

Efficiency in Islamic Banks: Some Empirical Evidences in Indonesian Finance Market

Authors : Ahmed Sameer El Khatib

Abstract : The aim of the present paper is to examine the revenue efficiency of the Indonesian Islamic banking sector. The study also seeks to investigate the potential internal (bank specific) and external (macroeconomic) determinants that influence the revenue efficiency of Indonesian domestic Islamic banks. We employ the whole gamut of domestic and foreign Islamic banks operating in the Indonesian Islamic banking sector during the period of 2009 to 2018. The level of revenue efficiency is computed by using the Data Envelopment Analysis (DEA) method. Furthermore, we employ a panel regression analysis framework based on the Ordinary Least Square (OLS) method to examine the potential determinants of revenue efficiency. The results indicate that the level of revenue efficiency of Indonesian domestic Islamic banks is lower compared to their foreign Islamic bank counterparts. We find that bank market power, liquidity, and management quality significantly influence the improvement in revenue efficiency of the Indonesian domestic Islamic banks during the period under study. By calculating these efficiency concepts, we can observe the efficiency levels of the domestic and foreign Islamic banks. In addition, by comparing both cost and profit efficiency, we can identify the influence of the revenue efficiency on the banks' profitability.

Keywords : Islamic Finance, Islamic Banks, Revenue Efficiency, Data Envelopment Analysis

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