

# Sharia Bank Information Systems in the Context of Value Chain Financing

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# Sharia Bank Information Systems in the Context of Value Chain Financing

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## ABSTRACT

This research aims to test and analyze the financing value chain at Bank Syariah Indonesia. The population is sharia banking in Indonesia. The results of the research state that based on the existing research problem formulation and data analysis that has been carried out regarding Value Chain Analysis based on sharia principles, several things can be concluded, namely: the application of the Value Chain Analysis concept with a sharia principle approach to activities. Good Corporate Governance has 5 principles that are used to realize good corporate governance..

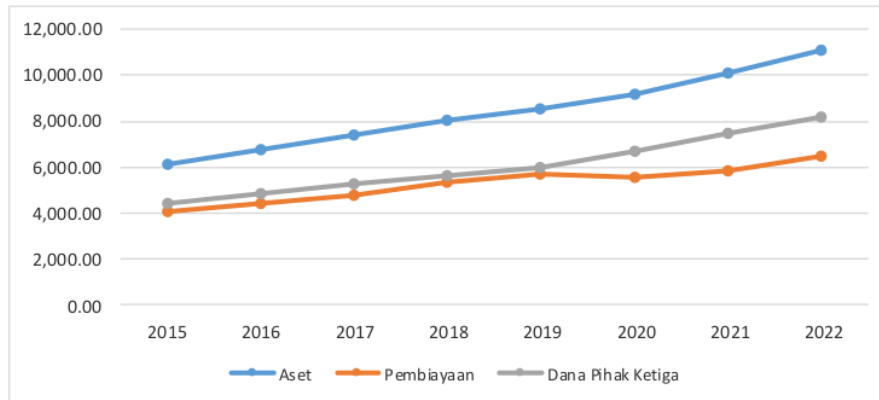
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## 1. Introduction

The improvement of financial institutions in Indonesia plays a crucial role in advancing the country's economy, given its substantial potential and support for economic growth. Additionally, with Indonesia's significant population reaching approximately 277 million people in the first half of 2022 (Dukcapil, 2022), the banking sector also has a great opportunity to cater to the financial needs of the population and respond to the continually increasing demand. However, gaining a larger market share can lead to intense competition among banks.

Indonesia has the highest Muslim population globally. According to The Muslim 500 Edition 2022 by the Royal Islamic Strategic Studies Center (RISSC), also known as MABDA, around 231.06 million people in Indonesia adhere to Islam. This figure represents approximately 86.7 percent of Indonesia's population (Databoks, 2023). This large number undoubtedly holds significant potential, especially in the development of Sharia-based financial institutions. Islamic banking institutions in Indonesia play a crucial role as they can provide financial services in accordance with Islamic principles, assisting the Muslim community in avoiding usury (riba).



<sup>a</sup> Sumber: Statistik Perbankan Indonesia OJK 2015-2022

**Fig. 1.**Development of Commercial Banks in Indonesia 2015-2022 (Trillions)

Banking in Indonesia has generally experienced growth in terms of assets, financing and third party funds. Meanwhile, the development of Sharia Banking in Indonesia can be seen in the following figure.



Source: OJK Sharia Banking Statistics 2015-2022

**Fig. 2.**Development of BUS and UUS in Indonesia 2015-2022 Trillions

The development of banking in Indonesia has been growing rapidly in terms of assets, financing, and third-party funds, as depicted in the figure illustrating the growth of the banking sector in Indonesia.

The development of the Sharia Banking industry in Indonesia also shows positive growth with increasing asset values in both Sharia Commercial Banks (BUS) and Sharia Business Units (UUS). Based on OJK statistical data for 2022, there are 12 BUS and 21 UUS. However, when compared with the conventional banking sector, there is a quite large gap or difference considering that the Muslim population in Indonesia is the largest in the world.

**Table 1.** Development of BUS and UUS Market Share

Year	Market Share		
	Assets	Financing	Third-party funds
2015	4.83%	5.21%	5.24%
2016	5.30%	5.09%	5.78%
2017	5.74%	5.98%	6.33%
2018	5.92%	5.98%	6.60%

2019	6.13%	6.25%	6.94%
2020	6.47%	6.92%	6.99%
2021	6.69%	7.04%	7.18%
2022	7.04%	7.56%	7.43%

<sup>b</sup> Source: [www.ojk.go.id](http://www.ojk.go.id)

Although Islamic banks have been present since 1991, marked by PT Bank Muamalat Indonesia as the first purely Sharia-compliant bank in Indonesia, by the year 2022, Islamic banks as a whole only held a 7.04% market share in terms of assets, 7.56% in terms of financing, and 7.43% in terms of third-party funds. This poses a challenge for the banking industry, especially Islamic banking, in Indonesia, which has the largest Muslim population in the world. The majority of the Indonesian population still prefers conventional banking, as seen in Figures 1 and 2. This situation presents a problem and a challenge for Islamic Commercial Banks (BUS) in attracting customers from conventional banks. Currently, Islamic banks have not succeeded in becoming market leaders or dominating the banking market in Indonesia.

Since 1983, the Indonesian government has been planning the development of Islamic banking in response to the desires of Muslims to avoid usury in economic activities. This involves the introduction of a profit-sharing system as the main concept of Islamic banking. In addition to avoiding usury, Islamic banking also aims to provide physical and spiritual well-being to the Muslim community in accordance with the principles of Islam. In 1990, the establishment of Islamic banks increased with the formation of a task force by the Indonesian Ulama Council (MUI) to develop Islamic banks in Indonesia.

The definition of assets is the wealth or resources owned by a company for a specific period or during a specific period [1]. Assets can be classified into current assets, fixed assets, and other assets. Furthermore, there is also a distinction between tangible and intangible assets. To be considered a commodity, an item must have a specific economic value that can be exchanged for something equivalent. Cash has value because of its ability to be used as a medium of exchange or payment in economic transactions. Resources other than cash also have economic value because they can be exchanged for cash, goods, or services for the production of goods and services, as well as for meeting obligations. The following is a comparison of financing and profits of Islamic banks.

**Table 2.** Sharia Bank Comparison 2022 (In Trillion Units)

Bank	Asset	Financing	Profit	Profit to Financing Ratio
BMI	Rp 61,400	Rp 18,821	Rp0,052	0,28%
BSI	Rp305,000	Rp207,700	Rp4,260	2,05%
BTNS	Rp 45,000	Rp 33,600	Rp0,333	0,99%
BTPNS	Rp 21,161	Rp 11,463	Rp1,779	15,52%
Maybank S	Rp 40,040	Rp 26,430	Rp0,856	3,24%

<sup>c</sup> Source: 2022 Sharia Banking Financial Report

The table above shows that the profit-to-financing ratio of Bank Muamalat is 0.28%, while BSI is 2.05%, BTN Sharia is 0.99%, BTPN Sharia is 15.52%, and Maybank Sharia is 3.24%. It can be concluded that Bank Muamalat has the lowest ratio, indicating that the profit generated from financing is very low. However, the core business of the banking industry is fund mobilization and financing, which earns a profit-sharing from these activities to ensure the bank's continued operation.

The value chain analysis was chosen because it provides a comprehensive understanding of the banking financing business process, from upstream to downstream. By mapping each stage of the process, the research can identify added value in each segment, helping Sharia Banks understand key elements that influence their business performance. Value chain analysis also allows the identification of weaknesses in the business process, which may be the cause of poor financial performance and growth stagnation. In-depth understanding of the distribution of financing and funding products, both physically and digitally, can provide strategic insights to improve the accessibility of Sharia banking products. Through this mapping, the research is expected to assist Bank Muamalat in developing a holistic strategy that includes process optimization, organizational development, efforts to attract new customers, and creating a competitive advantage in the Sharia banking industry.

## 2. Method

This research employs a case study approach, which deeply investigates a particular phenomenon or case. This approach involves interviews, observations, and document analysis to comprehend the context and complexity of the case. The goal is to understand the phenomenon in its real context by studying the case comprehensively from various perspectives. Case studies are utilized when researchers aim to examine complex phenomena, unique contexts, or rare cases (Creswell, 2014).

The chosen location should allow the researcher to effectively observe, interact, or participate in the studied phenomenon. Data collection took place from June 2023 to July 2023. In qualitative research, the selection of informants is a crucial process in which individuals or groups are chosen as data sources to gain insights into the studied phenomenon. A critical stage in qualitative research is informant selection, as collecting relevant and high-quality data can influence the research outcomes and conclusions.

Choosing appropriate and relevant informants aligned with the research objectives is a crucial step in qualitative research design that can impact the quality and validity of the research outcomes. In this study, informants include individuals or groups with significant roles, perspectives, knowledge, or insights related to the studied phenomenon, specifically, one leader and one staff member from each division [2].

Primary sources refer to original data provided directly to the data collector, while secondary sources involve data collected from various pre-existing sources without direct collection by the author. Examples of using primary sources in this research include interviews with respondents and observations. According to [3], scientific journals, financial reports, and official company websites are considered secondary sources. Data collection in this research involves document studies, in-depth interviews, and observations.

The data analysis follows a qualitative approach developed by Miles and Huberman in 1984, where the analysis is interactive and continuous throughout the data collection process. Conducting this analysis is crucial to ensure that the situation or context of the research phenomenon is not overlooked during data processing. The data analysis process includes several essential stages, such as collecting the data, reducing the data volume to simplify it, using appropriate presentation techniques, both visual and narrative, and finally drawing conclusions based on the analysis results. This approach has been previously employed by Muawanah (2010)

## 3. Results and Discussion

The analysis of the value chain serves as the primary approach in this research, as it provides a comprehensive understanding of the banking financing business process from upstream to downstream. Mapping each stage of the process helps identify added value in each segment, understand key elements influencing business performance. This analysis also identifies weaknesses that may lead to poor financial performance, enabling the development of holistic strategies for process optimization, organizational development, attracting new customers, and creating a competitive advantage in the Islamic banking industry.

Based on the understanding of the components of Inbound Logistics & Operations in the Value Chain, Mr. Nindya Agung, as the Human Capital Region Central Java DIY, directed the interview towards the Product Specialist. Challenges we often face are typically related to the availability of products/services in the market that do not always align with Sharia principles, in addition to having a high business risk level, making it difficult to accommodate market needs effectively. Nevertheless, we remain committed to providing solutions that adhere to Sharia principles and continue to innovate in managing business risks to better meet market needs.

At times, I encounter challenges because submissions from other companies or segments may be delayed or not processed, considering I am the sole Relationship Manager SME in Central Java. In retention efforts, my branch team and I actively engage in networking and gather information related to customer needs. If there are additional needs, we offer top-up options or debt additions. However, we understand that not all customers may want to top up or even take over, for reasons such as lower margin offers from other banks or the desire to settle debts without increasing debt burdens. Our retention efforts are based on a deep understanding of customer needs, providing Sharia-compliant

financial solutions, maintaining good relationships, and delivering quality services. Despite facing challenges as the only RM SME in the region, I am committed to providing the best service and adding value to customers in Central Java.

As an example, in Muamalat Bank, our offering strategy primarily focuses on targeting existing customers, selected clients, and institutions to provide sharia-compliant consumer financing and Home Ownership Credit (KPR), including takeovers of existing KPR and property-backed consumer financing. The Senior Relationship Manager for Consumer aims for a monthly achievement of 2.5 billion rupiahs, while the Relationship Manager for Consumer aims for 2 billion rupiahs.

Digital advertising promotion to enhance the branding of KPR Hijrah and acquiring customers online is currently constrained due to Muamalat Bank's policy that prohibits digital promotions. Other banks, however, utilize digital promotions to advertise products, attractive promotions, and other updates. While Muamalat Bank has a website, it is not regularly updated, giving it an outdated and expensive image. Moreover, several enticing programs or promotions exist, but they are not displayed on the Muamalat Bank website. As an alternative, we are conducting offline promotions.

Another challenge is that the current KPR Hijrah product does not accommodate Non-Fixed Income or entrepreneurs, posing a constraint for a significant portion of the population in Central Java with fixed incomes below 10-15 million rupiahs. This difficulty makes it challenging to meet the financing needs for houses priced above 1 billion rupiahs, limiting the coverage to financing homes below 1 billion rupiahs so far.

In the context of customer retention for those who already have mortgage financing facilities at Bank Muamalat, there is the LEADS KPR program as one of the strategies. However, it should be noted that not all customers can qualify for this facility. Additionally, from a pricing or margin perspective, we are still considered expensive. To obtain lower pricing, customers must fall into the selected category or the housing developer must collaborate with Bank Muamalat (PKS). However, our customer base is not extensive, and collaborations with developers are still limited. Consequently, when customers apply for a mortgage (KPR) at Bank Muamalat, they end up with regular pricing or a margin, which is relatively high compared to other banks.

Based on interviews with the product team, it was found that Bank Muamalat's main activities in product design are carried out by the central office team involving various parties. Currently, Bank Muamalat is focusing its attention on the retail financing segment, such as mortgages and Multiguna. In planning products, comprehensive research is acknowledged as the key, as seen in the development of vehicle financing products. Although this financing can currently be accommodated with property collateral, it is deemed less flexible. On the other hand, in the process of cooperation agreements with developers, Bank Muamalat conducts a comprehensive evaluation. The main challenge faced is the limitation of human resources, especially in handling responsibilities that involve the entire Indonesian territory. Efforts are being made to improve efficiency and organizational structure to expedite the process of handling cooperation agreements. Furthermore, Bank Muamalat is committed to developing products and services that adhere to Sharia principles, despite facing challenges in the availability of market products/services that align with Sharia concepts and have a high business risk. Nevertheless, the bank continues to innovate to meet market needs with Sharia principles and effectively manage business risks.

Based on an interview with the marketing team, Bank Muamalat is currently focusing on low-risk financing by establishing strategic partnerships with Amal Usaha Muhammadiyah through a Memorandum of Understanding (MOU) related to funding and financing. The bank does not have specific channels such as a website for the promotion or branding of financing, and marketing activities are not allowed online by Bank Muamalat. Therefore, the marketing team and Relationship Managers (RMs) conduct traditional promotions, including door-to-door methods. According to Mr. Nurtanio and Mr. Nurokhmad, online promotion is considered to have a positive impact on the financing branding of Bank Muamalat by providing product information, promotions, and other updates. Currently, Bank Muamalat is unable to accommodate entrepreneurial activities in the retail segment, where the average income is insufficient for Housing Ownership Credit (KPR) with prices above 1 billion Indonesian Rupiah. Customer retention efforts are made through special programs for selected customers in the retail segment, especially those related to KPR. However, not all customers can access these facilities. Bank Muamalat's KPR pricing is considered expensive

compared to other banks. To obtain lower pricing, one must be a selected customer or purchase a house from a Bank Muamalat partner developer. However, Bank Muamalat has few customers, and there are not many partner developers, so regular pricing is often used, which tends to be more expensive than other banks.

#### 4. Conclusion

Based on the formulation of the research problem and the analysis of the existing data regarding Value Chain Analysis based on Sharia principles, several conclusions can be drawn. The application of the Value Chain Analysis concept with a Sharia approach to activities in Good Corporate Governance involves five principles used to realize effective corporate governance, namely: transparency, responsibility, independence, accountability, fairness, and equality. In achieving Good Corporate Governance, there is still room for improvement, especially in terms of transparency, as companies possess important information that cannot be made public, including financial reports, employee salaries, production processes, and unrealized business plans."

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