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# Analysis BI Rate and Return of Third Party Fund On Rate of Third PartyFund onIslamic Banking in Indonesia

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## Abstract

The concept of Sharia banks is different with interest-based conventional banks. Profit sharing system in the Sharia banks has unique characteristics because it must always be submissive and obedient to the rules and principles of sharia. This has implications for the entire activities ofSharia banks, Sharia banks will thus experience the risks caused by its activities. Depositors entrust their funds for Sharia banks to be managed by the bank so that it will generate a return for the depositor and the bank. Therefore, Sharia banks should be run in a professional manner so as to maintain the loyalty of its customers and is able to provide a return that is generally competitive. The objective of this research is to examine the influence Return of the Third Party Funds (Return of TPF) and the BI rate on the rate of Third Party Funds (Rate of TPF).

This research is an explanatory research using path analysis model and census technique on Sharia Business Board (SBB) in Indonesia. data used in this research is a secondary data derived from historical data of Islamic banking from the data obtained through the official website of Bank Indonesia in the period of 2010 - 2012.

The results of this research indicate that: 1) BI rate significantly influences Return of Third Party Funds resulting in p-value <0,01 with the direction of a negative relationship, 2) Return of Third Party Funds significantly effects on the rate of Third Party Funds with the direction of positive relationships, and 3) BI rate significantly negative effect on the rate of Third Party Funds.

Keywords: Islamic Bank, BI Rate, Return, TPF (Third Party Funds)

## Abstraksi

Konsep bank syariah berbeda dengan bank konvensional berbasis bunga. Sistem bagi hasil dalam bank syariah memiliki karakteristik yang unik karena harus senantiasa tunduk dan patuh kepada ketentuan dan prinsip syariah. Hal tersebut berimplikasi kepada seluruh kegiatan bank syariah, sehingga bank syariah akan mengalami risiko-risiko yang disebabkan oleh aktivitasnya. Deposan menitipkan dananya ke bank syariah untuk dikelola oleh bank sehingga akan menghasilkan return bagi deposan dan bank. Oleh karena itu bank syariah seharusnya dijalankan secara profesional sehingga dapat menjaga loyalitas nasabahnya dan mampu memberikan return yang kompetitif. Penelitian ini secara umum bertujuan untuk menguji pengaruh return Dana Pihak Ketiga (DPK) dan BI Rate terhadap tingkat Dana Pihak Ketiga (DPK).

Penelitian ini merupakan penelitian eksplanatori (Eksplanatory Research) dengan mode analisis jalur (path analysis) dan teknik sensus pada Badan Usaha Syariah (BUS) di Indonesia. Data yang digunakan dalam penelitian ini adalah data sekunder yang berasal dari data historis perbankan syariah yang diperoleh dari data Bank Indonesia melalui website resminya pada periode tahun 2010-2012.

Hasil penelitian ini menunjukkan bahwa: 1) BI Rate berpengaruh signifikan terhadap RDPK dengan p-value yang dihasilkan<0,01 dengan arah hubungan negatif, 2) Return Dana Pihak Ketiga berpengaruh signifikan terhadap Tingkat Dana Pihak Ketiga dengan arah hubungan positif, dan 3) BI Rate berpengaruh negatif dan signifikan terhada ptingkat Dana Pihak Ketiga.

Kata kunci: Bank Syariah, BI Rate, Return, DPK

## Background

Bank growth is strongly influenced by the public trust. Islamic bank started to establish in Indonesia in 1992 with the advent of Bank Muamalat and continue to show progress in national banks. The number of bank conducting business based on sharia principles increased to 11 Sharia Business Board (SBB), 24 Sharia Business Unit (SBU) and 155 Sharia Rural Banks (BPRS). (BI, 2012).

Sharia bank is a financial institution which core business provides credit and other services in payment traffic and money supply adjusted to the operating principles of sharia (Sudarsono, 2007). Funds under the management of Sharia banks will be used for Sharia

investment which should be in accordance with Islamic law. Islamic economic principles do not allow investments containing elements of maysir, gharar and riba (Siddiqui, 2008), even the investment of customer funds was restricted to halal (legitimate according to Islamic law) businesses. Islamic investment principles are done in the hope that banks can make investments without violating religious norms (Prabowo, 2009).

Sharia Bank operating on the profit sharing principle provides an alternative banking system that is mutually beneficial for the public and the banks, as well as the advanced aspects of fairness in trade, ethical investment, the values of togetherness and brotherhood in production, and avoids speculative activities in financial transaction. Sharia banks apply the principle of profit sharing as raise public funds through savings and deposits. Sharia banks apply the principle of wadi ah and mudaraba (partnership) in distributing customer funds. Investment results of their customers will be calculated based on the profit sharing ratio between the bank and its customers, which is also known as nisbah. Sharia banks will share the profits of the investment of customer funds based on a predefined ratio. This has resulted in investment in Sharia banks can not be determined ahead. Although there is uncertainty in the results of investments in Sharia banks, customers were still able to invest in peace because of reports management and accountability reports submitted an Islamic bank as open as that carried out by the conventional banking.

Sharia banks investments are in several products, including: mudaraba deposits similar to time deposits in conventional banks. Profit calculation of mudaraba deposits is not derived from interest alone, but it is more to the financing performance done by the bank. The greater bank profit is obtained from the distributed financing, the greater the deposit yields will be obtained and vice versa.

Depositors in Sharia banks are grouped into three distinct segments, namely (1) theShari'ah Driven, (2) Profit Driven and (3) Transaction Driven (Ismal, 2010). Sharia driven is those who become customers based on their belief in the sharia principles and values, and they will never become customers of conventional banks Profit driven is a group of people who are largely motivated by profit to ignore the position of the bank Sharia with conventional banks. They decide to add to their fund based on the interest rate of SBI and even would close the Islamic account if the return is received less than expected or less than thereturn interest rate. Transaction driven is a segment of people who deal with the bank for transaction purposes. They are savers who will dilute the Mudarabah deposits to meet the needs of ordinary transactions and hold two liquidities (current accounts and savings) in sharia and conventional banks without any intention of turning to profit.

Information obtained from the research of Ismal (2010) formulates several important points. Firstly is there are three main motivations of customers in opening accounts in Sharia banks aiming religious, profit, and transaction motive. All of these motivations jointly affect the mindset of people when they decide to become customers of sharia banking.

Sharia Bank needs to manage deposits withdrawal well in order to optimize the depositors funds in the financing of their portfolio. Depositors withdraw their money if: Sharia banks do not generate revenue from their financing, interest rates rise, and total deposits tends to decrease. Thus, Sharia banks must anticipate withdrawal behavior by two actions: reservation of certain liquidity and adjustment of sharing return ratio to depositors (Ismal, 2011). Therefore Sharia banks should establish appropriate policies to understand the behavior of their depositors in withdrawing their money.

Decision to invest is influenced by rational behavior. Based on the neoclassical theory, rational behavior is faced with the choice to get maximum utility, based on the principle of rational choice (Zavirovski, 1998; Mangos and Lewis, 1995; Kalmeman D, 1991; Hogarth, 1987; Etzioni, 1986 and 1988; March, 1978 ; Becker, 1976;, and Weber 1968). The principle of rational choice is implemented into a rational action (Koppl, R and Whitman, DG, 2004).

According to neo-classical theory which states that rational action leads to material benefits or maximum utility (Etzioni, 1986), rational choice theory (Meyer, 1983; Etzioni, 1986 and 1988; Yang and Lester, 2008) and decision making (Meyer, 1990) investment decision makers always have rational principles. Investment activities of Sharia bank products also have rational principles by considering the most profitable option.Etzioni (1988) argued that neo-classical economic view explains that rational human behavior affects the desire to choose that will affect the act of decision-making.

In accordance with any investment decision, depositors are free to choose to store their excess funds in a variety of banking alternative options. This is based on profits according to the understanding of the financial mechanism of the obtained information (Rammal, Hussain G; and Zurbreugg, Ralf, 2004).

Prather (2006) in Scholten used decision making theory based on neoclassical theory to support his opinion that the decision was taken to produce performance. In other words, decision makig theory h as

argued that the decision was taken to produce utilities that can be predicted from its outcome. Decision-making based on rational choice assumes that the actions were taken in the competitive environment (Hogarth, 1987). Rational choice model combines between the confidence of probabilistic estimation and various preferences (utility) to achieve optimal decision (Kahnemnan, D; Tversky, A, 1979). The neo-classical decision focuses on rational choice to optimize results (Kalmeman, 1991) (Hogarth, 1987).

In relation with the interest rate, one of the considerations of the depositors in adding funds (other than the return) is the central bank interest (BI rate). The effect of interest rate is, for a small group of customers (profit-driven), it will even encourage them to shift their deposits from Sharia banks to conventional banks if the interest rate is more profitable or get out of the Sharia banks permanently if return sharing is less than the interest (Ismal 2010).

As previously disclosed that depositors entrust their funds to Sharia banks to be managed by the bank so that it will generate a return for the depositor and the bank. Therefore, Sharia banks should be run in a professional manner so as to maintain the loyalty of its customers and is able to provide competitive returns.

Based on the above background, the problem statement can be formulated tested in a statement:

1. Does BI rate effect on the return of Third Party Funds (Return of TPF)?
2. Does the returnof Third Party Funds (Return of TPF) effect on the rate of Third Party Funds (Rate of TPF)?
3. Does BI Rate effect on the rate of Third Party Funds (Rate of TPF)?

## Theory and Hypothesis Development

This research is an extension of Neo-classical economic theory assumes that humans are "homo economicus" or "rational man", man who always behave rationally and want to maximize utility (gain benefit) (A. Etzioni, 1986). Furthermore, Etzioni (1988) argued that neo-classical economic view explains that rational human behavior affects the desire to choose that will affect the act of decision-making. This research is used as a grand theory of investment theory and supported by a rational decision.

Investment is putting or adjusting the asset, either property or funds on something that is expected to deliver results or revenues will increase in value in the future (Pontjowinoto, 2003). Investment is determined by several variables including the expected profit on a project, income and economic conditions (Ali Way, in Prabowo, 2009). Investment decisions concern the future that contains an element of risk for

investors. Investment is the decision to postpone the consumption of resources or of income in order to enhance the ability to add or create value of life (income and wealth) in the future. Investment decisions are rational decision, tools/ certain criteria are used in practice to decide whether the investment plan is accepted or rejected. Basically, analysis of investment plans is a research on whether or not a project (either large or small) can be implemented successfully, or a research method of a business idea / business about the possibility of whether or not a business idea / business is conducted.

According to classical theory, savings is a function of the interest rate where its movements in the economy will affect savings. That is, people's desire to save money is very dependent on the interest rate. The higher the interest rate, the greater people's desire to save or people will be compelled to sacrifice their public expenditure to increase the amount of savings. So according to classical opinion, interest rate is remuneration received by a person for saving / storing money or gifts received by a person for delaying his consumption.

Investment is also a function of the interest rate. The higher the interest rate, the smaller the public's willingness to invest. That is because the expected benefits of the investment will be relatively smaller than the interest rate. Conversely, if the interest rate is low, the relative benefits of investment to the paid interest rate will be large so that the investment will increase.

Islamic economic system encourages investment to reduce poverty and improve income by utilizing productive assets (Prabowo, 2009). In Islam, investment is determined by several variables including the expected profit on a project, income and economic conditions (not by an interest rate which is known in conventional economic theory). Investment decisions for an investor are regarding the future that contains uncertainty, which means that it contains an element of risk for investors. Knowledge of risk is an important thing possessed by any investors or prospective investors.

Sharia Bank is interest-free banks based on the concept of profit sharing. This concept uses mudaraba and Musharaka criteria which gain or loss (risk) will be distributed fairly to the parties involved. Similar theory of Qureshi (1974), Uzair (1978) and Siddiqi (1983) illustrated that profit sharing becomes the main characteristics of Islamic banking financing operations. The absence of interest and adoption of revenue sharing in banking will contribute towards the distribution of more balanced and equitable wealth and income, and will increase the participation of capital investments in the economy (Chapra, 1982).

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Mudaraba and Musharaka contract are seen as a belief (fiduciary contracts / 'Uqud al-trust) in the literature of jurisprudence, where honesty is flawless and justice is seen as an absolute obligation. Each partner should act like a man who believe in the interests of the partnership and any deceptive efforts and efforts to get a revenue share dishonestly are clear violation of the teachings of Islam.

Interest rate has a close relationship with inflation and banking. Bank Indonesia (BI), as a monetary supervisor and manager authority take monetary policy to create monetary stability. BI uses instruments of interest rates to suppress inflation. Interest rates are expected to absorb excess liquidity in order to fit the needs of the real economy. The determination of high interest rates will be able to absorb the excess liquidity so that it can control the amount of primary money.

BI rate is the policy of interest rate that reflects the attitude or stance of monetary policy set by Bank of Indonesia and announced to the public (BI web, 2010). BI rate is announced by the Board of Governors of Bank Indonesia every monthly meeting of the Board of Governors and implemented on monetary operations conducted by Bank of Indonesia through the management of liquidity in the money market to achieve the operational target of monetary policy.

BI made the announcement of an auction held sharia SBI or SBI. The banks will use BI rate as the interest rate benchmark to offer funds / money absorbed by BI. So BI is just as reference rate. After the bank offers the amount of money that BI will take (buy SBI) including interest rate requested by each bank and its time period, the central bank decides the amount of fund that will be absorbed and the amount of interest rates that will be given.

BI Rate is heavily influenced by economic factors. Bank of Indonesia will increase BI Rate if the expected future inflation is above the target that has been set, otherwise Bank Indonesia will lower BI rate when inflation is expected to be below the established target. One of the policies taken by the BI in addressing the money supply in order to obtain a balance between supply and demand for money is interest rates. The Government will reduce the money supply by raising interest rates, due to the high interest rates of the people or customers which will tend to save their money in the bank in return for a relatively high and more secure rate of interest. In addition to money demand in Indonesia, besides being influenced by nominal income it is also influenced by interest rates because Indonesia has not fully embraced the sharia system.

If the value of the interest rate (BI Rate) is high, the interest granted by BI to the conventional banks which put their funds there will also be high and the bank will save more money. Thus the bank will try to withdraw more funds from customers or people so that they can also deposit their large amounts of funds in BI. Bank draws customers or people's interest with higher interest rate.

The development of sharia banking can be seen from the growth indicators. Some Islamic banking indicators are assets, third-party funds (TPF), and credit (Malik, 2007). Third Party Funds (TPF) is obtained from the public funds in the form of savings, current accounts and deposits. It is according to Bank of Indonesia Regulation 10/19/PBI/2008 that explains "bank deposits, hereinafter referred to as bank deposits are liabilities to residents in rupiah and foreign exchange". Generally, the funds raised by banks from the public will be used to finance real sector activities through credit (Warjiyo, 2005)

The funds raised from the public (Third Party Fund) proved to be the biggest source of funds most relied upon by the bank (can reach 80% - 90% of all funds managed by the bank) (Dendawijaya, 2005).

## Theoretical Framework

Sharia banks are projected as the profit sharing banks that combine the concept of investment banks with commercial banks. Sharia banks as an investment bank will be indicated by the financial instruments herein which are based on the agreement/contract of mudaraba and Musharaka. Mean while, as commercial banks, Sharia banks are indicated by its operational activities through fund collection and distribution as the usual banking products.

As investment banks, Sharia banks will face a special / unique treatment as financial instruments will be determined by the contract used. It deals with the provisions of the Sharia and contract applications in banking activities. While as commercial banks, asset structure and liability of banks will create other risks as faced by other banks. Through its operations, banks will face risks related to the status of bank relationships with their customers. If the conventional bankings build their relationships with customers via creditors - debtors scheme, Sharia banks will also establish the relationship through entrepreneurial - investor scheme based on partnership pattern created between the bank and its customers.

This research process is built in the conceptual framework of the research to clarify the relationship of variables which will be studied and theoretical support for the development of research models. The grand theory in this research is the theory of investment. Markowitz (1952) and his portfolio theory, humans invest in low risk and high returns.

## Hypothesis Development

The decline in interest rates by Bank Indonesia (BI rate) is expected to boost the position of Third Party Funds (TPF) of Sharia banks. BI expect further migration of funds from conventional banks to Sharia banks. Director of Islamic banking, Ramzi A Zuhdi said that: "Normally, in general if BI rate drops, Third Party Funds (TPF) of conventional banks will run into Sharia banks ". Furthermore, Ramzi (2009) explains that logically speaking, if conventional bank lower its benchmark interest rate in accordance to BI rate, there will be breakout funds to sharia banking because the people who need funds will not be willing to get high interest rate (Purnomo, 2009) .
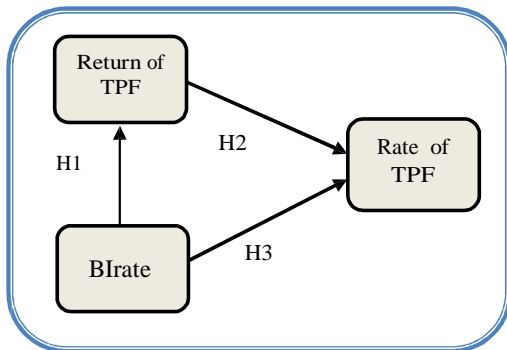
Under the conditions of high BI rate, Sharia banks are not allowed to raise murabaha financing tariffs which have been running since the beginning of the agreed maximum financing agreement. In this condition Sharia banks are faced with uncompetitive risk of profit sharing to third party funds (Sudarwanto, 2011). Performers must expect investment income over a number of investments that have been or will be invested which are referred to as the expected rate of return. After the expected rate of return is calculated, then investors will take into account a reasonable rate of return over the investment instrument. If the expected rate of return is greater than the minimum rate of return required by investor (required rate of return) then the investment is feasible. Vice versa, if the expected rate of return is less than the required rate of return, the investment should not be done.

Hypothesis 1: BI Rate effects on the return of Third Party Funds (TPF)

Hypothesis 2: Return of Third Party Funds (TPF) effects on the rate of Third Party Funds (TPF)

Hypothesis 3: BI rate effects on the rate of Third Party Funds (TPF)

## Empirical Research Model



## Research Methodology

This research is anExplanatory Research model with path analysis. Data used in this research is a secondary data derived from historical data obtained from the sharia banking data obtained from Bank Indonesia on sharia banking and historical data in the form of periodic financial reports of Sharia banks from the period 2010-2012. Research is conducted on Sharia Public Banks (BUS) which consists of PT. Bank SyariahMuamalat Indonesia (BMI), PT. Bank SyariahMandiri (BSM), PT. Bank Syariah Mega Indonesia, PT. Bank Syariah BRI, PT. Bank SyariahBukopin, PT. Bank PaninSyariah, PT. Bank Victoria Syariah, PT. BCA Syariah, PT. Bank of West Java and Banten, PT. Bank BNI Syariah and PT. MaybankSyariah Indonesia.

This research uses secondary data time series derived from the financial statements of Sharia banks issued by BI in its official website. Main data is obtained through sharia banking statistics published by Bank of Indonesia and reported regularly (monthly) and the data of Islamic Bank Financial Statements . Types of reports used include Balance Sheet, Income Statement, Statement of productive Assets Quality, Calculation of Capital Adequacy and Financial Overview. Data is taken from 2010-2012.This research used path analysis to test its hypothesis by using analysis tools of WarpPLS2.0.

## Results and Discussion

This chapter explains and describes the process of data screening that is the description of data, data quality testing and analysis of data. This chapter also discusses the descriptive statistics variables used, then hypothesis is tested using path analysis with WarpPLS2.0 program.

Descriptive analysis consists of data description of the research object. Testing of model conformance test measurement is through confirmatory factor analysis and data analysis is in the form of path analysis which is processed by using WarpPLS2.0 program.

The financial statements data of Sharia banks (BUS) are gained as much as 372 monthly data from 11 Sharia banks (BUS). Table 4.1 shows that the 3 years of data from each Sharia bank (BUS) can only be obtained fully in 6 BUS, namely PT. Bank SyariahMuamalat Indonesia (BMI), PT. Bank SyariahMandiri (BSM), PT. Bank Syariah Mega Indonesia, PT. Bank Syariah BRI, PT. Bukopin and PT Bank Syariah, and Bank PaninSyariah. While the rest, PT. Bank Victoria Syariah, PT. BCA Syariah, PT. Bank of West Java and Banten, PT. Bank BNI Syariah, and PT. MaybankSyariah Indonesia 3 years of data can

not be obtained because they are new banks or split off from UUS into BUS in 2010. While the data monthly reports that can be obtained in this research is not complete for all three years from 2010 to 2012, but there are some banks that 2010 which data could not be obtained because they have not started their operation yet.

Overall amount of data that is processed as much as 124 which consists of 11 Sharia Business Bureau (BUS). 12 (9.7%)data quarterly, each is obtained from PT. Bank SyariahMuamalat Indonesia (BMI), Bank SyariahMandiri (BSM), PT. Bank Syariah Mega Indonesia, PT. Bank Syariah BRI, PT. Bukopin and PT Bank Syariah, and Bank PaninSyariah, obtained from 36 monthly financial reports data. While 11 (8.9%)data quarterly is obtained from PT. Bank Victoria Syariah, PT. BCA Syariah and PT. Bank JabarBanten, obtained from 33 and 32 monthly financial report data. PT. Bank Shyariah BNI provides 10 (8.1%) data quarterly obtained from 31 monthly financial reports data. And PT. MaybankSyariah Indonesia provides the 9 (7.3%) data quarterly obtained from 27 monthly financial reports.

## Description of Statistics

Descriptive analysis is a way of describing problems based on the data held in a way to organize such data that it can easily be understood its characteristics, is described and is useful for the following purposes. The following table presents the descriptive statistics for all variables used in this research.

### Descriptive Statistics of Research Variables

| Variabel | Minimum | Maximum | Range | Mean | Std. Deviasi |
|---|---|---|---|---|---|
| Return of TPF | Rp. 194 | Rp 1.965.457 | Rp. 1.965.263 | Rp. 230.000 | Rp. 379.386,349 |
| Sensitivity of BI Rate | - 294 | 15 | 309 | -39,63 | 60,313 |
| Rate of TPF | Rp. 27.831 | Rp. 50.000.000 | Rp. 49.927.169 | Rp. 7.770.000 | Rp. 11.580.000 |

Sources: processed secondary data, 2013

Descriptive analysis of the results which can be seen in the table above, it can be seen that for the Third Party Fund (Return of TPF) variable has a minimum value of 194, the maximum value of 1,965,457, had an average (mean) and standard deviation of 230,000 and 379,389.3. Sensitivity of BI Rate variable has a minimum value of -294, the maximum value of 15, had an average (mean) of 309 and a standard deviation of 60.313.Variable Rate of Third Party Fund (Rate of TPF) has a minimum value of 27 831, the maximum value of 50,000,000, had an average (mean) of 7.77 million and a standard deviation of 11.58 million.

## Return of Third Party Funds

Data Screening indicates that the number of returns received by the third-biggest party given by PT. Bank SyariahMandiri (BSM) is Rp. 5,404,864 (in millions of rupiahs) in the December 2012 trimester report. While return with the lowest amount awarded by PT. Bank PaninSyariah is Rp. 326 (In millions of dollars) obtained in the period March 2010 trimester.While the average (mean) return deposits amounted to 591 000 and a standard deviation of 1,015,722.085. If TPF return data will be grouped into high and low with the benchmark average of (mean) DPK return . It will be grouped in low TPF return if less than the average of 591.000 and included high if more than 591 000. Of the 11 analyzed Sharia Business Board(SBB) 110 (88.3%) data can be categorized as low, while the rest of the 14 (11.7%) data is included in the group of High TPF return.

## BI Rate Sensitivity

This study measured the size of the BI Rate Sensitivity BI Rate, ie BI Rate Sensitivity to Return Deposits (RDPK). B value of BI Rate to Return Deposits (RDPK) were used to measure the sensitivity of BI Rate. Sensitivity BI Rate to Return Deposits (RDPK) has minimum value of β -294, 15 with a maximum range of 309 and an average of -39.63. The result of the calculation is almost all of them have a negative β value is as much as 117 events (94.4%), and only 7 events (5.6%) who has positive β value as shown in the table below.

### BI Rate Sensitifity Frequency Data

| BI Rate Sensitivity | Frequency | Percentage |
|---|---|---|
| β positif | 7 | 5,6 % |
| β negatif | 117 | 94,4 % |
| Total | 124 | 100 % |

Sources: processed secondary data, 2013

Negative β of 94.4% indicates that the relationship between the BI rate to Return Deposits (RDPK) the majority are negative. This means that if the BI rate increased then the Return Deposits (RDPK) will decrease.

## Rate of Third Party Funds

The data of third party fund rate is obtained from the amount of public funds in Sharia Business Board (SBB) either by wadiah or mudharabah contract obtained from the balance sheet on the liabilities of each Sharia Business Board (SBB). Data of third party fund rate variable is obtained from the overall amount of wadiah deposits and unbound investment (Mudaraba Muthlaqah) obtained from the balance sheet collected from the bi.go.id website. Monthly data

from 11 Sharia Business Board (SBB)are obtained to 372 monthly data, but the used data is trimester data in order to obtain 124 trimester data.

Screening of 372 data indicates that the amount of of the largest third party fund rate owned by PT. Bank SyariahMandiri (BSM) is Rp. 46,687,969 in December 2012 report. Meanwhile, the rate of third-party funds with the lowest number is owned by PT. Bank Victoria Syariah is Rp. 12,070 contained in the period of January 2010. While the average ( mean ) rate of TPF is 7.770.000 and a standard deviation of 1 1.58 0000. When grouped according to high and low rates of TPF with the benchmark above or below the average (7.770.000) which includes the low-rate TPF by 93 (75%) and that includes a high rate of TPF by 31 (25%).

Measurement Model Testing

Confirmatory factor analysis includes two models, model conformance and loading factor significance tests. The test of the measurement model conformance is intended to evaluate the goodness of fit. Measurement model is demonstrated through indices of goodness of fit. While loading factor significance tests aim to evaluate whether an indicator which can be used to confirm together with other indicators explain a latent variable (construct). Testing Results of confirmatory factor analysis is with PLS2.0 Warp program which is shown completely in the output below:

General SEM analysis results

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* General SEM analysis results
********************************
General project information
--------------------------------------------------------
Model fit indices and P values
--------------------------------------------------------
APC=0.362, P=<0.001
ARS=0.447, P=<0.001
AVIF=1.018, Good if < 5
General model elements
-----------------------
Algorithm used in the analysis: Warp3 PLS regression
Resampling method used in the analysis: Bootstrapping
Number of data resamples used: 100
Number of cases (rows) in model data: 124
Number of latent variables in model: 3
Number of indicators used in model: 3
Number of iterations to obtain estimates: 2
```

Sources: processed secondary data, 2013

From the above general output result, it can be seen the model has a good fit, where the value of the P value for the average Path Coefficient (APC) and average R-Square (ARS) <0.05. Similarly, the value of Average Variance Inflation Factor (AVIF) produced is 1.018 <5 which indicates that there is no multicolonierity problem among the independent (exogenous) variables. Thus the assumption of

structural equation model which should be free from multicolonierity is fulfilled. As the summary of the results of the data testing and multicolonierity, it shows that the data of this research meet the assumptions required by the data analysis using structural equation models. It can be seen that the number of iterations for this model is done 2 times. Measurement model test result shows that the model has a good fit. Thus the findings obtained from the model in this research is correct.
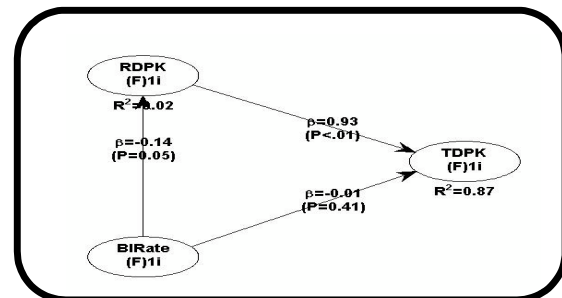
Hypothesis Testing

Hypothesis testing is done by the analysis of the value of a standardize regression weight (regression coefficient) which were estimated from structural equation models. The criteria used were null hypothesis is accepted if the value of CR <t-table or a significance rate is greater than 0.05 (p> 0, 05), and vice versa research hypothesis is accepted if CR> t-table or probability values below 0.05 (p <0.05) [Hair et al, 1998]. T-table value for a significance rate of 0.05 (p = 0.05) is $\pm$ 1.96.

Based on the output path coefficient and p-value, it can be seen that BI Rate has significant effect (with significance extent of 10%) to Return of TPF with the resulting p-value <0. 1 0 and the value of the path coefficient of -0.143 with the negative direction of the relationship. This means that if BI rate increases, return which will be distributed to the owners of third party fund will decrease.

BI Rate has no effect on TDPK with the resulting p-value of 0. 406 > 0.05, and the value of the path coefficient of - 0,9 with the negative direction of the relationship. While Return of Third Party Fund (Return of TPF) significantly affects to Rate of Third Party Fund (Rate of TPF) with a p-value generated is <0,001 and the value of the path coefficient of 0,933 with the direction of the negative relationship. This means that if the BI rateincreases, the return which will be distributed to the owners of third party fund will decrease. Results of the path analysis can be seen in the image below:

Output Path Analysis



Sources: processed secondary data, 2013

Summary of Hypothesis Testing Results

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| Research Hypothesis | | Conclusion |
|---|---|---|
| H1 | BI rate effects on the return of Third Party Funds | Significant **) |
| H2 | Third Party Fund Return effects on the rate of Third Party Fund | Significant *) |
| H3 | BI rate effects on the rate of Third Party Funds (TPF) | Not Significant |

*): Significant Rate of 1%

**): Significant Rate of 10%

Sources: processed secondary data, 2013

### Latent Variable coefficient
### R-Square coefficients

| Return of TPF | BI Rate | Rate of TPF |
|---|---|---|
| 0,020 | | 0,873 |

Sources: processed secondary data,2013

Based on the output results the value of R-Square is obtained for Rate of TPF is at 0,873 which means that the influence of the Return of TPF variables and BI Rate is amounted to 87,3% and the remaining is 12,73% influenced by variables outside the model in this research. Furthermore, the value of R-Square to Return of TPF is 0,02 (2%) which means that BI Rate influence to Return of TPF is only 2%.

Therefore, because the indicators of latent constructs are formative it is not necessary to test the construct reliability, Cronbah Alpha, and AVE value. Latent constructs with formative indicators are seen whether the indicators are statistically significant and the amount of R Square value.

### Variance of inflation factors

| | Return of TPF | BI Rate | Rate of TPF |
|---|---|---|---|
| Return of TPF | | | |
| BI Rate | | | |
| Rate of TPF | 1,018 | 1,018 | |

Based on the output results obtained above, VIF value is of 1, 018 for Return of TPF variables and 1,018 for variables of BI Rate. The Overall results mean that there is no correlation among independent variables because each VIF value is less than 10.

The research findings are discussed in the perspective of the theories underlying the research, the findings of previous researches and additional analysis. The argument is based on the results of research in addition to hypothesis testing, also performed with in-depth analysis of the theory and also supported by the results of previous researches. This is done to strengthen the reason, whether the hypothesis is accepted or not, so as to explore a wider research findings.

### Effect of BI Rate on Return of Third Party Funds

Empirical evidence of the research results support the first hypothesis which states that BI Rate h as significant effect (at 10% significance rate) to Return of TPF with the resulting p-value <0,10 and the value of the path coefficient of – 0,143 with the negative direction of the relationship. This means that if the BI rate increases, return which will be distributed to the owners of third party fund will decrease. Results of hypothesis testing state that the significance of each regression coefficient is in Table below.

### Significance and Regression Coefficients

| Relationship | Significance | Regression coefficient |
|---|---|---|
| BI Rate to Returnof TPF | 0,054 | - 0,143 |

Sources: processed secondary data, 2013

With a significant rate of 10% it can be said that BI Rate effect on the Return of Third Party Funds is prove. Negative regression coefficient indicates that the higher the BI rate, the lower the returns are distributed by Sharia banks to the owner of the third-party funds.

The results of this research is not in accordance with the research of WahyuPurnamahadi (2011) which states that the amount of deposits is significantly affected by inflation and interest rates on deposits (Purnamahadi, 2011). While deposit rates are set to follow the BI rate. In Purnamahadi research (2011) it is stated that the deposit interest rate has a positive effect on the amount of deposits. This result is also not in accordance with the research of Arudina and Wibisono (2007) who did a research on the "Impact of the conventional interest rate on returns and TPF of sharia banking in Indonesia," which is found that the positive effect of the interest rate on return or of Sharia bank deposits. Then Mawardi (2008) conducted a research on "the factors that effect on the determination of the return on profit sharingfor mudharabahmutlaqohdeposits." A conclusion is drawn that conventional deposit interest rates have a significant effect on determining profit sharing return for mudharabahmutlaqoh deposits.

It can be concluded that BI rate effects on the return of Third Party Funds (TPF) on sharia banking in Indonesia. The negative sign on the regression coefficient means that if the BI rate rises, the return distributed to the owners of Third Party Funds tends to fall.

Reality obtained according to the theory of interest, the profit sharing is a substitution if the given profit sharing increases, thus the volume of mudharabah deposits will also increase and vice versa. If the given profit sharing decreases, the volume of mudharabah deposits decreases. It shows that the volume of the results given by BMI is not the main purpose of the people in saving funds in BMI but because of religion that they want the money they save

can be managed in accordance with sharia principles and the clarity of the allocation of funds is the reason for joining to become sharia bank customers. Another influencing factor is from the non-financial side that touches the emotions of customers such as quality of service, accessibility, or easiness to reach and the ease of other transactions that may be provided by the concerned bank. The reason of the above factors is obtained from the results of a previous research by the Sharia Banking Directorate of Bank of Indonesia with Bogor Institute in 2004 and in 2003, Muhammad Ghafur stated that these factors are reasons why people choose to save their money, either at Sharia banks or not, it is not affected by the motive to get return of profit sharing, but by other factors that can not be found in this research. When referring to the results of research conducted in 2001 by Khairunnisa, the tendency of people to save in Sharia banks is because the system is more Islamic. To avoid usury interest rates, in which Islam considers it forbidden.

The Effect Return of Third Party Fund on Rate of Third Party Fund

Empirical evidence of the results of this research supports the claim that a hypothetical Third Party Fund Return has a significant effect on the rate of Third Party Funds. The results of this research indicate that the Return of Third Party Funds significantly effects on the rate of Third Party Funds. Influence of direction relations of Third Party Fund Return on Third Party Fund Rate is positive. This means that the greater Third Party FundReturn , the greater the rate of Third Party Funds. Third Party Fund Rate will increase if returns were distributed by banks to customers also increases. This can be explained by the theory of rational decision making in which the investment decision will be made if it seems profitable. If the return increases, depositors will also be motivated to increase their deposits/savings (Third Party Fund Rate). Hypothesis test results stated that the significance of each regression coefficient is in Table below.

Significance and Regression Coefficients

| Relationship | Significance | Regression coefficient |
|---|---|---|
| TPF Return to TPF Rate | <0,001 | 0, 933 |

Sources: processed primary data

What causes depositors to draw the money from Sharia banks can be traced from how their behavior towards the payment of return on deposits and interest rates. Surveys conducted by RifkiIsmal (2010) found that depositors will increase their savings if the sharia bank offers higher rate of return sharing or will receive the higher proposal of return sharing when the interest

rate tends to rise. They may close an account if the return of the deposit paid by the bank is less than expected or less than the prevailing interest rate.

Furthermore, it can be concluded that the results do not affect mudharabah deposit in Bank Muamalat Indonesia. Positive parameter sign on the profit sharing volume variable means that if the volume of profit sharing increases by 1,000 billion, the volume of mudharabah deposits will increase by 4,206 billion. Reality obtained is in accordance with the theory of demand, profit sharing as a substitute is if given profit sharing increases, the volume of mudharabah deposits will also increase and vice versa, if the given profit sharing decreases, the volume of mudharabah deposits decreases. It shows that the volume of the given profit sharing by BMI is not the primary goal in saving public funds in BMI but it is because of religion that they want the money they save can be managed in accordance with sharia principles and the clarity of the allocation of funds is their reason for becoming sharia bank customers. Another factor that can influence is from the non-financial side that touches the emotions of customers, such as quality of service, accessibility, or within reach and other transaction conveniences that may be provided by the concerned bank. The reason of the above factors obtained from the results of previous research by the Sharia Banking Directorate of Bank Indonesia with Bogor Institute in 2004 and Muhammad Ghafur in tahun 2003 stated that these factors are people's reasons in choosing banks to save their money, either in Sharia banks or conventional banks is not affected by their motive to get profit sharing return , but by other factors that can not be found in this research. When referring to the results of research conducted by Khairunnisa in 2001 the tendency of society to save in Sharia banks is because the system is more Islamic. To avoid usury interest rates, in which Islam considers it forbidden.

The Effect of BI Rate on Rate of Third Party Funds

Empirical evidence does not support the research hypothesis that BI rate effects on the rate of party funds. Statistical test result is with WarpPLS 2.0. It shows BI rate has no significant effect on TPF rate. The hypothesis test result states that each significance and regression coefficient in Table:

Significance and Regression Coefficients

| Relationship | Significance | Regression coefficient |
|---|---|---|
| BI Rate rate on rate of TPF | 0,406 | -0,009 |

Sources: processed secondary data

BI Rate has no effect on TDPK with the resulting p-value of $0,406 > 0,05$, and the value of the path coefficient of $-0,009$ with the direction of negative relationship. This result can be explained because sharia

banks conduct risk transfer practice associated with deposits of equity holders or upon investment return in Sharia banks is lower than interest rates of conventional banks. Sharia banks become vulnerable to investment withdrawal by the customer (displacementrisk). This risk arises when a bank is under pressure to make profits, but the bank also has to provide most of its profits to depositors to avoid the fund withdrawal due to the low rate of return. Displacement of commercial risk implies that although the banks may operate with full compliance in accordance with sharia provisions, but the bank does not have the rate ofreturn that is competitive compared to other Sharia banks and / or other competitors. This makes the depositors have no reason to withdraw their funds. To avoid these withdrawals, bank owners need to allocate a portion of the profit received by investment depositors.

So it can be said that Sharia banks has anticipated the effect of BI rate on the sensitivity of the depositors in withdrawing their funds when compared with its competitors (both conventional banks and other Sharia banks).

The results of previous studies which suggest that the rate of BI Rate is the factor that significantly and dominantly affects the amount of credit of the national commercial bank investment in East Java (Sukma Putra, 2009), it turned out that it was not able to be proven empirically in this research.

The decline in interest rates by Bank Indonesia (BI Rate ) is expected to boost the position of Third Party Funds (TPF) in Sharia banks. BI predicts that migration will happen to the funds of Sharia banks to conventional banks. Director of Islamic Banking, Ramzi A Zuhdi said that: "Normally in general, if BI Rate drops, Third Party Funds (TPF) will run from the conventional banking to Sharia Banks. The decline in BI Rate will bring a positive impact on Sharia banking industry ". Furthermore, Ramzi (2009) explains that logically speaking, if conventional bank lowers its benchmark interest rate according to BI Rate , there will be breakout of funds to sharia banking, because people who need the funds will not want to get a high interest rate (Purnomo, 2009 ).

The results of this research are not in accordance with the research of WahyuPurnamahadi (2011) which states that the amount of deposits is significantly affected by inflation and deposit interest rates (Purnamahadi, 2011). While deposit interest rates are set to follow BI rate. In Purnamahadi research (2011), it is stated that the deposit interest rate has a positive effect on the amount of deposits. Results of this research is also incompatible with Yulianti research (2013) which states that BI rate has a significant and negative effect on mudharabah deposit.

These results indicate that information about BI interest rate and profit sharing can not be used to predict the volume of mudharabah deposits together in making investment decisions.

## Conclusion

After going through data analysis, hypothesis testing, discussion and research findings, conclusions can be withdrawn as follows:

a. BI Rate significantly effect (at 10% significance rate) on Return of TPF with the resulting p-value <0,10 and the value of the path coefficient of -0,143 with the negative direction of the relationship. This means that if BI rate increases, returnwhich will be distributed to the owners of third party fund will decrease.

b. Empirical evidence of this research results support the hypothesis that Return of Third Party Fund significantly effects on the Rate of Third Party Funds. The results of this research indicate that Returnof Third Party Fund significantly effects on the Rate of third party funds. Influence relationship direction on Third Party Fund Return to the Third Party Funds rate is positive. This means that the greater Fund Third Party Return, the greater the rate of Third Party Funds.

c. Empirical evidence does not support the research hypothesis stating that BI rate effects on the rate of party funds. Statistical test result with WarpPLS 2.0. shows that BI Rate insignificantly effects on the rate of TPF.

## Research Contributions

Research has supported the theories underlying this research, namely socio-economic theories (neo-classical theory), rational choice theory, decision making theory and theory of investment.

Based on the neo-classical theory, rational behavior is faced with the choice to get a maximumutility, so it is based on the principle of rational choice (Zavirovski, 1998; Mangps and Lewis, 1995; Kalmeman D, 1991; Hogarth, 1987; Etzioni, 1986 and 1988; March, 1978 ; Becker, 1976; and Weber 1968). The principle of rational choice is implemented into a rational action (Koppl, R and Whitman, DG, 2004). It is shown that the depositors, in financial investment decisions, must go through a rational attitude. Depositors are rational here because depositors who save their money in Sharia banks assume that bank interest is not allowed (forbidden) so that depositors will not consider the interest in their investment of decision-making in Sharia banks.

The support of neo-classical theory and rational choice theory shows that religious values which forbid conventional bank interest affect depositor attitudes towards their investment decisions, even statistics test

results showed a negative regression coefficient. This means that although it is not significant it remains to indicate that the higher BI rate the more it does not affect depositor rational attitude towards their investment decisions.

It shows that neo-classical theory, rational choice theory is on the opposite side with investment theory. However, rational choice theory related to religious values can affect decision-making if it is associated with depositor rational attitude do not support. This proves that the investment theory is still on the opposite side of neo-classical theory and rational choice based on the interests of individual satisfaction that maximizes utility.

This research contributes to the thinking and empirical evidence of:

a. Managers of Islamic Banking.

Bank managers can know and understand the behavior of depositors against returns and changes in BI rate so that Islamic Banking can better manage third party fund according to the right policy.

b. BI as decision maker.

BI studies on how the change of BI rate will in responded by depositors. Therefore, BI can take monetary policy associated with BI rate precisely on the target.

c. The next researcher.

The results of this research contribute ideas and empirical evidence to the teams of next researchers on neo-classical theory, investment theory and rational attitude.

## Limitations of Research

a. Data collection was conducted in the span of just three years so that research results can not be generalized for all time.

b. The unit of analysis in this research is the Sharia Business Board (SBB) and does not involve Sharia Business Unit (SBU) and Sharia Rural Bank (SRB). So it can not be generalized for Islamic banking in Indonesia.

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