some of the problems faced by the Islamic banking industry through a study of Internal Factors, External Factors and Service Quality as determining factors in the growth of Third Party Fund deposits. Especially for external factors, there are still many variables that have pros and cons between the results of one study and another. The results of this research can add to the literature related to sharia banking and a source for formulating strategic sharia banking policies.

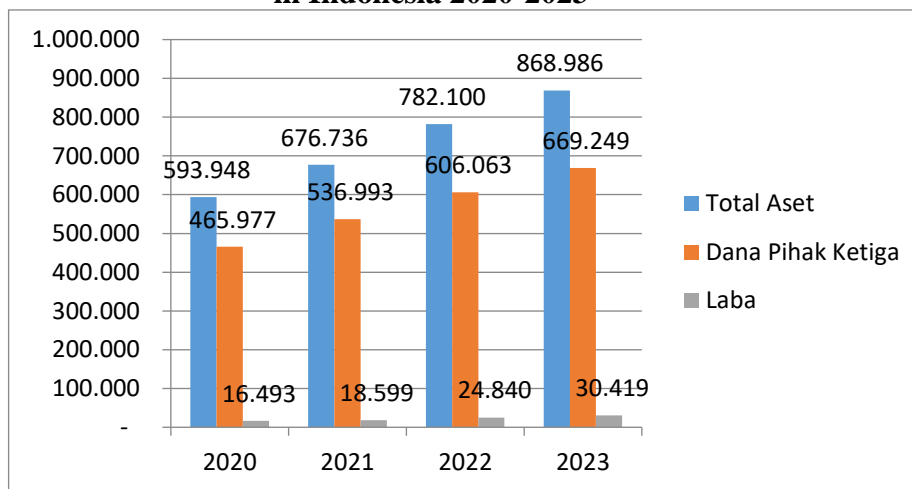
Keywords: External Factors, Internal Factors, Service Quality, Sharia Banking, Third Party Fund Deposits.

INTRODUCTION

Since the establishment of the first sharia bank in Indonesia, namely PT Bank Muamalat Indonesia (BMI) on 1 November 1991 and operating since 1 May 1992 until now, sharia banking in Indonesia has developed rapidly and has been supported by regulations related to sharia banking through the Sharia Banking Law. No. 21 of 2008. With the enactment of Law No. 21 of 2008 concerning Sharia Banking, which was issued on 16 July 2008, the development of the national sharia banking industry increasingly has an adequate legal basis and will encourage its growth even faster. Law Number 21 of 2008 concerning Sharia Banking regulates everything relating to Sharia Banks and Sharia Business Units, including institutions, business activities, as well as methods and processes for carrying out business activities. The function of the bank in the law also states the main function of the Bank, namely as an intermediation institution where the Bank has the right to carry out the main business, namely collecting public funds in the form of third party deposits and channeling the funds to people who need them in the form of credit or financing. One effort to realize Islamic economic principles in real community activities is to establish financial institutions that operate based on Islamic law. Of the various types of financial institutions, banking is the sector that has the greatest influence on people's

economic activities (Iska, 2012). Based on the Indonesian Sharia Banking Law number 21 of 2008, it is stated that banks consist of two types, namely conventional banks and sharia banks. The development of sharia banks (Sharia Commercial Banks/BUS and Sharia Business Units/UUS) in Indonesia can be seen from the increase in the number of banks and the significant increase in sharia bank assets in 2020-2023. This can be seen in the following graph:

Table 1. Development of Sharia Banks (BUS and UUS) in Indonesia 2020-2023



Source : Financial Services Authority - Sharia Banking Statistics 2023

From the graph above we can see that there has been an increase in Total Assets, Third Party Funds and Operating Profit at Sharia Commercial Banks and Sharia Business Units in the period from 2020 to 2023. Average asset growth over the last 3 years reached 13.54 % , where This growth is considered too small for Indonesia's market share, where the majority of the population is Muslim. Third Party Funds (DPK) have an important function in sharia bank capital sources. According to (Septi, 2013), the source of DPK collected by banks is funds from banks which can reach 80%-90% of all funds managed by banks. In the activity of collecting funds , there are factors that are considered to influence DPK, namely internal factors and external factors. Internal factors that influence TPF are in the form of profit sharing provided by sharia commercial banks and the number of sharia commercial bank service offices in Indonesia. The next internal factor that can influence the DPK of sharia commercial banks is the number of offices . The number of offices is one factor in the services provided by Islamic banks to the public. Increasing the number of sharia bank offices will make it easier for people to place their funds in sharia banks and will also open up big opportunities for sharia banks to collect funds from the public. A lot of research has been carried out regarding the growth factors of deposits in both conventional and sharia banks. This problem has been widely studied by previous researchers. Among them are Juniarty et al., (2017) and Setiawan (2018) who state that internal factors for profit sharing have a significant influence on TPF growth. Ruslizar & Rahmawaty (2016) stated that FDR's internal factors also influenced DPK. Apart from that, as for external factors that have an influence on the growth of TPF, namely inflation, this

statement is supported by research by Fathurrahman & Setiawansi (2021) as well as research by Zakki & Permatasari (2020) and Lisa (2017) who say that there are other external factors, namely the BI Rate, which also influences growth of TPF. However, other research states that profit sharing (Wulansari & Burhan, 2016), FDR (Sabarudin & Sari, 2018), inflation (Lisa, 2017), and BI Rate (Muliawati & Maryati, 2015) do not affect the growth of TPF in Indonesia. This research produces pros and cons regarding the results.

Anila, (2022) stated in the results of his research conducted in Albania that the impact of the Capital Adequacy ratio on Deposits has a significant relationship. Return On Assets (ROA) and deposit products have a positive relationship, in other words, banks that have high ROA can attract people's interest in saving. Deposit. Then the Bank's Money Transfer Services do not have a significant relationship to Deposit growth. Another variable, namely the growth of Gross Domestic Product (GDP), statistically does not have a significant relationship with the growth of deposits. The last thing is that population growth has a positive relationship with deposits but is not significant in deposits but can be an indication of increasing savings. Ahmed et al. (2022) conducted a quantitative investigation in Bangladesh to determine whether service quality mediates between Sharia compliance and customer satisfaction. The reported results show that sharia compliance predicts service quality and satisfaction. The research results also show that service quality plays a role in mediating some of the hypothesized relationships. In general, customers are satisfied with the quality of services offered by Islamic banks (Awan et al., 2011; Saqib et al., 2016). Amin et al. (2013)

METHOD

This study uses a qualitative descriptive approach where previous literature regarding the Determinant of Deposits and Service Quality In Enhancing Positive Customer Perception at Sharia Banks in Indonesia. Sources of data are obtained from various journals, analysis reports done by experts. This study will give a description the determinant of third party fund deposits from internal and external factor and also the effect of costumer quality satisfaction in create good perception to the bank institution especially sharia Bank in Indonesia. Therefore, the methodology used is pure literature analysis, evaluation, and drawn conclusions from theoretical analysis and discussion results, adding deeper insight to achieve a better understanding.

RESULTS

Sharia Commercial Bank

In carrying out its business, sharia banks include collecting funds and distributing financing to the community. Not much different from banks in general which operate as an intermediation institution, this sharia bank carries out its business activities in accordance with Islamic sharia law and offers products with a sharia-based system. In Indonesia itself, banking is supervised by the Financial Services Authority (OJK) as an institution appointed by the government to supervise the industry in the financial services sector. The OJK last issued Financial Services Authority Regulation Number 2 of 2024 concerning the Implementation of Sharia Governance for Sharia Commercial Banks and Sharia Business Units on February 15 2024.

Third Party Funds Deposits

One important indicator of improving sharia banking performance is third party funds, which function as a source of bank capital (Ningsih et al., 2021). Sharia banks need to have the ability to manage the collection of third party funds, the greater the profits obtained, the greater the nominal value received by customers. Third Party Funds (DPK) Third party funds are funds obtained from the community, meaning the community as individuals, companies, government, households, cooperatives, foundations and others in rupiah or foreign currency. In most or every bank, public funds are the largest funds owned. This is in accordance with the function of banks to collect funds from the public. The types of third party funding sources are as follows: Current Deposits (Demand Deposits) Current accounts according to Banking Law Number 10 of 1998 are third party deposits with banks from which withdrawals can be made at any time using checks, other payment orders or by book transfer. Savings Deposits: Different from checking deposits, savings deposits have their own characteristics. If current account savings are used by entrepreneurs or traders for transactions, savings deposits are used for the general public and are mostly used by individuals, whether employees, students or housewives.

Service Quality

According to Fandy Tjiptono (2017: 180) defines service quality as a measure of how well the level of service provided meets customer expectations. Service quality is a business's ability to provide services that exceed customer expectations and needs. The service in question includes business skill, speed and accuracy in meeting customer needs. Apart from that, businesses must also pay attention to emotional aspects in customer service, such as empathy, intuition and politeness. Service quality is considered good if the business is able to exceed customer expectations in terms of products or services. This can be seen from the level of customer satisfaction. However, on the contrary, customers tend to feel disappointed when a business cannot meet their needs. In this case, the business fails to provide optimal service quality. Ahmed et al. (2022) conducted a quantitative investigation in Bangladesh to determine whether service quality mediates between Sharia compliance and customer satisfaction. The reported results show that sharia compliance predicts service quality and satisfaction. The research results also show that service quality plays a role in mediating some of the hypothesized relationships. In general, customers are satisfied with the quality of services offered by Islamic banks (Awan et al., 2011; Saqib et al., 2016). Amin et al. (2013) 1.

Internal Factors**Profit sharing (nisbah)**

In Islamic banking, a procedure known as profit sharing is used to determine how much or how much each party will receive. Islamic banks on the other hand use a profit sharing system, which is often referred to as a capital rental fee for their customers (Umami et. al., 2021).

Financing to Deposit Ratio (FDR)

FDR is a tool to assess the ability of Islamic banks to carry out their intermediation function. The higher the FDR ratio, the more attractive it will be for customers to save their funds, because they expect to gain greater profits, so the bank is considered effective in carrying out its intermediation function (Pratama et. al., 2022).

Return On Assets (ROA)

According to Horne & Wachowicz (2005: 235), ROA is a measuring tool to assess the overall level of effectiveness in a company in generating net profit through available assets. Profitability (ROA) increases bank deposits significantly in Vietnam. Ünvan and Yakubu (2020) used random effects to examine bank deposit variables in Ghana from 2008 to 2017. Based on these findings, profitability (ROA), bank size, and liquidity are the main drivers of bank deposits.

Capital Adequacy Ratio (CAR)

The capital adequacy ratio is established in the form of adding risk weighted assets to the tier I of tier II, where the tier I (core capital) involves paid-in capital, general reserves, additional paid-in capital, destination reserves, and distribution of profits, last year's LAA and current year's profits. At the same time, the tier II (supplementary capital) contains asset revaluation reserves, classified asset reserves, quasi capital and subordinated loans. The study conducted by Thao (2021) in Vietnam included the capital adequacy ratio as a bank-specific variable to be analyzed and its impact on deposits. He found a correlation between adequate capitalization and savings using the equity to assets ratio.

Office Network

From the results of model estimation and partial testing, the results showed that the number of offices had an effect on Third Party Funds (DPK) of sharia commercial banks, which had a positive regression coefficient (Jannah , 2024). Apart from that, BUS is considered to be lacking in providing outreach about the existence and understanding of BUS to regional areas. In theory, the more bank offices there are , the more opportunities people have to save and increase. With conditions like this, it will open up more opportunities for people who want to fulfill their needs in the banking sector (Latumerrisa, 2011).

External Factors**Inflation**

A continuous increase in prices is a sign of an inflationary condition, which will have an impact on the value of the currency becoming useless, because it experiences a decline which will trigger people not to save their money in rupiah currency in banks, therefore it is important to limit every expenditure on printing money (Triuspitorini & Setiawan, 2020).

BI Rate

One of the macroeconomic elements that most significantly influences the economy is the BI Rate. Islamic banks use a profit sharing structure rather than an interest-based approach, which differentiates them from conventional banks. Bi Rate is a reference interest rate determined by Bank Indonesia. Once decided and submitted, it will become a benchmark for the reference credit interest rate, which has a significant impact on bank interest rates (Triuspitorini & Setiawan, 2020).

Population Growth Rate

The annual population growth rate is a figure that shows the average rate of population increase per year over a certain period of time. Indonesia is one of the countries in the world with the largest population. Research conducted by Bayiley and Belay (2022) examines the short-term and long-term impacts of economic growth, interest rates, population growth, and branch expansion on savings growth. The sample consists of Ethiopian commercial banks from 1974/75 to 2013/14. The prediction results of the VECM model show that population growth and economic growth have a positive relationship with savings growth, but only in the long term the results are statistically significant.

Economic Growth Rate

According to the Ministry of Finance, "economic growth" is a change in economic conditions that occurs in a country or region. Every year the Central Statistics Agency (BPS) calculates Indonesia's economic growth based on gross domestic product (GDP) at constant prices (ADHK). Continued Economic Growth has a significant effect on DPK at Sharia Commercial Banks (Jannah, 2024).

DISCUSSION

Based on the explanation above, it can be seen the Determinants of Third Party Fund Savings and the Role of Service Quality in Increasing Positive Customer Perceptions. Based on the results of the study from the literature review, the results of the study can be presented as follows:

Determinants of TPF Deposits from internal factors

Variables that have been used by several researchers include; Profit Sharing, Financing to Deposit Ratio (FDR), Return On Assets (ROA) and Office Network shows a positive and significant relationship to the growth of third party funds in Sharia Commercial Banks and Conventional Commercial Banks. From several findings, researchers consistently state a positive relationship with the growth of third party funds , especially in Sharia Commercial Banks. However, for the Capital Adequacy Ratio (CAR), there are several differences in the significant relationship between the growth of Third Party Funds. The latest research from Anila (2022) found that the impact of the capital adequacy ratio on DPK was negative and significant. This shows that banks with larger capitalization ratios are less dependent on deposits for their operations.

Determinants of TPF Deposits from External Factors

The Determinant Variable of TPF Savings from External Factors has different research results from one to another. For example, inflation and the BI Rate have a negative and insignificant relationship to the growth of Third Party Funds in Sharia Banking (Firmansyah et al. 2022) but this is different from the results of other researchers where inflation and the Economic Growth Rate partially have a significant effect on Third Party Funds (DPK.) at Sharia Commercial Banks in Indonesia 2010-2022 (Jannah, 2024). Bayiley and Belay (2022) examine the short-term and long-term impacts of economic growth, interest rates, population growth, and branch expansion on savings growth. The sample consists of Ethiopian commercial banks from 1974/75 to 2013/14. The prediction results of the VECM model show that population growth and economic growth have a positive relationship with savings growth, but only in the long term the results are statistically significant. Then research results from Anila (2022) found that population expansion had a positive but not significant influence on TPF, this shows that it will increase savings. Based on research that has been carried out on the Determinants of TPF Savings from External Factors, the results are different from one another, this needs to be considered further by future researchers if they want to use this variable.

The Role of Service Quality

Research conducted by Fauzi et al. (2019) in Indonesia in the Carter Model using a structural equation model and reported that dimensions related to Sharia compliance have been found to contribute to the overall quality of Islamic bank services. In addition, providing excellent quality service to customers is also a recommended practice which is part of the CSR of Islamic banks (Javed et al., 2020) and is another non-religious factor that attracts customers to the bank. Other research on Islamic banking reports that service quality can increase customer satisfaction and loyalty (Kashif et al., 2015). Customer selection decisions are seen to be correlated with the objectives and CSR of Islamic banks. However, the service quality construct is an insignificant predictor of customer decisions when choosing a sharia bank. The CSR construct was found to be a significant predictor of 'service quality'. Sharia-derived objectives, as followed by Islamic banks, make a positive contribution to CSR and service quality, which positively influences customer expectations (Musa, 2022)

CONCLUSION

This research aims to find out how DPK/Deposits growth is influenced by internal bank factors, external factors and the quality of the bank's services. Thus, this research provides several findings that contribute to knowledge. Especially for the Sharia Banking industry, these internal and external factors can be used as material for making strategic policies in the future. Based on research that has been carried out on the Determinants of TPF/Deposits from External Factors, the results are different from one another, this needs to be paid further attention by future researchers if they want to use this variable. Future research can be carried out using quantitative methods, either using primary data and/or secondary data, adding impressions of the services provided by the Bank. This research has limitations in collecting data and information through literature owned by researchers,

and it is predicted that there are still many factors that can influence public savings, especially in sharia banking.

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