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ASSET AND LIABILITY MANAGEMENT STRATEGY TO IMPROVE PROFITABILITY OF ISLAMIC BANKS

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Abstract: *This journal research aims to investigate the role of asset and liability management strategies' role in increasing Islamic banks' profitability. In this research, the Literature Review method was used. Where this research contains at least almost 80% of national and international articles and journals and e-books published on various platforms providing articles, journals, and e-books at national and international levels that discuss asset and liability management strategies for Sharia banks. Literature Review is a national and international literature search carried out using the Google Scholar database. In the context of a changing and complex economy, a deep understanding of how Islamic banks can manage their assets and liabilities is crucial. By focusing on sharia principles, this research will identify strategies that can help sharia banks achieve optimal levels of profitability, while still complying with sharia provisions.*

Keywords: *Strategy, Management Assets and Liabilities (ALMA), Profitability, Islamic Banks.*

INTRODUCTION

Sharia financial institutions are financial institutions whose operational system is based on Islamic principles. Islamic financial institutions themselves intend to develop and promote the implementation of Sharia principles which are of course based on the teachings of the Qur'an and as-sunnah in every financial and business transaction-related activity. Islamic banking is one of the intermediary institutions whose function is as an intermediary between users of funds and owners of funds. to carry out its function, the bank will act as the owner of funds (shahibulmaal) and also act as a mudharib (fund manager). In managing its activities, Islamic banks must comply with sharia provisions that regulate justice, sustainability, and ethics in business.

In running its business, Islamic banks are the same as conventional banks which are oriented towards profit, but Islamic banks are also oriented towards Islamic values such as equality, justice, and helping. so that in its operational activities Islamic banks must also be able to maintain their financial performance properly, especially at the level of profitability and liquidity by sharia principles. Strong capital in a bank can thus form a good bank condition to form an image of a good bank condition that can be trusted by its customers.

In bank management activities where there are situations and conditions of intense and sharp competition, therefore good management is needed, to reduce costs as efficiently as possible which results in developing each asset in total and generating the expected profit or margin to maintain the continuity of bank operations. Basically banks have both long-term and short-term goals where the long-term goal of the bank is to obtain maximum profitability while adhering to Sharia principles, while the short-term goals are for customer satisfaction, meeting minimum reserves, and strategies in making investments.

In general, the higher the company's income, the stronger the company determines the market price. In the business activities of Islamic banks, profit income that has little risk and generates high profits is the target of the company's goals in order to maintain the company. in maintaining the company we can maintain by using the asset and liability management strategy or ALMA, this is one of the keys in carrying out its operations, there are two sides of the balance sheet where the passive side describes the source of funds and the asset side describes the use of funds that must be managed effectively and optimally.

Table1. Bank Balance Sheet Scheme

Asset	Other Assets Loan	Total Asset
Liability	Savings Other Liabilities and Equity	Total Liabilities and Equity

The main purpose of ALMA itself is to optimize the income received and also to be able to minimize costs. In asset and liability management there is also management of the risks arising in the operational activities of Islamic banks. which has been planned to optimize income and reduce the risk of assets and liabilities by complying with government regulations in monetary policy and bank supervision through an organization.

Asset and liability management focuses on organizing the bank's asset-liability portfolio in order to maximize profitability for the bank and returns to be distributed to shareholders with due regard to liquidity and prudential requirements. Thus, the role of ALMA is not only limited to financial risk management, but also a tool to realize the bank's mission and vision in providing sustainable financial services in accordance with sharia principles.

Islamic bank profitability can be affected by several factors including the effect of inflation, BI ratio or interest rate hikes, FDR coefficient or funding to deposit ratio, weak MFN factor or inefficient funding ratio, capital safety ratio (CAR) and operating cost to operating profit ratio (BOPO). Some of these factors are important to consider when formulating strategies to improve the profitability of Islamic banks.

The sources cited provide an overview of the factors affecting the profitability of Islamic banks in Indonesia, which can help provide a comprehensive understanding of the various variables affecting the profitability of Islamic banks, as well as the background and importance of asset-related research, and debt management strategies to improve the profitability of Islamic banks.

LITERATURE REVIEW

Assets are property either owned by groups or individuals that can produce economic benefits in the form of economic value or positive cash flow (Profitability). Assets themselves include tangible and intangible assets. Subramanyam and Wild (2018) describe assets as assets, where they state that assets are resources that can be controlled by a bank or company to achieve goals in the form of profits. Liabilities are obligations that must be paid to other parties based on a certain period.

The settlement period is obligations that are settled in the long term and obligations that are settled in the short term. Obligations can be in the form of goods or services, money, or other economic benefits. For example, obligations include salaries or wages and operational costs to support the business. Liabilities can show the financial position of a bank or company.

According to PSAK 1 (IAI, 2018), a liability is something that occurs as a result of past events, where the existence of a liability means that the company has obtained something that is a reward, therefore the company must pay it. According to Antonio (2020), Sharia Banks must fulfill Sharia Bank obligations by not relying on the bank's obligations to other parties. In Sharia banking, bank obligations must be financially measurable with a level of rehabilitation. Sharia Bank obligations must be financially measurable with an adequate level of capital. Sharia Bank obligations must be followed up to prevent other parties from using Sharia Bank assets during the specified period.

In the liabilities of a Sharia bank, Siamat (2000) adds factors that influence a bank's liabilities, such as the level of public trust, especially customers, can be influenced by the financial position, performance of the bank, the bank's ability to manage funds, the integrity and credibility of the bank management. Exclusively, namely the income that savers are more likely to obtain compared to other investment alternatives based on the level of risk. Furthermore, liabilities are influenced by security factors, because security at the bank means the bank will guarantee the funds deposited by customers. Apart from that, liabilities are also influenced by timeliness, where banks must be punctual in returning customer savings according to the agreement. And finally, the bank is careful in managing customer funds.

According to Karim (2010:451), ALMA is a management process in which there are management, organizing, planning, and marketing activities that are realized as a unit of active and passive control that talk to each other in the bank's efforts to achieve its goal, namely profitability.

Profitability is one of the ratios that can be used to measure an entity's skill in obtaining profits or gains within a predetermined period (Kasmir, 2019). According to Lestari & Eka (2020), this is a profitable level for investors, because it is a sign that managing company funds well can also provide value for the company as well as dividends. Companies with good profit margins have many assets to improve their products. To see bank profits, you can see the following variable table:

Table 2. Profitability Variables of Islamic Banks

VARIABLE	DESCRIPTION
Capital Adequacy Ratio (CAR)	It is a bank's capital adequacy ratio which shows how good the bank's skills are in managing funds so that it can provide funds to minimize the possibility of the risk of losses that will occur. The higher the nominal Capital Adequacy Ratio, it shows that the bank is good at managing the risk of losses that may occur.
Return On Asset (ROA)	An activity can only be activated in such a way that it can be disabled. This ROA compares the company's total assets: total net profit. A higher ROA value indicates that the company's performance is greater to obtain greater profits from the assets used.
Return On Equity (ROE)	Return on capital is calculated by combining a company's earnings with the company's owner's equity. The closer the ROE is to 100%, the better. ROE 100% means that every IDR 1 investment produces a net profit of IDR 1.
Financing to Deposit Ratio (FDR)	Is the ratio of funding to DPK funding. The FDR ratio can be used to measure how much people are paying versus how much people are saving. The higher the FDR ratio, the higher the bank's liquidity. On the other hand, if the FDR value is low, it shows that the bank has good liquidity, but its funding is less than optimal, resulting in low profit levels. FDR aims to measure bank financial performance (Almunawwaroh & Marliana, 2018).
Operating Expenses Operating Income (BOPO)	The ratio is used to increase bank energy while generating profits. Bank daily efficiency When increasing operational bias with the BOPO ratio, it makes the bank more efficient in its activities.
Non Performing Financing (NPF)	In the form of a comparison ratio between bad or problematic financing and the total amount of financing distributed by sharia banks. Problematic financing consists of current financing, financing under supervision, substandard, doubtful, and problematic or non-performing.

RESEARCH METHOD

In writing this article, the method used is the literature review research method. Where in this writing we adopt at least around 80% of articles, journals, and e-books that are available or have been published on journal provider platforms on a national and international scale which discuss asset and liability management strategies to increase the profitability of Sharia banks. The data taken in writing this article comes from data obtained from previous research article sources which have been collected based on appropriate topics.

Data was collected by citing library research, and literature searches. This research not only creates a research framework but also deepens theoretical studies and obtains similar research. By presenting, analyzing, and interpreting data (qualitative descriptive). In collecting data, literature is categorized according to the discussion. The data The writer collected it and then processed it using a deductive qualitative data analysis method a data analysis method that takes general things and then makes specific conclusions.

There are several digital platforms or digital databases used to search for related ebook journal articles such as Wiley Library, MDPI Journals, OJK Site, and Google Scholar as well as several related journal websites. When searching for articles, journals, and ebooks, use the title and topic using keywords related to the type of publication in the form of research journals or books based on the 2015-2023 time period.

RESULTS AND DISCUSSION

1. Profitability of Sharia Banks

Profitability is profit generated based on bank or company capabilities through bank operational activities. In Islamic banks, there is a profitability ratio which is used to measure the company's ability at Islamic banks to generate profits by maximizing resources such as capital, assets, and product sales activities in the bank. The following are factors that influence the profitability of Islamic banks:

1.1. BI Rate Factor on Profitability

Interest rate policy is a policy designed by Bank Indonesia the interest rate is also known as the BI rate. The BI Rate is an indication of monetary policy which influences economic activity. Firstly, investment decisions will be influenced by interest rates. secondly, interest rates influence the decisions of capital owners such as whether they will invest in financial assets or real estate. third, interest rates can affect the volume of money in circulation. fourth, Interest rates will impact how long banks and other financial institutions operate.

In the operational activities of Islamic banks, the BI ratio has a certain influence on the profits of Islamic banks. Because Islamic banks are Islamic banks that do not use the principle of usury or interest rates. In general, an increase in the BI rate causes an increase in interest rates at conventional banks. However, an increase in the BI ratio does not directly affect Islamic banks. This happens because the business activities of Islamic banks do not refer to the BI exchange rate so any interest rate does not affect the profits of Islamic banks.

For example, if we take an example if a Sharia bank offers a margin in the form of profits for the bank that is smaller than the interest rate applied by conventional banks, of course, this will have a good impact on Sharia bank financing where many customers choose Sharia banks over conventional banks. and Sharia banks increase the level of profit sharing on deposits and savings. This will have an impact on increasing customer interest in saving their money in these Sharia banks. Thus, even though the interest rate or BI rate increases, the profitability of Islamic banks has no definite effect and is likely to continue to increase. This is because when interest rates rise, Islamic banks implement several internal policies, including increasing the profit-sharing ratio offered.

The findings of this article provide hope for Islamic banks in Indonesia to be able to contribute more significantly to the supply of capital needed to support the real sector. However, the results of empirical research on Turkish banks conducted by Abdul-Baki and Uthman (2017) and Nano (2018) on Indonesian Islamic banks continue to show that monetary policy hurts the profitability of Islamic banks.

1.2. Capital Adequacy Level (CAR) Factors on Profitability

A high level of capital adequacy ratio will increase the amount of financing disbursed by Islamic banks, which will increase profitability so increasing the capital ratio can initially increase profitability. However, to avoid a decline in profitability, Islamic banks need to reduce the capital adequacy ratio after reaching a certain maximum point. An excessive amount of capital indicates that there are too many idle funds coming from shares or that the bank is still having difficulty allocating funding.

1.3. Inflation Factor on profitability

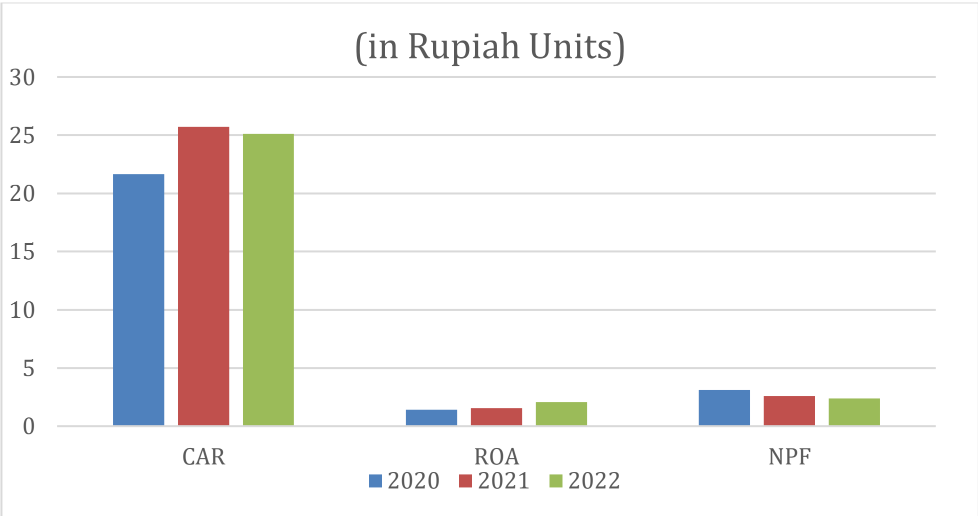
The increase in prices of goods and services in the economy over a certain period is identified with inflation. Increasing inflation will affect bank operational costs, for banks the occurrence of inflation can affect the level of financial performance, especially in terms of lending/financing to financing customers. Higher inflation can lead to lower bank profitability because the large number of loans/ financing becomes a problem. Apart from that, companies in the real estate sector also do not want to increase capital to finance their production activities, which will ultimately affect the profits of Islamic banks. Demand is also an important factor that indirectly influences the financial performance of the banking industry. Inflation has a negative influence on ROA and ROE profitability but has not been proven to be significant. Inflation within certain limits is one of the drivers for the development of the real sector, but if it is too high it will hurt people's purchasing power, the real sector, and banking.

1.4. NPF factor on profitability

A high NPF indicates an increase in bad debts or defaults, which can cause a decrease in profits because the productive assets used for financing may face obstacles and vice versa. Based on OJK Sharia Bank statistics, the NPF ratio decreased from 2020 to 2022, which shows a downward trend in Sharia Bank's financial failures. This will affect the profitability of ROA and ROE.

1.5. FDR Factors on Profitability

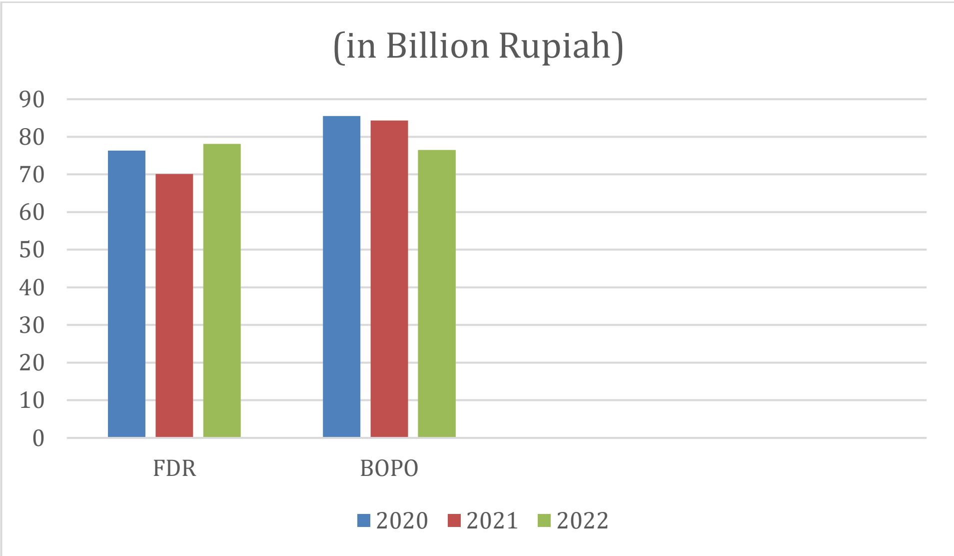
From the proceeds of obtaining money from third parties, FDR represents an understanding of the importance of sharia bank financing to support investments that have been planned within a certain period of time. Sharia Bank profitability is significantly positively influenced by the financing to deposit ratio (FDR). The higher the FDR, the more money that can be distributed and the greater the opportunity for Islamic banks to gain significant profits. The research conclusions are strengthened by the findings obtained (Sumarlin 2016).



Source: Data OJK Islamic Banking Statistics September 2023 Period

Figure 1. CAR, ROE, ROA

According to data taken from OJK sharia banking statistical data for the September 2023 period, it is known that the CAR performance or capital adequacy ratio is where in 2020-2023 the CAR performance of sharia commercial banks has increased from the original CAR amount in 2020 of IDR 21.64 billion to IDR. 25.71 billion in 2021. Then in 2022 the CAR value will decrease slightly to IDR 25.12 billion. This shows that Islamic commercial banks in Indonesia still have capital adequacy ratios above the minimum CAR. The ROA performance of sharia commercial banks for the 2020-2023 period in the graph shows an increasing graph, which means there is an increase in better company performance. The NPF itself in the graph shows a decrease, which has a good impact on banks because the number of problematic or non-performing financing has decreased, this can increase the profitability of Islamic banks.



Source: Data OJK Islamic Banking Statistics September 2023 Period

Figure 2. FDR BOPO

Banking plays an important role in driving economic growth. by providing credit to households and the real sector. Strong economic growth will attract bank financing for expansion, thereby increasing income (Rahman, Yousaf, and Tabassum 2020). Likewise, funding through a PLS plan will generate higher returns than during times of slow economic expansion. Due to the expected profits of Islamic banks, Islamic banking will also find it easier to collect deposits, thereby increasing the bank's capacity to provide financing and improving overall performance.

a. Asset and liability management strategy

Within predetermined risk parameters, the aim of the bank balance sheet management technique known as ALMA is to maximize income and reduce costs. In banks, ALMA risk usually manifests as (a) Financing risk, namely regarding whether the debtor will fulfill its commitments, including late payments or repayment until maturity. Liquidity risk may arise from credit risk. (b) The risk associated with liquidity is the possibility that the bank will not have enough cash to meet its obligations, or that the bank will have to rely on selling assets at a discount or taking out emergency loans at high-interest rates. (c) Determine whether the decrease in margin or investment loss is due to a decline in asset value; this is the risk of loss due to adjustments to the profit-sharing rate. This risk may arise from miscalculations of asset and liability prices, insufficient liquidity, or Net Interest Margin (NIM). (d) Risk of loss due to exchange rate fluctuations. Financial institutions following Islamic law are known as Sharia banks. Banks can use asset and liability management techniques to increase profitability. Using these tactics, bank assets and liabilities are managed to maximize revenue and reduce risk. One of important element that influences bank profitability is management. Restructuring business strategies can also help banks become more profitable. (e) Gap risk related to interest rate volatility, or the chance of losing money due to interest rate imbalances. (f) Risks arising from contingent transactions, such as foreign currency futures contracts and bank guarantees, are known as contingent risks. Finally, one of the risks in the banking sector is liquidity risk, which is mainly caused by the way banks handle daily funding as well as primary and secondary reserves.

In Islamic banks, asset liability management, or ALMA, involves formulating strategies and policies. As a result, Islamic banks that implement the ALMA strategy can be more profitable by doing the following things:

The first, planning, is the decision making process. In making decisions about a bank, banks certainly have the aim of making decisions without haste and prioritizing the common interest. When making decisions, you also need to be aware of the risks associated with each option, such as the possibility of making a profit under certain circumstances such as profit levels and liquidity.

Second, the bank's efforts to manage, collect and distribute as much money as possible – from the bank itself, city governments and other financial institutions – is called money management. Because banks function as a link between liquidity and profitability, fund management is considered important. That way, there are managers who regulate the circulation of money in the bank, such as funding funds (DPK) and financing. When managing finances, care needs to be taken to ensure that the money is spent and earned appropriately— in terms of quantity, time, and cost.

Third, How to Pay for Quality Control. The main source of bank activity is financing, and although financial management is a component of the loan manager's operational strategy, operational decision making must maintain the growth and quality of financing. To ensure that the quality of financing goes according to plan, measures to manage the quality of financing are implemented. In this case, a financial oversight committee is needed. Only officials who have the authority to decide on financing can approve financing. The decision must be made based on an assessment of the total funding for which the applicant will benefit and benefit simultaneously. Implementation of ALMA in Islamic bank operational activities.

b. Implementation of ALMA in Islamic bank operational activities.
The application of asset management in sharia banking aims to increase business productivity and efficiency in order to achieve profitability, such as:

- By increasing fees based on commissions, Islamic banks can reduce expected profits in the financial sector and change them to fees from commissions, or fees based on services, except for those who share DPK customers. By increasing the portion of DPK, Islamic banks can improve service delivery, technical systems and networks, ease, speed and security of access, as well as increase competition between companies and virtual companies.
- The business segment is a good target segment for sharia banking. Islamic banks can focus on business segmentation because this segment can be improved through optimizing current accounts and quality transaction access, so that the expected results are low but income from DPK is high on the east side.
- Increasing the role of regulators: Regulators will play an increasingly important role in the use of Islamic financial services. This will enable Islamic banks to work more efficiently. This is because government funds and state-owned enterprises can act as a source of DPK for banks sharia, and regulators can help meet the capital needs of sharia banks.
- Increased income from increased business divisions. Improving the accountability system: Islamic banks can improve their accountability systems in various ways, including increasing knowledgeable and professional human resources in the field of Sharia banking; implementation of comprehensive risk management; reporting and reporting systems; Sharia and pure business analysis process; and social justice for all society.

c. Steps to improve bank efficiency through effective financial management:

- Monitoring the GWM will ensure that the current account balance at Bank Indonesia and liquidity remain constrained and the GWM is maintained. This will result in attractive returns and a cost of capital of around 14-16%.

- Good management of secondary securities is also very important for banks because their reputation must be maintained because they can always carry out their duties and large emergency funds can be avoided.
- Increasing bank efficiency through cash management will have a positive impact because excess cash can be immediately identified and used and if there is no shortage it can be identified quickly.

CONCLUSIONS AND SUGGESTIONS

Asset/debt management is a set of practices and strategies designed to manage a financial situation. Safety and health issues are an important part of this definition. Finally, the result of asset/liability management is the ability to cover losses and provide adequate funding, the best income, and the best quality in organizing savings. The results of research conducted regarding the factors that influence the profitability of Sharia banks, namely the number of BI, inflation, CAR, BOPO, FDR, and NPF. banks encourage Kusadan people to invest their money in Sharia banks. The ALMA scheme used by Islamic banks includes schemes, planning, capital management and sound financial management. Sharia Bank's ability to manage its assets and liabilities can be demonstrated by its ability to improve the financial sector of other parties, strengthen the business world to increase its income, increase its income based on income, and increase its income. The role of regulators and improving the interview process. Assets and liabilities are the implementation of Islamic banks' ability to reduce liabilities and risks, such as financial risk, liquidity risk, price risk, exchange rate risk, and risk differences. If Sharia banks can increase profits through sound and structured financing and can manage the risks they face well, therefore, Sharia banks can be said to be successful in managing the economy and state debt.

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