

Factors Influencing Third-Party Funds of Islamic Bank: A Case Study in Indonesia

*Sartono Sartono¹, Andriyan Eka Sapta¹ & Iqbal Reza Pratama²

¹Islamic Banking Study Program, Accounting Department, Semarang State Polytechnic, Prof. Sudarto Rd., Tembalang, Kec. Tembalang, Kota Semarang, Jawa Tengah 50275, Indonesia, Indonesia

²International Business Management, Faculty of Business Administration and Accountancy, Khon Kaen University, 123 Mittapab Road, Khon Kaen 40002, Thailand

*Corresponding author's email: sartonops3@gmail.com

Submission date: 21 July 2023

Accepted date: 16 November 2023

Published date: 26 November 2023

To cite this article: Sartono, S., Sapta, A. E., & Pratama, I. R. (2023). Factors Influencing Third-Party Funds of Islamic Bank: A Case Study in Indonesia. *e-Academia Journal of UiTm Cawangan Terengganu*, 12(2), 105-118

ABSTRACT

This study examines the factors influencing the Third Party Fund (TPF) of Islamic Banks in Indonesia, with a focus on the constructs of Size (Total Assets), Liquidity (measured by the Financing to Deposit Ratio), and Gross Domestic Product (GDP). The data for the study were collected from five Islamic Banks over a period of five years, resulting in a dataset of 100 observations. The research employs a quantitative research method, utilizing multiple linear regression. The results of the analysis indicate that both Size and Liquidity have a significant positive impact on TPF, suggesting that higher levels of Size (Total Assets) and favourable liquidity conditions can contribute to an increase in TPF. However, the hypothesis regarding the impact of GDP on TPF was not supported, indicating that GDP does not have a significant relationship with TPF in this context. These findings have important implications for the management of Islamic Banks in Indonesia. Bank managers should prioritize strategies that enhance liquidity management and ensure sufficient total assets. By maintaining favourable liquidity conditions and expanding total assets, banks can attract more Third-Party Funds, thus fostering growth and stability in the Islamic banking sector. Furthermore, the study highlights the role of regulatory oversight in maintaining public trust in Islamic Banks. Effective regulatory frameworks and supervision are crucial in ensuring compliance with Islamic principles and promoting public confidence. In conclusion, this study provides valuable insights into the factors influencing TPF in Islamic Banks in Indonesia.

Keywords: *Indonesia, Islamic Bank, Sharia Banking, Third Party Fund*

1.0 INTRODUCTION

Islamic banks serve as an alternative financial system that adheres to the principles of Shariah, providing Muslims with banking services that align with their religious beliefs (Albaity & Rahman, 2021). By offering a viable solution to the prohibition of usury (*riba*), Islamic banking caters to the growing demand from customers seeking financial institutions that can manage their funds per Islamic principles. The emergence of these Sharia financial institutions began with the issuance of regulations or legislation by Indonesian Law No. 7 Year 1992 (President of Republic Indonesia, 1992) concerning the legality of Sharia banks operating in Indonesia which implements a profit-sharing system.

Despite the nation's strong Islamic identity and the burgeoning demand for halal products, the penetration of Islamic banking in Indonesia remains surprisingly low, currently hovering around a mere 7 percent in 2021. This statistic becomes even more remarkable when compared to other countries in the region. Neighboring Malaysia, for instance, boasts a 30 percent market share for Islamic banking, while Brunei surpasses the 50 percent market share. The Gulf Cooperation Countries (GCC), such as Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates, have long embraced Islamic banking practices. Given the unique confluence of factors, Indonesia presents a vast untapped business opportunity for Islamic banking products. Recognizing this potential, it becomes imperative to explore the reasons behind the low adoption rate of Islamic banking in Indonesia and devise strategies to accelerate its growth.

One of the key factors to increase its market share is the ability to attract third-party funds through competitive savings and deposit products (Alamsyah, 2021; Indiastary et al., 2020). Unfortunately, according to the Shariah Banking Statistics from the Financial Services Authority (OJK) as of January 2023, the Third-Party Funds of Islamic commercial banks in Indonesia amounted to 422,980 billion IDR (OJK, 2022). This figure represents a decrease of 1.41% compared to the previous month of December 2022, which stood at 429,980 billion IDR. The ability to attract third-party funds is a crucial factor in increasing market share for Islamic banks. Competitive savings and deposit products play a vital role in this regard, as they are key offerings that can entice depositors to choose Islamic banks as their financial partners.

The growth of Third-Party Funds in Islamic commercial banks is certainly influenced by several factors. These factors affecting the bank's operations consist of internal factors and external factors. The fulfilment of immediate funding requirements, catering to financing demands, and offering enticing and advantageous investment facilities are factors associated with banking performance, as internal factors, can be improved through effective liquidity management (Sathyamoorthi et al., 2020). As stated by Jobst (2014), adequate liquidity is achieved when a bank can meet all unsecured debt obligations that have a maturity period of one year or less. This indicates the bank's ability to settle obligations and honor demands for funds within a one-year timeframe, including demand deposits. Masood & Javaria (2017) used the ratio of total funding to total deposits to measure Islamic banks' liquidity status. Islamic Bank's overall financial strength and capacity to cater to the diverse needs of customers can be assessed through its Size (Total Assets) (Awan & Bukhari, 2011). The Size (Total Assets) held by a bank reflects its ability to mobilize funds, make investments, and support the financial requirements of various stakeholders. A higher total asset value is often associated with a stronger reputation and credibility, which in turn instills greater confidence among the public in placing their funds with Shariah banks (Albaity & Rahman, 2021).

Besides the internal factor, Gross Domestic Product (GDP) serves as a key indicator of economic activity and reflects the overall health and performance of the national economy externally. When the GDP of a country is growing at a steady pace, it indicates a robust economy with increased business activities, investment opportunities, and consumer spending. This can have a positive impact on the growth of Third-Party Funds in Islamic banks. As the economy expands, individuals, businesses, and institutions may experience improved financial capabilities and seek banking services to manage their funds, resulting in a potential increase in deposits and investments in Islamic banks (Aggarwal & Yousef, 2000; Boukhatem & Ben Moussa, 2018). During periods of economic uncertainty or contraction, individuals and businesses may exhibit more cautious financial behaviour, leading to lower deposit rates and a reduced willingness to engage in investment activities. This can result in slower growth or even a decline in Third Party Funds for Islamic banks.

Factors influencing third-party funds in Islamic banks have been studied in several papers. Novitasari et al. (2022) found that intellectual capital has a positive effect on firm performance, while the zakat performing ratio does not have an effect. Susianti et al. (2022) found that profit-sharing and SBI interest rates significantly influence third-party funds in sharia banking. Septiatin (2022) found that third-party funds and the BI Rate have an effect on market share, while inflation does not have an effect. Hidayah & Tanjung (2022) found that profit sharing and inflation jointly influence third-party funds in Islamic banks. Based on the research gap and relevant supporting theories regarding internal factors and external factors that affect Third Party Funds, this study aims to examine the relationship between liquidity, size, GDP, and the growth of Third-Party Funds in Islamic commercial banks. Third-Party Funds serve as the dependent construct, while liquidity, size, and GDP act as independent constructs.

H₁: Liquidity exhibits a positive relationship with Third Party Funds in Islamic banking

H₂: Size exhibits a positive relationship with Third Party Funds in Islamic banking

H₃: Gross Domestic Product exhibits a positive relationship with Third Party Funds in Islamic banking

Through this research, a comprehensive understanding of the interplay between liquidity, size, GDP, and the growth of Third-Party Funds in Islamic commercial banks will be obtained. The findings will contribute to enhancing the managerial strategic decision-making process of Islamic banks.

2.0 LITERATURE REVIEW

Agency Theory

Agency theory is a theoretical framework that examines the relationship between principals and agents in various contexts, such as strategic alliances, scams, and budgeting processes (Jensen & Meckling, 1976). In banking sectors, agency theory is used to explain the interaction between bank owners and managers. It aims to address the complexity of human behaviour in the principal-agent relationship (Al-Nasser Mohammed & Muhammed, 2017). Agency theory in Islamic banking practices is an important concept that helps understand the dynamics between different stakeholders in the bank. It investigates the variations of agency theory in the context of Shari'ah governance in Islamic banking operations (Hassan et al., 2022). In Islamic banking, the principal-agent relationship can be seen between depositors (principals) and bank managers (agents), or between investment account holders (principals) and bank managers (agents). The agents (bank managers) are expected to act in the best interest of the principals (depositors or investment account holders). When it comes to third-party funding, agency theory plays a crucial role. The bank acts as an agent for the third-party fund providers (the principals). The bank is expected to use these funds in a manner that aligns with the principals' interests, which could be maximizing returns, ensuring the safety of funds, or adhering to certain ethical or religious guidelines. Al-Nasser Mohammed & Muhammed (2017) presented an understanding of the agency theory and the stakeholder theory from the perspective of Islamic principles. It also discusses whether the Shariah Supervisory Board fits with the agency theory by explaining how it differs from Islamic banking concepts. The study of Hassan et al. (2022) investigates the variations of agency theory in the context of Shari'ah governance in Islamic banking operations in Saudi Arabia. It provides insight into the agency structure in Islamic banking, which may lead to a trade-off between the conformity of Shari'ah (Islamic law) rules and processes followed in safeguarding the rights of investors.

Third-Party Funds

It has been established that Third Party Funds play a crucial role in enhancing the financial performance of Islamic banks (Rabbani et al., 2021; Rouetbi et al., 2023). As stated by Alamasyah (2021), Third Party Funds represent the aggregate funds successfully accumulated by a bank from the wider community. The existence of Third-Party Funds is indispensable for Shariah banks to fulfil their crucial role in channelling funds to the public effectively.

According to (Saiti et al., 2017), Islamic banks utilize specific contracts to gather funds from the public. One of these contracts is known as "Akad Wadiah." Wadiah is a trust-based contract where the bank acts as a custodian for deposited funds. In Islamic banking, a specific type of Wadiah known as Wadiah Yad

Dhamanah is employed. Under this contract, the bank assumes responsibility for the safekeeping of the entrusted assets and is permitted to utilize them. The bank may provide a modest return on the deposited funds to the customers, the amount of which is determined at the discretion of the bank. Another contract used by Islamic banks is "Akad Mudharabah." Mudharabah is a partnership contract where the depositor (shahibul mal) provides the capital, while the bank (mudharib) manages the funds. The distribution of profits is based on an agreed-upon ratio between the parties involved. These contractual arrangements play a vital role in the operations of Islamic banks, enabling them to gather funds from the public while adhering to the principles of Shariah. The implementation of Akad Wadiah and Akad Mudharabah allows Islamic banks to provide financial services in line with Islamic principles, fostering trust and transparency in their dealings with customers.

The measurement of Third-Party Funds (TPF) in Islamic banking encompasses various indicators or dimensions that provide insights into the deposit and investment activities within the Islamic banking system. These indicators help assess the size, composition, and dynamics of the funds gathered from the public. One important indicator is the total amount of Third-Party Funds held by Islamic banks, which reflects the overall level of deposits and investments mobilized from customers, businesses, and other stakeholders. This indicator serves as a key measure of the scale and magnitude of the funds entrusted to Islamic banks, showcasing their capacity to attract and retain financial resources.

Previous studies have extensively examined the impact of liquidity, size, and GDP on third-party funds in banking (Purwohandoko & Iriani, 2021; Shi et al., 2021). Notably, these studies have shed light on significant findings about the relationship between these constructs. For instance, one study highlighted that liquidity risk in Islamic banks is influenced by capital adequacy, asset quality, and third-party funds, suggesting that the level of third-party funds can have implications for liquidity risk. Another study emphasized the role of size in shaping the profitability and stability of Islamic banks, with bank size and capital being identified as key factors influenced by size. Furthermore, the influence of GDP on third-party funds was explored, with a positive relationship identified between GDP growth and third-party funds in Islamic banking. These findings collectively underscore the intricate interplay between liquidity, size, GDP, and third-party funds in the Islamic banking sector, providing valuable insights for researchers and practitioners in understanding the dynamics of these constructs.

Liquidity

Liquidity, as defined by Tripathi et al. (2020), pertains to a company's capability to promptly fulfil financial obligations or meet financial demands when they are due. For banks, liquidity plays a vital role in facilitating daily operational activities, addressing urgent funding needs, catering to financing requests, and providing flexibility in delivering attractive and profitable investment opportunities (Abbas et al., 2021). In the context of Shariah banks, liquidity can be assessed through the application of the Financing to Deposit Ratio (FDR). The FDR signifies the proportion of financing extended by the bank relative to the third-party funds mobilized by the bank (Abbas et al., 2021). The FDR serves as a metric to gauge the bank's capacity to promptly honour customer withdrawal requests and fulfil repayment obligations. According to (Yahaya et al., 2022), a higher Financing to Deposit Ratio (FDR) implies a diminished liquidity capability for the bank, suggesting a larger pool of funds required for financing purposes.

Previous research has indicated that liquidity plays a significant role in the context of Third-Party Funds (TPF) in Islamic banking (Abbas et al., 2021; Priyadi et al., 2021; Yahaya et al., 2022). Liquidity reflects the ability of Islamic banks to meet their financial obligations promptly and cater to the immediate funding needs of customers. A higher level of liquidity instils confidence among stakeholders and enhances their willingness to deposit and invest funds in Islamic banks. Therefore, the Hypothesis that relates liquidity to Third Party Funds in Islamic banking is as follows:

H₁: Liquidity exhibits a positive relationship with Third Party Funds in Islamic banking.

Size (Total Assets)

The total assets held by Islamic banks exert a substantial influence on the mobilization of Third-Party Funds (Mimouni et al., 2019). These assets serve as a key factor in attracting and managing third-party funds effectively, contributing to the overall growth and success of Islamic banks. Banks with substantial total assets are perceived as more stable and credible, which encourages individuals and institutions to place their funds with these banks. The robust financial position reflected by larger size enhances the perception

of security and reliability, making Islamic banks more attractive to depositors seeking a trustworthy financial institution (Ledhem & Mekidiche, 2020).

The size of Islamic banks directly impacts their capacity to provide financing to customers. A higher total asset value signifies a greater ability to offer a wide range of financing products and services. This financing capacity is a significant factor in attracting third-party funds, as customers seek banks that can promptly fulfil their funding requirements. Islamic banks with substantial total assets can cater to diverse customer needs, attracting a larger pool of deposits and investments. Banks with larger sizes often enjoy a greater market presence and brand recognition. Their extensive operations and financial strength give them a competitive advantage, attracting more customers and investors. This increased market share translates into a higher volume of Third-Party Funds flowing into the bank, further bolstering its financial position.

Previous research has indicated that the size of Islamic banking plays a significant role in influencing the accumulation of Third-Party Funds (TPF). Size reflects the scale and operational capacity of Islamic banks, which can affect stakeholder perceptions and decisions (Dusuki, 2008). When stakeholders recognize that an Islamic bank possesses substantial assets, it enhances their confidence in the bank's financial stability and credibility. As a result, stakeholders are more inclined to allocate their funds to the bank, leading to an increase in Third Party Funds. The above viewpoint is supported by the findings of research conducted by Riauwanto and Sulastiningsih (2020) as well as Musrifah & Mariana (2022), which state that Company Size has a significant influence on Third Party Funds. Therefore, the Hypothesis that relates Total Asset to Third Party Funds in Islamic Banking is as follows:

H₂: Size exhibits a positive relationship with Third Party Funds in Islamic banking

Gross Domestic Product (GDP)

Gross Domestic Product (GDP) refers to the value of goods and/or services produced by the factors of production within a country (domestic) during a specific period of time, including both citizens and foreigners residing in that country (Shi et al., 2021). According to the modern perspective (Keynesian), savings are dependent on national income (the income of all individuals within the economy). At low levels of national income, savings have a negative value, indicating that consumer spending exceeds national income. More income is allocated towards meeting consumption needs, with a small portion being saved. As the income of the population increases, their savings also increase. This implies that a higher GDP will lead to an increase in the amount of third-party funds collected by Islamic banks.

Research findings indicate that the GDP plays a significant role in influencing the level of TPF in Islamic banking. Individuals' financial engagement and willingness to contribute to TPF are influenced by the economic activity reflected in the GDP (Abubakar & Aduda, 2017; Albulescu, 2015; Purwohandoko & Iriani, 2021). Moreover, studies in the banking and finance literature have demonstrated that the GDP has implications for various outcomes, including the level of TPF in Islamic banking. As GDP represents the overall economic performance of a country, it has a direct impact on individuals' financial capabilities and their willingness to contribute funds to Islamic banks. Consequently, the GDP serves as a significant determinant of the level of TPF in Islamic banking. Therefore, the GDP acts as a crucial factor influencing individuals' behavioural intention and contribution to TPF in the Islamic banking sector. Therefore, the Hypothesis that relates Total Asset to Third Party Funds in Islamic Banking is as follows:

H₃: Gross Domestic Product exhibits a positive relationship with Third Party Funds in Islamic banking

3.0 METHODOLOGY

Sample and data collection

This study is survey research conducted with a retrospective observation (ex post facto) design. The study emphasizes random sampling and statistical significance. In order to confirm the regression model built, this study used a quantitative analysis approach. In terms of data collection timing, this study utilizes panel data/combination data, which is a combination of time series and cross-sectional data. The data used in this research is based on secondary data obtained from The financial reports of Islamic Commercial Banks published through the Sharia Banking Statistics of Indonesia for the period 2018-2022, as well as the quarterly publications from the Indonesia Statistics, which were used as secondary data sources for this research. The population in this study consists of all Islamic Banks in Indonesia until 2022 (12 banks) as shown in Table 1.

Table 1: List of Islamic Banks in Indonesia 2022

No	Bank
1.	Bank Muamalat Indonesia.
2.	Bank Syariah Mega Indonesia.
3.	Bank Syariah Bukopin.
4.	BCA Syariah.
5.	Bank Aceh Syariah.
6.	BPD Nusa Tenggara Barat Syariah.
7.	BPD Jawa Barat Banten Syariah.
8.	Bank Panin Dubai Syariah.
9.	Bank Aladin Syariah.
10.	Bank Victoria Syariah.
11.	Bank Tabungan Pensiunan Nasional Syariah.
12.	Bank Syariah Indonesia.

Source: Indonesia Statistics, 2022

The study used purposive sampling to select Islamic Commercial Banks registered with the Financial Services Authority (OJK) from 2018 to 2022, without any mergers or acquisitions during that period. The selected banks have published quarterly financial reports continuously for five years and can provide complete information on TPF, FDR, and Size (Total Assets). Based on these criteria, the sample used in this study consisted of 5 (five) Islamic Commercial Banks in Indonesia, namely Bank Muamalat Indonesia, Bank Syariah Bukopin, Bank Aceh Syariah, Bank Panin Dubai Syariah, and Bank Victoria Syariah. The time series data used in this study were sourced from the financial reports of 5 banks over a period of 5 years and 4 quarters, resulting in a total of 100 time series data points.

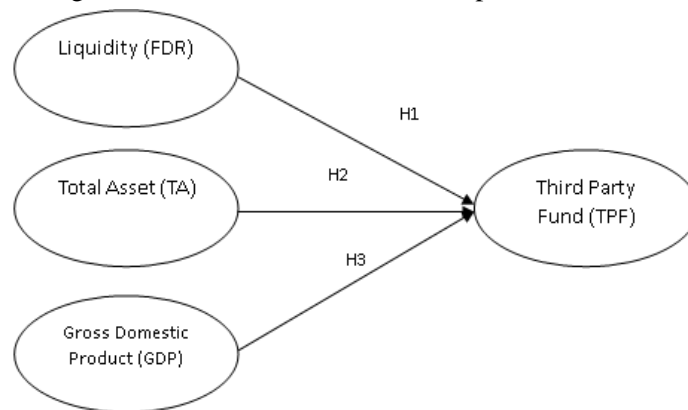


Figure 1: Research Framework

TPF in this study refers to the total funds successfully gathered by a bank from the general public in the form of savings, current accounts, and deposits. Liquidity is measured by the FDR, which is the ratio comparing the financing provided by the bank to the third-party funds gathered by the bank (Abbas et al., 2021). The FDR measures the ratio of the financing provided by the bank to the third-party funds gathered from customers. The size of a company, known as "Total Asset", in this context, indicates the magnitude of assets owned by the organization. The measurement of Size (Total Assets) is proxied by the natural logarithm value of Size (Total Assets) (Mimouni et al., 2019). GDP is calculated by adding the Domestic Income and Foreign Income. It serves as a crucial indicator of a country's economic performance and provides insights into the overall size and productivity of its economy (Al-Shaghdari et al., 2023). GDP takes into account various sectors, such as agriculture, industry, and services, and provides a comprehensive measure of the economic activity within a nation's borders. It is widely used by policymakers, economists, and analysts to assess the growth and development of countries, make comparisons between different economies and formulate economic policies.

Data Analysis

In the data analysis of this research, several tests were conducted to ensure the validity and reliability of the regression model. The normality test was performed using the Kolmogorov-Smirnov non-parametric test. The residual distribution is considered normal if the obtained p-value is greater than 0.05, indicating that the data follows a normal distribution (Ghozali, 2018).

The multicollinearity test was conducted to detect any correlation among the independent constructs (Sugiyono, 2021). To assess multicollinearity, the Tolerance and Variance Inflation Factor (VIF) tests were used. Tolerance measures the variability of a selected independent construct that is not explained by other independent constructs. If the Tolerance value is greater than 0.10 or the VIF value is less than 10, it can be concluded that the data is free from multicollinearity (Sugiyono, 2021).

The multiple linear regression model used in this study is represented by the equation:

$$Y = \alpha + X1 + X2 + X3 + e$$

Where:

Y = Third Party Fund (TPF)

α = Constant

X1 = Liquidity (FDR)

X2 = Size (TA)

X3 = Gross Domestic Product (GDP)

e = error

In Hypothesis testing, the F-test is employed to determine whether all independent constructs collectively have a significant influence on the dependent construct. The significance level used for this test is 0.05 ($\alpha = 5\%$). Furthermore, the t-test is conducted to assess the individual or partial effects of each independent construct on the dependent construct. The significance level for the t-test is also set at 0.05 ($\alpha = 5\%$). Additionally, the coefficient of determination (R-squared) is examined, and the adjusted R-squared value is used to account for any bias compared to the R-squared value (Sugiyono, 2021).

4.0 RESULT AND DISCUSSION

Descriptive Statistics

In Table 2, the descriptive analysis of our dataset, we explained the distribution and the characteristics of variables observed, namely: TPF, Liquidity (FDR), Size (TA), and GDP.

Table 2: Descriptive Statistics

	N	Range	Minimum	Maximum	Mean	Std. Deviation
TPF	100	46348513	811921	47160434	15792079.91	15730466.951
Liquidity	100	158.40	38.33	196.73	83.7295	27.02550
Total Assets	100	60010240	1353344	61363584	19870586.76	19324444.779
GDP	100	1604548	3510363	5114911	4133995.15	452190.239
Valid N (listwise)	100					

Firstly, TPF demonstrated a wide range, spanning from a minimum value of 811,921 to a maximum of 47,160,434. On average, TPF stood at approximately 15,792,080, suggesting a central tendency around this value. However, with a standard deviation of 15,730,467, there was considerable variability in TPF across the dataset. Secondly, examining Liquidity, we found the percentage values ranging from 38.33% to 196.73%. The mean liquidity was about 83.73%, indicating a moderate level of liquidity on average. The standard deviation of 27.03% implied some variability in liquidity levels among the observations. Moving on to Size (TA), this variable exhibited a broad range, stretching from a minimum of 1,353,344 to a maximum of 61,363,584. The mean TA was approximately 19,870,587, indicating a central tendency around this value. Yet, the substantial standard deviation of 19,324,445 revealed significant variability in TA. Lastly, for GDP, the data ranged from 3,510,363 to 5,114,911. The mean GDP was around 4,133,995,

reflecting the dataset's average economic output. The standard deviation of 452,190 pointed to moderate variability in GDP.

Normality Test

The normality test examines whether the disturbance construct or residuals in the regression model follow a normal distribution (Sugiyono, 2021). The initial test results from the 100 data series revealed that the non-parametric Kolmogorov-Smirnov (K-S) test yielded a result of 0.147 with a significance value of 0.000, which is less than 0.05.

Table 3: Initial Result of Normality Test

	Unstandardized Residual
N	100
Test Statistic	.147
Asymp. Sig. (2-tailed) ^c	<.001

Based on Table 3, the result of the non-parametric Kolmogorov-Smirnov (K-S) test indicates that the regression model does not satisfy the assumption of normality. This implies that the data in this study are not normally distributed and require treatment to address the issue. To rectify the non-normality, careful identification of outlier data points was undertaken, resulting in the removal of 20 data points. As a result, the subsequent analysis was performed on a refined dataset consisting of 80 data series. By excluding these outliers, it is anticipated that the normality of the data will be restored, enabling a more accurate and reliable analysis to be conducted. The results of the normality test after removing the outlier data are shown in Table 4.

Table 4: Result of Normality Test After Removing Outlier Data

	Unstandardized Residual
N	80
Test Statistic	.090
Asymp. Sig. (2-tailed) ^c	.172

The results of the non-parametric Kolmogorov-Smirnov (K-S) test, as shown in Table 4, indicate a test statistic of 0.090 with a significance level of 0.172, which is greater than the predetermined alpha value of 0.05. This implies that the assumptions of normality are reasonably met, thus providing a solid foundation for further statistical analysis.

Multicollinearity Test

This test is conducted to assess the presence of intercorrelations among the independent constructs and to determine if they are significantly related to each other (Sugiyono, 2021). Multicollinearity can pose challenges in regression analysis as it can inflate the standard errors of the regression coefficients and affect the accuracy and interpretation of the results. By detecting and addressing multicollinearity, researchers can ensure the reliability and validity of the regression model and the conclusions drawn from the analysis.

Table 5: Result of Multicollinearity Test

Model	Collinearity Statistics	
	Tolerance	VIF
1 Liquidity	.833	1.200
Total_Assets	.840	1.191
GDP	.961	1.041

The results of the multicollinearity test in Table 5 indicate that all independent constructs, including Liquidity (FDR), Size (Total Assets) (TA), and Gross Domestic Product (GDP), have Tolerance values greater than 0.1 and VIF values less than 10. This suggests that there is no evidence of multicollinearity among the independent constructs in the regression model (Ghozali, 2018). It can be concluded that the independent constructs can be considered separate and distinct factors influencing the dependent construct

without significant multicollinearity issues which contribute to the robustness and validity of the regression model employed in this research.

Multiple Linear Regression Model

After the data has passed the normality and multicollinearity tests, the next step involves constructing a multiple linear regression model to determine the influence of independent constructs, namely Liquidity (FDR), Size (Total Assets) (TA), and GDP, on the Third-Party Funds (TPF) of Islamic Commercial Banks as the dependent variable. This research employed SPSS 28 for data analysis. The results of the multiple linear regression analysis can be found in Table 6.

Table 6. Multiple Linear Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficients
	B	Std. Error	Beta
1 (Constant)	4584412.444	1210409.774	
Liquidity	-38093.804	6358.841	-.037
Total_Assets	.814	.005	.983
GDP	-.406	.240	-.010

Based on Table 6, the multiple linear regression equation can be formulated as follows:

$$\text{TPF} = 4584412,44 - 38093.804 \text{ FDR} + 0.814 \text{ TA} - 0,406 \text{ GDP} + e$$

In this equation:

- The constant term, 4,584,412.44, represents the expected value of TPF when all predictor variables (FDR, TA, GDP) are zero.
- The coefficient for FDR, -38,093.804, indicates that for each unit increase in FDR, TPF is expected to decrease by approximately 38,093.804 units, holding other variables constant.
- The coefficient for TA, 0.814, suggests that for each unit increase in TA, TPF is expected to increase by 0.814 units, while other variables remain constant.
- The coefficient for GDP, -0.406, implies that for each unit increase in GDP, TPF is expected to decrease by 0.406 units, keeping other variables constant.

Model Test and Hypotheses Test

Table 7: F-Test Result

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	19091071793724756.000	3	6363690597908252.000	10190.728	<,001 ^b
Residual	47458872769829.990	76	624458852234.605		
Total	19138530666494584.000	79			

a. Dependent Variable: TPF

b. Predictors: (Constant), GDP, Size, Liquidity

Based on Table 7 suggests that the full regression model is a good fit. The F-statistic being highly significant ($p < 0.001$) indicates that the whole construct can be considered as the predictor of TPF. Subsequently, in order to assess the extent to which the model explains the variability of the dependent variable, the coefficient of determination (R^2) test is employed. A lower R^2 value indicates the limited explanatory power of the independent constructs on the variation observed in the dependent variable. To evaluate the R^2 value, the adjusted R^2 value is utilized, as it minimizes potential biases compared to the R^2 value. The findings of the coefficient of determination (R^2) test are presented in Table 8.

Table 8: Coefficient of Determination Test Result

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.999 ^a	.998	.997	790227.089

a. Predictors: (Constant), GDP, Size, Liquidity

Based on Table 8, the adjusted R-square value obtained is 0.998 or 99.8%. This indicates that the constructs of Liquidity (FDR), Size (TA), and Gross Domestic Product (GDP) collectively contribute to 99.8% of the influence on TPF, while the remaining 0.2% are influenced by other unexamined constructs in this study. Therefore, the model achieved its fitness and it can proceed with further analysis and interpretation of the individual predictor coefficients to understand their contributions to the model.

In testing the partial influence of each independent variable, the t-test was conducted. The results of the t-test in this study are presented in Table 9.

Table 9: T-test Result

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	4584412.444	1210409.774		3.787	<.001
Liquidity	-38093.804	6358.841	-.037	-5.991	<.001
Total_Assets	.814	.005	.983	157.711	<.001
GDP	-.406	.240	-.010	-1.694	.094

a. Dependent Variable: TPF

Hypothesis 1, which proposed that Liquidity (FDR) has a significant effect on TPF, was tested using a t-test. The results, as shown in Table 8, revealed a significance level of 0.000 for the Liquidity variable, indicating a significant influence on TPF when considered individually. Therefore, Hypothesis 1 was accepted, suggesting that Liquidity (FDR) indeed has a significant effect on TPF.

Similarly, Hypothesis 2 investigated the impact of Size (Total Assets) (TA) on TPF. The t-test results displayed in Table 8 indicated a significance level of 0.000 for the Size (Total Assets) variable, indicating a significant influence on TPF when examined individually. As a result, Hypothesis 2 was accepted, implying that size (TA) has a significant effect on the TPF of Islamic Banks in Indonesia from 2018 to 2022.

On the other hand, Hypothesis 3 aimed to examine the relationship between Gross Domestic Product (GDP) and TPF. The t-test results from Table 8 showed a significance level of 0.094 for the Gross Domestic Product variable, which is greater than the predefined significance level of 0.05. This finding suggests that there is no significant influence of GDP on TPF when considered individually. Consequently, Hypothesis 3 was rejected, indicating that GDP does not have a significant effect on TPF of Islamic Commercial Banks in Indonesia during the specified period.

Based on the data analysis, it is known that two out of three hypotheses are supported. The strongest influence is demonstrated by the size (TA) variable. This finding suggests that a higher total asset value held by a Shariah bank increases public trust and confidence, leading them to utilize the bank's services and choose to deposit their funds there (Musrifah & Mariana, 2022; Purwohandoko & Iriani, 2021). This finding underscores the agency theory's relevance in understanding the dynamics within these financial institutions. Larger banks, with substantial total assets, wield greater influence over their ability to generate productivity. This aligns with the agency theory's expectation that agents (bank managers) with more significant resources should be better positioned to serve the interests of principals (depositors or investment account holders) effectively. A higher total asset value of an Islamic bank may indicate that it has successfully navigated the regulatory landscape and complied with the prescribed guidelines (Abasimel, 2022). Regulatory oversight is a critical aspect of ensuring the compliance of Shariah banks with Islamic principles and maintaining public trust. This achievement reflects the bank's ability to meet regulatory requirements, maintain prudent risk management practices, and foster transparency in its operations. Such compliance demonstrates the bank's commitment to upholding Islamic principles and can instill confidence in both domestic and international stakeholders. Moreover, effective regulatory oversight contributes to the overall

credibility and reputation of the Islamic banking industry (Riauwanto & Sulastiningsih, 2020; Saivasan & Lokhande, 2022).

In addition to size, liquidity also has a significant impact on the TPF. Sathyamoorthi et al. (2020) and Tripathi et al. (2020) stated that liquidity is crucial for banks to carry out daily operational activities, meet urgent funding needs, fulfill financing demands, and provide flexibility in offering attractive and profitable investment facilities. The inability of a bank to meet its obligations can be an indication of the poor performance of the Islamic bank. When a bank fails to control the FDR level, it can lead to a decrease in customer trust and reluctance to deposit their funds (Aggarwal & Yousef, 2000). Conversely, when a bank's liquidity is high, it attracts customers to deposit their funds in the Islamic bank, thus increasing TPF. This result aligns with the core tenets of agency theory, which emphasize the importance of aligning agent behavior with the interests of principals. In the case of Islamic banking, this means that maintaining a healthy level of liquidity is essential for optimizing TPF. Liquidity ensures the ability to meet depositors' and investment account holders' expectations, contributing to a strong principal-agent relationship. Aryani et al. (2016) suggested that a higher value of the financing-to-deposit ratio corresponds to a lower value of the TPF. A higher ratio indicates a lower liquidity capacity of the Islamic bank. This is because a higher financing-to-deposit ratio indicates an increased risk of problem financing for the bank, and the bank may not have sufficient funds to meet its short-term obligations, resulting in customer disinterest in depositing their funds in the Islamic bank.

However, the results pertaining to Hypothesis 3, examining the relationship between GDP and TPF, offer an interesting nuance. While GDP is a critical economic indicator, it did not exhibit a significant individual influence on TPF in the context of Islamic commercial banks in Indonesia during the specified period. This non-significant relationship may be due to a variety of factors, including the unique principles and mechanisms of Islamic banking, such as the prohibition of interest (*riba*) and the emphasis on risk-sharing (Amaliawiati et al., 2019). Other macroeconomic variables, such as inflation and interest rates, have been found to have a more direct impact on TPF in Islamic banks (Afdal et al., 2021).

5.0 CONCLUSION

In conclusion, the findings of the study indicate that both Size (Total Assets) and Liquidity (measured by the FDR) have a significant impact on the Third-Party Fund (TPF) of Islamic Banks in Indonesia. The bank size (TA), holds significant sway over TPF. It highlights pivotal role that resource abundance and prudent regulatory adherence play in enhancing public trust and confidence. Larger Islamic banks, by virtue of their extensive total assets, are better poised to meet the diverse financial needs of their clientele, offering a secure haven for their funds. Furthermore, it also highlighted the importance of maintaining adequate liquidity levels in Islamic banks to ensure their ability to meet operational needs, fulfil financing demands, and instil confidence in customers.

The result of the study aligns with the agency theory's expectations. Agents with more substantial resources at their disposal are better equipped to effectively serve the interests of their principals (depositors and investment account holders). Since the study is specific to the Indonesian context and may not be directly applicable to other countries or regions with different banking regulations and economic conditions. Future research endeavours should consider a broader range of variables (i.e. ROE, ROA, and Net Profit Margin) and conduct longitudinal analyses to gain deeper insights into the evolving dynamics of Islamic banking in diverse contexts. Finally, this paper suggested bank managers should prioritize strategies that ensure sufficient levels of total assets and enhance liquidity management. By maintaining these favourable conditions, banks can attract more TPF, resulting in their growth and stability.

ACKNOWLEDGEMENTS

We would like to acknowledge every party involved in this research. The completion of this research would not have been possible without the support and assistance of numerous individuals and organizations, to whom we express our deepest gratitude.

REFERENCES

- Abasimel, N. A. (2022). Islamic banking and economics: concepts and instruments, features, advantages, differences from conventional banks, and contributions to economic growth. *Journal of the Knowledge Economy*, 1–28. <https://doi.org/10.1007/S13132-022-00940-Z/METRICS>
- Abbas, F., Ali, S., & Ahmad, M. (2021). Does economic growth affect the relationship between banks' capital, liquidity, and profitability: empirical evidence from emerging economies. *Journal of Economic and Administrative Sciences*, 39(2), 366–381. <https://doi.org/10.1108/JEAS-03-2021-0056>
- Abubakar, A. S., & Aduda, Dr. J. (2017). Islamic banking and investment financing: a case of islamic banking in Kenya. *International Journal of Finance*, 2(1), 66–87. <https://doi.org/10.47941/IJF.42>
- Afdal, Z., Siwi, M. K., Kurniawati, T., & Marwan. (2021). Analysis of the effect of macroeconomic variables on third party funds of sharia banking in Indonesia 2009-2020. *Proceedings of the Seventh Padang International Conference on Economics Education, Economics, Business and Management, Accounting and Entrepreneurship*, 192(Piceeba), 71–77. <https://doi.org/10.2991/AEBMR.K.211117.037>
- Aggarwal, R. K., & Yousef, T. (2000). Islamic banks and investment financing. *Journal of Money, Credit and Banking*, 32(1), 93. <https://doi.org/10.2307/2601094>
- Alamsyah, M. H. (2021). The effect of third-party funds and non-performing financing on the performance of islamic banks (case study at PT Bank Muamalat Indonesia Tbk). *Budapest International Research and Critics Institute-Journal (BIRCI-Journal)*, 4(4), 14103–14116. <https://doi.org/10.33258/birci.v4i4.3513>
- Albaity, M., & Rahman, M. (2021). Customer loyalty towards islamic banks: the mediating role of trust and attitude. *Sustainability*, 13(19), 10758. <https://doi.org/10.3390/SU131910758>
- Albulescu, C. T. (2015). Banks' Profitability and Financial Soundness Indicators: A Macro-level Investigation in Emerging Countries. *Procedia Economics and Finance*, 23, 203–209. [https://doi.org/10.1016/S2212-5671\(15\)00551-1](https://doi.org/10.1016/S2212-5671(15)00551-1)
- Al-Nasser Mohammed, S. A. S., & Muhammed, J. (2017). The relationship between agency theory, stakeholder theory and Shariah supervisory board in Islamic banking: An attempt towards discussion. *Humanomics*, 33(1), 75–83. <https://doi.org/10.1108/H-08-2016-0062/FULL/PDF>
- Al-Shaghdari, F., Hakami, T. A., Bardai, B., & Saleh, A. O. H. (2023). Investigating the parameters influencing islamic banks financial performance: evidence from five Southeast Asian Countries. *Lecture Notes in Networks and Systems*, 488, 29–50. https://doi.org/10.1007/978-3-031-08090-6_2/COVER
- Amaliawiati, L., Hendayana, Y., & Sarumpaet, T. L. (2019). The impact of macroeconomics towards Islamic banking third party funds in Indonesia. *International Journal of Innovation, Creativity and Change*, 6(6), 291–303.
- Aryani, Y., Anggraeni, L., & Wiliasih, R. (2016). Determinant of non-performing financing in Islamic banking Indonesia, 2010-2014. *Al-Muzara'ah*, 4(1), 44–60. <https://doi.org/10.29244/JAM.4.1.44-60>
- Awan, H. M., & Bukhari, K. S. (2011). Customer's criteria for selecting an Islamic bank: evidence from Pakistan. *Journal of Islamic Marketing*, 2(1), 14–27. <https://doi.org/10.1108/17590831111115213>
- Boukhatem, J., & Ben Moussa, F. (2018). The effect of Islamic banks on GDP growth: some evidence from selected MENA countries. *Borsa Istanbul Review*, 18(3), 231–247. <https://doi.org/10.1016/J.BIR.2017.11.004>
- Dusuki, A. W. (2008). Understanding the objectives of Islamic banking: a survey of stakeholders' perspectives. *International Journal of Islamic and Middle Eastern Finance and Management*, 1(2), 132–148. <https://doi.org/10.1108/17538390810880982>
- Ghozali, I. (2018). *Multivariate Analysis Application with IBM SPSS 25 Program (9th ed)* (9th ed.). Undip Press.
- Hassan, A., Sohail, M. S., & Munshi, M. M. R. (2022). Shariah governance and agency dynamics of Islamic banking operations in the Kingdom of Saudi Arabia. *ISRA International Journal of Islamic Finance*, 14(1), 89–106. <https://doi.org/10.1108/IJIF-12-2020-0252/FULL/PDF>
- Hidayah, T., & Tanjung, A. A. (2022). Effect of results and inflation on third party funds in Sharia commercial banks and Sharia business units' period 2011-2020. *International Journal of Science, Technology & Management*, 3(5), 1276–1284. <https://doi.org/10.46729/IJSTM.V3I5.627>

- Indiastary, D., Suprayogi, N., & Indrawan, I. W. (2020). A meta-analysis of the determinant of third-party fund on Islamic banking in Indonesia. *Jurnal Ekonomi Dan Bisnis Islam (Journal of Islamic Economics and Business)*, 6(2), 175–188. <https://doi.org/10.20473/jebis.v6i2.12766>
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305–360. [https://doi.org/10.1016/0304-405X\(76\)90026-X](https://doi.org/10.1016/0304-405X(76)90026-X)
- Jobst, A. A. (2014). Measuring Systemic Risk-Adjusted Liquidity (SRL)—A model approach. *Journal of Banking & Finance*, 45(1), 270–287. <https://doi.org/10.1016/J.JBANKFIN.2014.04.013>
- Ledhem, M. A., & Mekidiche, M. (2020). Economic growth and financial performance of Islamic banks: a CAMELS approach. *Islamic Economic Studies*, 28(1), 47–62. <https://doi.org/10.1108/IES-05-2020-0016>
- Masood, O., & Javaria, K. (2017). Liquidity risk Management and financial performance of Islamic banks: Empirical evidence from global Islamic banks. *Journal of Islamic Financial Studies*, 3(2), 62–70. <https://doi.org/10.12785/jifs/030201>
- Mimouni, K., Smaoui, H., Temimi, A., & Al-Azzam, M. (2019). The impact of sukuk on the performance of conventional and Islamic banks. *Pacific-Basin Finance Journal*, 54, 42–54. <https://doi.org/10.1016/J.PACFIN.2019.01.007>
- Musrifah, F., & Mariana, M. (2022). Effect of profit sharing, size, FDR, and BI 7-day repo rate on third party fund collection of Islamic commercial banks in Indonesia in the 2014-2019 period. *Jurnal Bina Akuntansi*, 9(1), 37–55. <https://doi.org/10.52859/JBA.V9I1.195>
- Novitasari, M., Aviyanti, R. D., Adiba, W., & Ismail, W. (2022). The role of third-party funds on the effect of intellectual capital and zakat performing ratio on firm performance in Islamic banks. *Journal of Islamic Accounting and Finance Research*, 4(2), 283–300. <https://doi.org/10.21580/JIAFR.2022.4.2.11890>
- OJK. (2022). *OJK: Sharia Banking Performance Shows Better Performance Than Conventional Banks*. <https://bisnis.tempo.co/read/1743016/ojk-kinerja-perbankan-syariah-tunjukkan-performa-lebih-baik-ketimbang-bank-konvensional>
- President of Republic Indonesia. (1992). *Indonesian Law No. 7 Year 1992*.
- Priyadi, U., Utami, K. D. S., Muhammad, R., & Nugraheni, P. (2021). Determinants of credit risk of Indonesian Shari'ah rural banks. *ISRA International Journal of Islamic Finance*, 13(3), 284–301. <https://doi.org/10.1108/IJIF-09-2019-0134/FULL/PDF>
- Purwohandoko, P., & Iriani, S. S. (2021). Effect of gross domestic product, liquidity, size, growth, capital adequacy ratio, and inflation on financial performance. *Equilibrium: Jurnal Ekonomi-Manajemen-Akuntansi*, 17(1), 46. <https://doi.org/10.30742/EQUILIBRIUM.V17I1.1423>
- Rabbani, M. R., Ali, M. A. M., Rahiman, H. U., Atif, M., Zulfikar, Z., & Naseem, Y. (2021). The response of Islamic financial service to the COVID-19 pandemic: The open social innovation of the financial system. *Journal of Open Innovation: Technology, Market, and Complexity*, 7(1), 85. <https://doi.org/10.3390/JOITMC7010085>
- Riauwanto, S., & Sulastiningsih, S. (2020). The influence of total assets and banking profit sharing on the volume of third-party funds (TPF) in Sharia commercial banks. *Jurnal Riset Manajemen Sekolah Tinggi Ilmu Ekonomi Widya Wiwaha Program Magister Manajemen*, 6(2), 131–146. <https://doi.org/10.32477/JRM.V6I2.19>
- Rouetbi, M., Ftiti, Z., & Omri, A. (2023). The impact of displaced commercial risk on the performance of Islamic banks. *Pacific-Basin Finance Journal*, 79, 102022. <https://doi.org/10.1016/J.PACFIN.2023.102022>
- Saiti, B., Abdul Wahab, H., & Ahmad, K. (2017). Contracts, structures, and computation mechanisms of Islamic bank retail financing products: A critical assessment. *Islamic Banking*, 81–125. https://doi.org/10.1007/978-3-319-45910-3_5
- Saivasan, R., & Lokhande, M. (2022). Influence of risk propensity, behavioral biases and demographic factors on equity investors' risk perception. *Asian Journal of Economics and Banking*, 6(3), 373–403. <https://doi.org/10.1108/AJEB-06-2021-0074>
- Sathyamoorthi, C. R., Mapharing, M., & Dzimiri, M. (2020). Liquidity management and financial performance: Evidence from commercial banks in Botswana. *International Journal of Financial Research*, 11(5), 399–413. <https://doi.org/10.5430/ijfr.v11n5p399>

- Septiatin, A. (2022). Influence of third party funds, BI rate, inflation on market share in Islamic banking. *Al-Masharif: Jurnal Ilmu Ekonomi Dan Keislaman*, 10(1), 1–16. <https://doi.org/10.24952/MASHARIF.V10I1.5706>
- Shi, Z., Qin, S., Chiu, Y. ho, Tan, X., & Miao, X. (2021). The impact of gross domestic product on the financing and investment efficiency of China's commercial banks. *Financial Innovation*, 7(1), 1–23. <https://doi.org/10.1186/S40854-021-00251-3/FIGURES/6>
- Sugiyono. (2021). *Quantitative, Qualitative, and R&D Research Methods* (3rd ed.). Alfabeta. <https://opac.perpusnas.go.id/DetailOpac.aspx?id=1543971>
- Susianti, N., Hasanah, U., Awwalunnisa, N., & Irwan, M. (2022). Determinants of increasing the number of third-party funds in Shariah banking. *International Journal of Health Sciences*, 6(S8), 1965–1976. <https://doi.org/10.53730/IJHS.V6NS8.12528>
- Tripathi, A., Dixit, A., & Vipul, V. (2020). Liquidity of financial markets: a Review. *Studies in Economics and Finance*, 37(2), 201–227. <https://doi.org/10.1108/SEF-10-2018-0319/FULL/PDF>
- Yahaya, A., Mahat, F., M.H, Y., & Matemilola, B. T. (2022). Liquidity risk and bank financial performance: an Application of system GMM approach. *Journal of Financial Regulation and Compliance*, 30(3), 312–334. <https://doi.org/10.1108/JFRC-03-2021-0019/FULL/PDF>