LIST OF TABLES AND FIGURES

CHAPTER 1. Introduction

In this chapter, the context and main concept of this study will be briefly explained, as well as the goals of research. This chapter will provide readers with more comprehension of the main object and intent of this study.

Research Background

As intermediary institution, Islamic banking has different characteristics from conventional intermediary institutions. The banking system with sharia principles is considered more resilient than conventional banking. This resilience was evident during the monetary crisis of 1997/1998, in which only 240 private banks were able to survive without the help of the government, including the Muamalah Bank Indonesia (Salman & Nawaz, 2018).

Islamic banking is strong in facing the economic crisis. This happened because of several things that became a special character of the bank with Islamic principles, including: first, the Islamic banking use the principle of profit and loss sharing, does not practice giving interest to depositors or withdrawing interest from financing customers. Second, Islamic banks do not experience negative spreads. Third, Islamic banks do not take positions to conduct currency speculation (gharar) so they do not experience NOP (Net Open Position) problems. Fourth, Islamic banks rely on financing for small and medium enterprises (SMEs) which have proven to be resilient and durable in facing a crisis (Zainuldin & Lui, 2018; Al Jahri, 2017)

In addition to being considered more resilient than conventional banks in facing the crisis, national Islamic banking has also shown positive development in the last decade. Sharia Banking Statistics data published by the OJK shows that as of June 2019 in Indonesia there were 14 Sharia Commercial Banks, 34 Sharia Business Units, 164 Sharia Rural Banks with 2266 units of offices spread throughout Indonesia.

The continuing growth of Islamic banks can also be seen from the annual increase in assets. Islamic banking assets in 2016 recorded an increase of Rp.61.6 trillion, or grew 20.28%. Islamic Commercial Banks make the largest contribution to the increase in Islamic banking assets by Rp40.7 trillion. With the conversion of conventional banks to sharia banks, significant growth of Islamic Commercial Banks started in September 2016. The conversion of Bank Aceh Syariah has resulted in an increase in the market share of sharia banking to national banks through the psychological rate of 5%. In December 2016, the market share of Islamic banking reached 5.33%, an increase of 0.46% from 4.87% in 2015 (Financial

Fervices Authority, 2016).

The achievement is still very small considering that Islamic banking in Indonesia has been operating more than 20 years ago and still lags far behind compared to other countries such as Malaysia which has reached a market share of 23.8%, Saudi Arabia with a percentage of 51.1% and in the United Arab Emirates with a percentage of 19.6%. The following table illustrates an analysis of asset growth and market share (Financial Services Authority, 2017):

Table 1

Asset Growth and Market share Period 2011-2017

In Billion	2012	2013	2014	2015	2016	2017
Aset of conventional bank	4.262.587	4.954.467	5.615.150	6.095.908	6.729.799	7.387.144
Aset of Islamic Bank	195.018	242.276	272.343	296.262	356.504	424.181
Market share Islamic Bank	4,63%	4,89%	4,85%	4,83%	5,33%	5.72%

A relatively small market share is a challenge for the Islamic Financial Industry. The government is still continuing to improve policies to increase the market share of Islamic banks. After the government finds appropriate improvements, it can contribute to the country's economy and have competitiveness in the increasingly intense competition in the financial industry since the entry into force of the ASEAN Economic Community (MEA) (Naqvi et al., 2018). Based on observations that have been made, there are several factors that influence the growth of the market share.

Bank of Indonesia is adjusting the strategy to improve Islamic banking efficiency by calculating Islamic banking performance growth by more than 34 percent on average rather than 5 percent market share optimization. Through having high growth, the view of its growth is more interested in the investor as it is the only industry that shows significant growth for its company per year compared to other peers category. Market share has been the issue because traditional banks are evolving as well as total assets while Islamic banks are rising at the same time, but conventional banks' total assets are greater from the outset. Islamic banks should build product innovation with a financing function to achieve the goal (Havidz & Setiawan, 2015).

Based on the context summary above, the researcher feels the importance of conducting research related to market share. This research is the development of previous studies by adding different variables and research periods. Researchers hope this research will increase knowledge about the factors that impact directly or indirectly the market share of banking industry. The purpose of this study is to evaluate the impact of macroeconomics, number of bank offices, and financial performance on the Sharia banking market share in Indonesia 2008-2019.

Research Motivation

The purpose of this study is to evaluate the impact of macroeconomics, number of bank offices, and financial performance on Sharia banking market share in Indonesia 2008-2019.

Statement of the Research Problem

A relatively small market share is a challenge for the Sharia Financial Industry in Indonesia. The government is still continuing to improve policies to develop the Sharia banking market share in Indonesia. Even though Indonesia is a country with the largest Muslim population in the world but the development of its market share is still small. Therefore, research needs to be done to find out what factors affect the growth of Sharia banking market share in Indonesia.

Research Objective

The objectives of this research are: (1) to assess the influence of macroeconomics effect, number of bank offices, and financial performance on Sharia banking market share; (2) to identify factors has the biggest effect on the growth of Islamic banking market share in Indonesia; and 3) to determine the extent to which these factors affect the growth of Islamic banking market share in Indonesia.

Research Question

In order to achieve the objectives, the following research questions addressed:

- What effect do the influence of macroeconomics effect, number of bank offices, and financial performance on the growth of Sharia banking market share?

- Does conventional bank deposit interest affect the market share of Sharia banking market share?
- Does inflation affect Sharia banking market share?
- Does GDP affect the market share of banks in Indonesia?
- Does the number of Islamic bank offices affect Sharia banking market share?
- Does CAR affect Sharia banking market share?
- Does ROA affect Sharia banking market share?
- Does FDR affect Sharia banking market share?
- Does NPF affect the Sharia banking market share?
- Are the influences of macroeconomics effect, interest rate, number of bank offices, and financial performance jointly affecting the Sharia banking market share?
- Which factor has the biggest effect on the growth of Sharia banking market share?

Research Benefit

The objective of this study is to determine the effect of macroeconomics, number of bank offices, and financial performance on Sharia banking market share. Subsequently, the result of this study expectedly can give benefit for several groups. Diverse groups are different benefit and this below determine of benefit;

For academics:

The results of this study are expected to add to the literature and research material for further research.

For policy makers:

The study results are expected to be additional information and consideration in sharia banking market share policy making.

For practitioners:

This research is expected to provide advice and input and evaluation for practitioners in Islamic banking to be able to rise the market share of sharia banking market share.

Definitions of Terms and Abbreviation

In this section will be present the definition of main concepts that will be use in this study as well as the abbreviations that use through this study. The key terms through this study will be explained as below:

Market Share of Islamic Bank: the amount of sales that competitors have in the relevant market. While the market share of sharia banking is the percentage of the total amount of Sharia banking assets divided by the total assets of national banks. (Filbeck, 2007; Xue & Cheng, 2013).

Conventional Bank Deposit Rates: The deposit rate is the value that must be given by the bank to the customer in return for the customer's current savings that the bank will return later on (Meslier et al., 2017). In this study, researchers used data from deposit rates of 1 year or 12 months.

Inflation: The rate of change in price level, which is usually calculated as the percentage change per year in a given period, to the average rate of growth of money supply during the same period (Ahmad et al., 2007).

GDP (Gross Domestic Product): Annual rate of GDP growth on the basis of fixed local currency at current market prices (data.worldbank.org). GDP is calculated by comparing the increase in GDP in year t with GDP in year t-1 (Abedifar, *et al.*, 2015).

Number of Bank Office: The total network of Islamic bank offices spread throughout Indonesia, including head office, subsidiaries, branches and cash (LaPlante & Paradi, 2015).

CAR (Capital Adequacy Ratio): capital adequacy which shows maintaining the ability of banks to maintain minimum capital. It is calculated by dividing a bank's capital by its risk-weighted assets (Baldwin et al., 2019).

ROA (Return on Asset): A measure of how profitable a company is in relation to its total assets. ROA is calculated by dividing net income in the year against the bank's total assets (Ahamed, 2017).

NPF (Non-Preforming Financing): the amount of credit that is problematic and may not be invoiced. The greater the NPF value, the worse the bank's performance. NPF can be calculated by the amount of financing substandard or loss divided by total financing (Setiawan et al., 2013).

FDR (Financing to Deposit Ratio) : an indicator of bank liquidity in which this variable is measured by comparing the total financing disbursed with the total public savings funds collected. This ratio is also called the banking ratio. FDR can be calculated by means of the amount of financing distributed divided by the amount of the deposit (Setiawan et al., 2013; Zhang, 2017).

Limitation of Study

The objects in this research are Sharia Commercial Banks and Sharia Business Units in Indonesia. The method of selecting samples in this study is using saturated sampling. According to Sugiyono (2013) saturated sampling is a technique of determining the sample if the population is used as a sample.