The Performance of Competitiveness of Sharia Banking (Indonesia-Pakistan) Using Porter's Diamond Theory

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Abstract

This article provides an overview of the condition of the competitiveness of Islamic banking performance in Indonesia and Pakistan using the porter's diamond theory descriptive analysis method, namely (i) resource variables with indicators of Institutional Performance and Financial Performance, (ii) Demand Variables with Market share and financing indicators (iii) Industry variables related to indicators of the number of sharia business units, (iv) Strategy variables with the roadmap for the development of sharia banking. The conclusions in this study are: 1) The competitive advantages of Islamic banking in Indonesia in 2016-2020 namely Institutional Performance of Islamic commercial banks, average profit growth and average growth of third party funds, compared with the same indicators on Islamic banking in Pakistan. 2) Competitiveness of Islamic banking in Pakistan in 2016-2020, namely the Financial Ratio of NPF, FDR and BOPO which ranked first in terms of bank health level, and the average market share growth and financing growth compared to the same indicators in Islamic banking in Indonesia.

Keywords: *Islamic Banking Performance, Competitiveness, Diamond Porter theory.*

Abstrak

Artikel ini memberikan gambaran tentang kondisi daya saing kinerja perbankan syariah di Indonesia dan Pakistan dengan menggunakan metode analisis deskriptif teori porter diamond, yaitu (i) variabel sumber daya dengan indikator Kinerja Kelembagaan dan Kinerja Keuangan, (ii) Variabel Permintaan dengan indikator Pangsa Pasar dan pembiayaan (iii) Variabel industri terkait dengan indikator jumlah unit usaha syariah, (iv) Variabel strategi dengan roadmap perkembangan perbankan syariah Kesimpulan dalam penelitian ini adalah: 1) Keunggulan kompetitif perbankan syariah di Indonesia tahun 2016-2020 yaitu Kinerja Kelembagaan bank umum syariah, rata-rata pertumbuhan laba dan rata-rata pertumbuhan dana pihak ketiga, dibandingkan

dengan indikator yang sama pada perbankan syariah di Pakistan. . 2) Daya Saing Perbankan Syariah di Pakistan Tahun 2016-2020 yaitu Rasio Keuangan NPF, FDR dan BOPO yang menduduki peringkat pertama dalam hal tingkat kesehatan bank, dan rata-rata pertumbuhan pangsa pasar dan pertumbuhan pembiayaan dibandingkan dengan indikator yang sama pada perbankan syariah di Indonesia

Kata Kunci: *Kinerja Perbankan Syariah, Daya Saing, teori Diamond Porter*

INTRODUCTION

Economic growth in a country is closely related to the role of the financial sector, especially those based on the banking sector in the financial intermediation process. Empirically many studies can provide evidence that economic growth is strongly influenced by the banking sector including Beck and Levine, (2004), Estrada et al., (2010), Hassan et al., (2011), Ascarya, (2012), Yarasevika et al., (2015), Aluko and Ajayi, 2018).

Likewise, with the economic conditions in Indonesia, the banking sector plays an important role in it. But in its journey, the banking sector still has problems that have surfaced on the surface. especially in Islamic banks, the problem that arises on the surface is that at least people are interested in investing in Islamic Banks due to the image in the middle of a society that is not yet strong so that public trust in Islamic banking is still low, which results in their tendency to prefer conventional banks.

Therefore, the development of Islamic banks in the future needs to consider aspects that can explore and enhance the potential development of Islamic banks, find the problems faced and can determine the right strategy for the development of Islamic banks in the future. The Islamic banking market in Indonesia is currently a lower-class economic community so that it has not reached the expected level but is also driven more by the real sector.

This is very different from the development of Islamic banking in other countries such as Malaysia, Iran, and Saudi Arabia, where the development is more dominated by the monetary sector, and government support by placing government funds and state-owned companies in Islamic financial institutions, thereby significantly increasing the total their banking assets

The condition of the Islamic financial industry in Indonesia in 2017 according to GIFR data The Islamic financial industry is ranked fourth in terms of the potential development of the Islamic financial industry so that Indonesia is

projected in the next few years to be ranked first for the development of Islamic banking in the world. Although it has the potential to be developed in the future it turns out that Islamic banking still has its challenges to be able to compete with conventional banks or other commercial banks

These challenges are based more on the practical aspects of the customers, namely: first, trust in Islamic banking institutions; Second, convenience and benefits gained in sharia banking and third, aspects of sharia banking services whether professional or not, Fourth is the development of transaction contracts for customers. Therefore, to face the challenges of Islamic banking in Indonesia must have the strength (competitiveness) to attract customers in Indonesia in particular and the world community in general, both in the field of innovative products and the distribution of profit margins for competitive customers.

One model developed to analyze and determine industrial competitiveness in a country is the Diamond Porter Model developed by Michael Eugene Porter. The theory developed by Porter states that a country gains a competitive advantage if the industry/company in the country concerned is also competitive, namely the ability of industries and companies in the country to innovate and increase their capacity. (Firmansyah, 2002).

The key to competition in the banking market is total quality which includes emphasis on product quality, cost quality, service quality, delivery quality on time, aesthetic quality, and other forms of quality that continue to develop in order to provide continuous satisfaction to customers in order to create loyal customers. Loyal. So that increasing business competition spurs management to pay more attention to at least two important things, namely "excellence" and "value." Only companies that have advantages that can satisfy or meet consumer needs can produce quality products and are cost-effective

Performance appraisal or measurement is one of the essential factors in the company. Besides being used to assess the success of the company. The management can also use the company's performance measurement to evaluate the past period. Like other banking companies in Indonesia, Islamic banking only uses financial benchmarks to see its business performance. Financial performance benchmarks in Islamic banks include return on assets (ROA), return on earning assets (ROEA), asset turnover (ATO), Capital adequacy ratio (CAR), loan to deposit ratio (LDR), liabilities to assets, earnings per share and several other financial ratios.

Meanwhile, non-financial elements (non-financing) have not become an essential aspect of sharia banking performance assessment. The assessment of banking performance from the financial aspect is not representative enough to conclude whether a company's performance is good or not. This is because financial measures do not provide an accurate picture of the company's condition. After all, they do not pay attention to other things outside of the financial side, such as Institutional Performance, market share, and development strategies, which are essential focuses driving the company's activities.

Research on industrial competitiveness using Porter's model approach has been carried out by Özlem, (2002), Smit, (2010). This study also uses the Diamond Porter model by adapting various elements of competitiveness to the type of industry being analyzed. is the competitiveness of Islamic banking. The framework of the porter model outlines four main determinants of competition, namely: resource dimension factors; demand dimensions; supporting industry dimensions and related industries as well as the corporate strategy dimension and the competitive structure (Porter, 1986). They were referring to the background above for the contribution of this article to determine the competitiveness of the performance of Indonesian Islamic banking with Islamic banking in Pakistan using Porter's Diamond Theory as an effort to evaluate the performance of Islamic banking in Indonesia by comparison with countries that also practice Islamic banking in their country.

RESEACH METHOD

The types of data used in this study are secondary data obtained from the Official Website of the Indonesian Financial Services Authority and the State Bank of Pakistan (Islamic Bank Bulletin) in 2015-2018. The data referred to are as follows:

Table 1 Diamond Porter Models

Dimensions of Diamond Porter	Indicator
Resource	1. Institutional Performance
	2. Financial performance
Request	3. Market Share
	4. Financing
Related industries	5. Number of Sharia Business Units
Strategy	6. Roadmap

Source: Diamond Porter 1990 model (modified)

This research is a descriptive study so that the competitiveness analysis tool used by qualitative methods is by analyzing each component in the Porter's Diamond Theory. The is components are there source factor, the demand factor, the related industry and supporting industry factors, and the strategy, structure and competition factors aimed at providing an overview or explanation of the competitiveness of Islamic Banking in Indonesia with Islamic Banking in Pakistan.

RESEARCH FINDINGS AND DISCUSSION

Resource

In general, the development of resources, especially Islamic banking in Indonesia and Pakistan, has experienced very good growth in terms of institutional performance and financial performance. As for the performance improvements referred to as follows:

Institutional Performance

The Financial Services Authority notes in the 2016-2020 sharia banking statistics the following conditions for sharia financial institutions:

Table 2 Number of Islamic Finance Industry in Indonesia (2016-2020)

Types of Financial Institutions	2016	2017	2018	2019	2020
Sharia Commercial Bank	12	13	13	14	14
Sharia Business Unit	22	21	21	20	20
total	34	34	34	34	34

Source: Financial Services Authority

From the table above illustrates the increase in the number of Islamic financial industry in Indonesia in 2019 from the institutional side, namely in 2016 there were 12 Sharia Commercial Banks, and in 2017-2018 to 13 Banks and finally in 2019 and 2020 to 14 Sharia Commercial Banks. But the reverse condition in the Sharia Business Unit has decreased, namely, in 2016 there were 22 Sharia Business Units and in 2017-2018 it fell to 21 Business Units and finally in 2019-2020 it also dropped to 20 Sharia Business Units.

Table 3 Number of Pakistan's Sharia Finance Industries (2016-2020)

Types of Financial Institutions	2016	2017	2018	2019	2020
Sharia Commercial Bank	5	5	5	5	5

Sharia Business Unit	17	16	16	16	17
total	22	21	21	21	22

Source: Islamic Bank Bulletin 2016-2020, http://www.sbp.org

The table above shows that in 2019 out of 22 the Islamic finance industry in Pakistan consists of 5 full Islamic banks (IB) and 17 conventional banks that have independent Islamic business units (IBB).

Financial performance

Assets

Sharia banking statistical Data in 2016-2020 from the Financial Services Authority recorded the number of Sharia banking assets in Indonesia

Table 4 Assets of Sharia Banking and Sharia Business Units in Indonesia 2016-2020 (Billion)

Indicator	2016	2017	2018	2019	2020
Asset	296,262	356,504	424,181	477,327	524,564
Growth (%)	8.78	20.33	18.98	12.53	9.89
Average			14.10		

Source: Financial Services Authority

The growth of Islamic banking assets in Indonesia in 2016-2020 based on the table above, namely the growth of assets in 2016 of 8.78 percent with an asset value of Rp. 296,262 billion which in the previous year amounted to Rp. 272,343 billion. In 2017 asset growth increased by 20.33 percent with total assets of Rp. 356,504 billion. In 2018 asset growth decreased to 18.98 percent with total assets of Rp.424.181 billion. In 2019 asset growth has decreased to 12.53 percent with total assets of Rp.477.327 billion, and most recently in 2020 asset growth has again decreased by 9.89 percent with total assets of Rp. 524,564 Billion, so that the average growth of Islamic banking assets in Indonesia in 2016-2020 was 14.10 percent. Likewise, the amount of Islamic Banking Assets in Pakistan in 2016-2020 is as follows:

Table 5 Assets of the Islamic Finance Industry in Pakistan The year 2016-2020) (Billion)

Indicator	2016	2017	2018	2019	2020
Asset	1,610	1853	2,272	2,658	3,284
Growth (%)	27.87	15.1	22.6	16.99	23.55
Average			21.22		

Source: Islamic Bank Bulletin 2016-2020, http://www.sbp.org.

The growth of Islamic banking assets in Pakistan in 2016-2020 based on the table above is that the growth of assets in 2016 amounted to 27.87 percent with an asset value of Rs. 1,610 billion, which in the previous year amounted to Rs. 1,259 billion. In 2017 asset growth decreased by 15.1 percent with total assets of Rs. 1,853 billion. In 2018 the growth of assets again increased to 22.6 percent with total assets of Rs.2.272 billion. In 2019 asset growth has decreased again to 16.99 percent with total assets of Rs.2,658 billion, and finally in 2020 asset growth has increased by 23.55 percent with total assets of Rs. 3,284 billion, so the average growth of Islamic banking assets in Pakistan in 2016-2020 was 21.22 percent.

Profit

One of the objectives of establishing a financial institution is to obtain an optimum profit because profit is a supporting factor for the operational continuity of the bank itself. Statistics of Islamic banking in 2016-2020 from the financial services authority recorded the number of profits of Islamic banking in Indonesia

Table 6 Total Profit of Islamic Financial Institutions in Indonesia 2016-2020
(Billion)

Indicator	2016	2017	2018	2019	2020
Profit	2,301	2,955	4,423	6,934	8,926
Growth (%)	12.29	28.42	49.67	56.76	28.73
Average	35.17				

Source: Financial Services Authority

The table above explains that the profit earned at Islamic Financial Institutions (BUS and UUS) in Indonesia every year (2016-2020) experienced an increase in 2016 recorded a profit of Rp. 2,301 (billion), with a growth of 12.29 percent with profit in the previous year of Rp.2,049 billion, profit in 2017 of Rp. 2,955 billion with an increase in profit growth of 28.42 percent, profit in 2018 of Rp.4,423 billion with profit growth of 49.67 percent, profit in 2019 of Rp.6,934 billion with profit growth of 56.76 percent, and finally in the year 2020 amounted to Rp.8,926, with profit growth decreasing by 28.73 percent, this indicates the average growth in profit growth of national Islamic financial institutions from 2016 - 2020 amounted to 35.17 percent. The profits of Islamic financial institutions in Pakistan are as follows:

Table 7 Total Profit of Islamic Financial Institutions in Pakistan 2016-2020

(Billion)

Indicator	2016	2017	2018	2019	2020
Profit	12.3	17	23	34	66
Growth (%)	11.8	38.2	35.2	47.82	94.11
Average	45.42				

Source: Islamic Bank Bulletin 2016-2020, http://www.sbp.org.

The table above provides an explanation that profit after tax of Islamic banking in Pakistan every year (2016-2020) also increased. 2016 posted a profit of Rs. 12.3 (billion), with a growth of 11.8 percent from the previous year which recorded a profit of Rs. 11 billion, 2017 profit of Rs. 17 billion, with a growth of 38.2 percent, 2018 profit of Rs. 23 billion with an increase in growth of 35.2 percent, 2019 profit of Rs. 34 billion with an increase of growth of 47.82 percent, and the last profit in 2020 of Rs. 66 billion experienced a significant increase of 94.11, this indicates the average increase in Islamic banking profits in Pakistan each year by 45.42 percent.

Third-Party Funds (DPK) in the form of deposits

The main function of Islamic financial institutions is the collection of funds from third parties. Sharia banking statistical data for 2016-2019 from the financial services authority records the number of Third Party Funds (DPK), namely:

Table 8 Number of DPK in Indonesia 2016-2020 (Billion)

Indicator	2016	2017	2018	2019	2020
Third-party funds	231,175	279,335	334,888	371,828	416,558
Growth (%)	6.11	20.8	19.8	11	12
Average	13.94				

Source: Financial Services Authority

The table above explains that the development of third-party funds in Islamic financial institutions (BUS and UUS) in Indonesia shows an increase from year to year, it was noted that the Total DPK in 2016 was Rp. 231,175 billion, with a growth of 6.1 percent with a total DPK of Rp. 217.885 billion in the previous year. The total DPK in 2017 was Rp. 279,335 billion, with a growth of 20.8 percent, DPK for 2018 amounted to Rp. 334,888 billion with a growth of 19.8

percent. DPK 2019 of Rp. 371,828 billion with the growth of 11 percent, and finally DPK in 2020 as much as Rp. 416.558 billion with a growth of 12 percent, this shows that the average growth of the average DPK growth each year (2016-2020) was 13.94 percent. As for the growth in the number of Third Party Funds (DPK) in Pakistan, one of which is from the Deposit as follows:

Table 9 Number of Sharia Banking Deposits in Pakistan 2016-2020 (Billion)

Indicator	2016	2017	2018	2019	2020
Third-party funds	1375	1573	1885	2203	2652
Growth (%)	28.5	14.4	19.8	16.87	20.38
Average	20				

Source: Islamic Bank Bulletin 2016-2020, http://www.sbp.org.

The table above explains that the development of third-party funds in Islamic banking in Pakistan in the form of deposits every year (2016-2019) has increased. It was noted that in 2016 the number of deposits in Islamic banking in Pakistan amounted to Rs. 1.375 (billion) with a growth of 28.5 percent with deposits totaling Rs.1070 in the previous year. In 2017, total deposits amounted to Rs. 1.573 billion with a growth of 14.4 percent. In 2018 the number of deposits amounted to Rs. 1,885 ibillion with a growth of 19.8 percent. In 2019 the number of deposits amounted to Rs. 2.203 billion with a growth of 16.87 percent. And the last deposit in 2020 was Rs. 2.652 with a growth of 20.38 percent. This shows that the average growth each year (2016-2020) DPK Sharia Banking Deposit in Pakistan by 20 percent.

Calculation of Percentage and Ranking of Financial Performance Ratios
CAR (Capital Adequacy Ratio)

Capital Adequacy Ratio (CAR) is the ratio of bank performance to measure the adequacy of capital owned by banks to support assets that can generate risk. Mathematical CAR calculation is as follows:

$$KPMM = \frac{M_{tier1} + M_{tier2} + M_{tier3} - Inclusion}{Risk\ Weight\ Assets}$$

The CAR ranking criteria according to Bank Indonesia regulations can be seen in the following Matrix table:

Table 9 CAR Ranking Criteria Matrix

Percentage Value	Ranking

Percentage Value	Ranking
CAR ≥ 12	1
9 ≤ CAR < 12	2
8 ≤ CAR < 9	3
6 ≤ CAR < 8	4
CAR ≤ 6	5

Source: Bank Indonesia

ROA (Return On Asset)

Return on Assets (ROA) is used to determine the ability of banks to generate profits in managing assets optimally. A mathematical calculation of ROA is as follows:

$$ROA = \frac{Profit\ Before\ Tax}{Average\ Total\ Assets}$$

ROA ranking criteria according to Bank Indonesia regulations can be seen in the following Matrix table:

Table 10 ROA Ranking Criteria Matrix

Percentage Value	Ranking
ROA > 1.5	1
1.25 < ROA ≤ 1.5	2
0.5 < ROA ≤ 1.25	3
0 < ROA ≤ 0.5	4
ROA ≤ 0	5

Source: Bank Indonesia

NPF (Non-Performing Financing)

Non-Performing Financing (NPF) in Islamic banks is a financial ratio related to financing risk. The CAR calculation is mathematically formulated as follows:

$$NPF = \frac{Financing\ (KL, D, M)}{Total\ Funding}$$

The NPF ranking criteria according to Bank Indonesia regulations can be seen in the following Matrix table:

Table 11 NPF Ranking Criteria Matrix

Percentage Value	Ranking
NPF <2	1
2 ≤ NPF < 5	2
5 ≤ NPF < 8	3
8 ≤ NPF < 12	4
NPF ≥ 12	5

Source: Bank Indonesia

FDR / LDR (Financing Deposit Ratio/Loan Deposit Ratio)

Financing Deposit Ratio is the ability of banks to repay withdrawals of funds made by depositors by relying on financing provided. The FDR calculation is mathematically formulated as follows:

$$FDR = \frac{Financing}{Saving + Time\ Deposits}$$

The FDR/LDR ranking criteria according to Bank Indonesia regulations can be seen in the following Matrix table:

Table 12 FDR / LDR Ranking Matrix Criteria

Percentage Value	Ranking
FDR/LDR ≤ 75	1
75 < FDR/LDR ≤ 85	2
85 < FDR/LDR ≤ 100	3
100 < FDR/LDR ≤ 120	4
FDR/LDR > 120	5

Source: Bank Indonesia

BOPO

The operational cost ratio is a comparison between operating costs used by Islamic banks with operating income obtained. The formula for finding BOPO is as follows

$$REO\ \frac{Operating\ Expenses}{Operating\ Income}$$

The BOPO ranking criteria (REO) according to Bank Indonesia regulations

can be seen in the following Matrix table:

Table 13 BOPO Ranking Criteria Matrix

Percentage Value	Ranking
BOPO ≤ 94	1
94 < BOPO ≤ 95	2
95 < BOPO ≤ 96	3
96 < BOPO ≤ 97	4
BOPO ≥ 97	5

Source: Bank Indonesia

The ratio of Islamic banking financial performance in Indonesia in 2016-2019 recorded in sharia banking statistics can be seen in the following table:

Table 14 Islamic Banking Financial Performance Ratio 2016-2020

Indicator	2016	2017	2018	2019	2020	Average
CAR (%)	15.02	16.63	17.91	20.39	20.59	18.10
ROA (%)	0.49	0.63	0.63	1.28	1.73	0.95
NPF (%)	4.84	4.42	4.76	3.26	3.23	4.10
Net NPF (%)	3.19	2.17	2.57	1.95	1.88	2.35
FDR (%)	88.03	85.99	79.61	78.53	77.91	82
BOPO (%)	97.01	96.22	94.91	89.18	84.45	92.35

Source: Financial Services Authority (Sharia Banking Statistics 2016-2020)

The above table provides an explanation that the average financial performance ratio of Islamic banking in Indonesia every year (2016-2020, namely CAR of 18.10 percent, ROA of 0.95 percent, NPF of 4.10 percent, NPF Net of 2.35 percent, FDR of 82 percent and Bopo amounting to 92.35 percent, as well as the financial performance ratio of Islamic banking in Pakistan from 2016- 2020 as follows:

Table 15 Pakistan Sharia Banking Financial Performance Ratio

Indicator	2016	2017	2018	2019	2020	Average
CAR (%)	6.6	6.7	6.2	6.4	6.6	6.5
ROA (%)	0.6	0.7	1.1	1.4	2.2	1.2
NPF (%)	4.7	4.1	3.0	2.4	4.3	3.7
Net NPF (%)	0.8	0.7	0.5	0.4	2.0	0.88
FDR (%)	41.2	52.2	64.0	68.6	61.2	57.44

BOPO (%)	70.0	75.1	69.8	62.9	51.5	65.86

Source: Islamic Bank Bulletin 2016-2020, http://www.sbp.org.

The above table explains that the average financial performance ratio of Islamic banking in Pakistan every year (2016-2020) is CAR of 6.5 percent, ROA of 1.2 percent, NPF of 3.7 percent, NPF Net of 0.88 percent, FDR of 57.44 percent and Bopo by 65.86 percent

Referring to the ranking matrix table of each performance indicator, it can be seen that each of the Indonesia-Pakistan Islamic banking performance ratings from the average value of the performance indicators in 2016-2019 is as follows:

Table 16 Weight and Ranking of Competitiveness in Financial Performance of Indonesia-Pakistan Islamic Banking 2016-2020

Indicator	Indonesia		Pakistan	
	Score	**Ranking**	**Score**	**Ranking**
CAR	18.10	1	6.5	4
ROA	0.95	3	1.2	3
NPF	4.10	2	3.7	2
NPF Net)	2.35	2	0.88	1
FDR	82	2	57.44	1
BOPO	92.35	1	65.86	1

Source: Secondary Data Processed

The table above explains that the average performance ratio CAR of Islamic banking in Indonesia was ranked first while CAR of Islamic banking in Pakistan was ranked fourth. ROA Performance of Islamic Banking in Indonesia is ranked third as is the ROA Performance of Islamic Banking in Pakistan. Performance NPF Islamic Banking in Indonesia second rank likewise NPF Performance of Islamic Banking in Pakistan. NPF Net Performance of Islamic Banking in Indonesia was ranked second while NPF Net Performance of Islamic Banking in Pakistan was ranked first. FDR Performance of Islamic Banking in Indonesia was ranked second while the FDR Performance of Islamic Banking in Pakistan was ranked first. BOPO Performance Syariah Banking Performance in Indonesia is ranked first as is BOPO Syariah Banking Performance in Pakistan.

Request

Sharia Banking Market Share

Islamic banking market share is a percentage of the overall financial market achieved by Islamic banking. Islamic banking market shares can be calculated using the following mathematical equations:

$$MS = \frac{Total\ Islamic\ Banking\ Assets}{Total\ National\ Banking\ Assets}\ x\ 100$$

The development of Indonesian and Pakistani sharia banking market shares from 2016-2020 can be seen as follows:

Table 17 Sharia Banking Market Share in Indonesia 2016-2020

Indicator	2016	2017	2018	2019	2020
Islamic Bank Assets	296,262	356,504	424,181	477,327	524,564
National Bank Assets	6,197,622	6,843,300	7,513,579	8,204,039	8,712,597
Market Share	4.78	5.20	5.64	5.82	6.02
Average	5.49				

Source: Bank Indonesia SPI data processed

The table above illustrates that the condition of sharia banking market share growth in 2016 was 4.78 percent, in 2017 it was 5.20 percent, in 2018 it was 5.64 percent, in 2019 it was 5.82, and finally in 2020 it was 6.02 percent, so the average market growth national share of sharia banking in Indonesia in the past 5 years (2016-2020) of 5.49 percent. The sharia banking market share growth in Pakistan in 2016-2020 ican ibe iseen iin the following table:

Table 18 Sharia Banking Market Share in Pakistan 2016-2020

Indicator	2016	2017	2018	2019	2020
Market Share	11.4	11.7	12.4	13.5	14.9
Average	12.78				

Source: Islamic Bank Bulletin 2016-2020, http://www.sbp.org.

The table above illustrates that the condition of Islamic banking market share in Pakistan in 2016 was 11.4 percent, in 2017 it was 11.7 percent, in 2018 it was 12.4 percent, in 2019 it was 13.5 percent, and finally in 2020 it was 14.9 percent so that the average growth the average Islamic banking market share in Pakistan in the past 5 years (2016-2020) was 12.78 percent.

Financing

One function of Islamic banking is channeling funds to the public who need it in the form of providing financing for venture capital. The amount of

financing that has been channeled by Islamic Banking in Indonesia from 2016-2020 is as follows:

Table 19 Number of Sharia Financial Financing in Indonesia (2016-2020) (billion)

Indicator	2016	2017	2018	2019	2020
Financing	**174,300**	207,806	257,863	314,340	366,163
Growth	14.4	19.2	24.1	22	16.5
Average	**19.2**				

Source: Financial Services Authority (Sharia Banking Statistics 2016-2020)

The table above illustrates that the condition of Islamic banking financing in Indonesia in 2016 with total financing of Rp174,300 with a growth of 14.4 percent from the total financing of Rp.152,399 billion in the previous year. In 2017 the amount of financing increased by Rp.207,806 billion with growth also increasing by 19.2 percent. In 2018 the amount of financing is Rp.257.863 billion with a growth of 24.1 percent. In 2019 the amount of funding is Rp. 314,340 billion with a growth of 22 percent, and finally in 2020 the amount of financing is Rp. 366,163 billion with growth down to 16.5 percent, resulting in the average growth of Islamic banking financing in Indonesia of 19.2 percent. Likewise, the growth of Islamic banking financing in Pakistan in 2016-2020 can be seen in the following table

Table 20 Number of Islamic Banking Financing in Pakistan (billion)

Indicator	2016	2017	2018	2019	2020
Financing	645.3	821	1,305	1,511	1,623
Growth	53	27.22	59	15.9	7.4
Average	**32.5**				

Source: Financial Services Authority (Sharia Banking Statistics 2016-2020)

The table above illustrates the condition of Islamic banking financing in Pakistan in 2016 amounted to Rp. Rs. 645.3 billion with a growth of 53 percent from the previous year's total financing of Rs. 422 billion. In 2017 the amount of financing increased by Rs 821 billion with declining growth of 27.22 percent. In 2018 the amount of financing is worth Rs. 1,305 billion with growth increasing by 59 percent. In 2019 the amount of financing is worth Rs. 1,511 billion with growth has decreased to 15.9 percent, and finally, in 2020 the amount of funding is Rs. 1,623 billion with growth back down to 7.4 percent, bringing the average growth of Islamic banking financing in Pakistan to 32.5 percent.

Related Industries (Sharia Business Units)

Sharia Business Unit is defined as a work unit of a Conventional Commercial Bank head office that functions as the main office of an office or unit that conducts business activities based on Sharia Principles. The establishment of UUS is a requirement that Conventional Commercial Banks can also provide sharia services. The number of Sharia Business Unit services in Indonesia and Pakistan from 2016-2020 are as follows:

Table 21 Number of Indonesia-Pakistan Sharia Business Units

Indicator	2016	2017	2018	2019	2020
UUS in Indonesia	22	21	21	21	20
UUS in Pakistan	17	16	16	16	17

Source: Secondary Data Processed

The table above illustrates that the number of sharia business units in Indonesia is greater than in Pakistan, the data above shows that in the last 2020 the number of Sharia Business Units in Indonesia was 20 Sharia Business Units while in Pakistan there were 17 sharia business units.

Strategy

Facing the challenges to improve the competitiveness of Islamic banking while developing Islamic banking in Indonesia requires directional steps. Therefore the banking authority needs to develop strategies related to coordination between the government and the Islamic banking authority in the context of developing and enhancing the competitiveness of Islamic banking, not only at the national level but also at the international level.

Strategies for floating Islamic banking as stated in the 2016-2020 Roadmap, with the vision of Realizing sharia banking that contributes significantly to sustainable economic growth, equitable development and financial system stability and high competitiveness (Financial Services Authority, 2015: x) policy direction and the strategy is formulated as follows:

a. Strengthening policy synergies between the authorities and the government and other stakeholders.
b. Strengthen capital and business scale and improve efficiency with work programs.
c. Improve the fund structure to support the expansion of the financing segment;

d. Improve service quality and products' diversity

e. Improve the quantity and quality of HR and IT and other infrastructure;

f. Improve literacy and community preferences

g. Strengthening and harmonizing regulation and supervision.

The strategies were undertaken to improve the competitiveness of Islamic banking in Pakistan as reported in the 2015-2019 Islamic Banking Industry of Pakistan Strategic Plan (State Bank of Pakistan; 2015), namely:

a. Enabling Policy Environment: Creating a legal, regulatory, supervisory, liquidity management, taxation and accounting, and financial reporting framework.

b. Shariah Governance & Compliance: Standardize and harmonize Sharia practices, and create different Islamic banking products and services.

c. Awareness & Capacity Building: Coordination and collaboration between internal and external stakeholders, increasing literacy on Islamic finance.

d. Market Development: Product diversification and financial inclusion with stakeholder collaboration.

DISCUSSION

The ability of banking institutions to maintain their competitiveness will greatly support the operational sustainability of the banking sector itself. Jess Cornaggia et al (2015) found that competition in the banking world in a country can reduce the portion of innovation associated with public companies to get financing.

Competitiveness is a conceptual mechanism that takes into account a group of indicators outside the company that emphasizes the relative performance between companies. Therefore, competitiveness must be placed in a comparative context with other similar companies

Meanwhile, to face competition in the present, Porter argues that a company is not only enough to be seen from the aspect of its operational effectiveness. Companies need to do more than just achieve operational effectiveness in terms of performance. The company must develop a competitive strategy so that the company it manages is different from its competitors.

Therefore, porters develop power measurements based on 4 (four) dimensions, namely (1) Resources, (2) Demand, (3) Related industries and (4) Strategies.

Resource

The measurement of the resource dimension in this article uses institutional performance and financial performance. The results of the analysis of these dimensions are:

a. **Institutional Performance:** Institutional performance of Islamic banks in Indonesia and Pakistan, supported by 14 Islamic Banks in Indonesia, while in Pakistan as much as 5 Islamic Banks so from the institutional side, especially Indonesia Islamic Banks saw from the institutional side has stronger competitiveness compared with Pakistan.

b. **Financial performance:** The scope of measurement of financial performance in the article are 1) Assets, 2) Profit, 3) Third-Party Funds, and 4) Financial Ratios namely CAR, ROA, NPF, NPF net, FDR / LDR and BOPO, the results of the analysis of this dimension are:

   1) *Assets:* The average growth of Islamic banking assets in Indonesia from (2015- 2019) was 14.10 percent lower than the average growth of Islamic banking assets in Pakistan which amounted to 21.22 percent so that in terms of asset growth the Islamic Banking of Pakistan has more competitiveness compared to Indonesia.

   2) **Profit:** The average growth of Sharia Banking Profits in Indonesia in 2016-2020 was 35.17 percent, while the average growth of Sharia Banking Profits in Pakistan in 2016-2020 was only 45.42 percent so that in terms of growth in profitability of Islamic Banking in Indonesia was lower ithan with the growth in profitability of Islamic banking in Pakistan.

Third-Party Funds

The average growth of Islamic Banking Third Party Funds in Indonesia in 2016-2020 was 13.94 percent compared to the average growth of Islamic Banking Third Party Funds in Pakistan which was 20 percent. So in terms of the growth of Third Party Funds, Islamic banking in Indonesia is lower than the growth of Third Party Funds in Islamic banking in Pakistan.

Financial Ratios

a. The average Sharia Banking CAR Financial Ratio in Indonesia in 2016- 2020 was 18.10 which in terms of the level of the soundness of the bank was ranked first, compared to the average CAR Sharia Banking Ratio in Pakistan which

was 6.5 which was ranked fourth in terms of Bank Health Level.

b. The average ROA ratio of Sharia Banking in Indonesia in 2016-2020 was 0.95 and ranked third in terms of bank soundness, as well as the average ROA of Sharia Banking in Pakistan at 1.2 and also ranked third in terms of bank soundness.

c. The average NPF Ratio of Sharia Banking in Indonesia in 2016-2020 was 4.10 which in terms of the level of the soundness of the bank was ranked second, as well as the average NPF Ratio of Islamic Banking in Pakistan which was 3.7 which also ranked second in terms of Bank Health Level.

d. The average NPF ratio of Sharia Banking in Indonesia in 2016-2020 was 2.35 which in terms of the level of the soundness of the bank was ranked second, compared to the average NPF ratio of Sharia Banking in Pakistan which was 0.88 which was ranked first from bank health level.

e. The average FDR ratio of Sharia Banking in Indonesia in 2016-2020 was 82 which in terms of the level of the soundness of banks ranked second, compared to the average FDR ratio of Islamic Banking in Pakistan which amounted to 57.4 which ranked first in terms of level bank health.

f. The average Sharia Banking BOPO Ratio in Indonesia in 2016-2020 was 92.35 which in terms of the level of the soundness of the bank was ranked second, compared to the average BOPO Sharia Banking Ratio in Pakistan which was 65.9 which was ranked first in terms of level bank health.

Six indicators of the ratio, Islamic banking in Pakistan has higher competitiveness with 3 indicators of financial ratios namely NPF net, FDR and Bopo which are ranked first in terms of the level of bank health compared to Islamic banking in Indonesia which places 2 indicators in the first rank namely CAR and Bopo Ratio.

Request

a. Market Share: Competitiveness of the growth of sharia banking market share in Indonesia is lower than sharia banking in Pakistan, from existing data shows that the average growth of sharia banking market share in Indonesia in the last 5 years (2016-2020) was 5.49 percent, while growth Islamic banking market share in Pakistan is 12.78 percent so it appears that the market share of islamic banking in Pakistan is more competitive.

b. Financing: The competitiveness of the growth of Islamic banking financing in Indonesia is lower compared to the growth of Islamic banking financing in

Pakistan from existing data explaining that the average growth of Islamic banking financing in Indonesia in 2016-2020 was 19.2 percent compared to the average growth of Islamic banking financing in Pakistan at **32.5** percent, it also explains that the competitiveness of Islamic banking financing in Pakistan has more competitiveness compared to Islamic banking in Indonesia.

Related Industries (Sharia Business Units)

The number of sharia business units in Indonesia is 20 Sharia Business Units compared to the number of Sharia Business Units in Pakistan amounting to 16 sharia business units, this illustrates that in terms of the number of sharia business units Indonesia has more competitiveness compared to Pakistan.

Strategy

From the aspect of the strategy for developing and enhancing the competitiveness of Islamic banking, the two countries of Indonesia-Pakistan each have a policy outlined in the roadmap for the development of Islamic banking, which is currently being implemented in both countries.

Islamic and conventional banking in Indonesia's dual financial system both play an important role as financial intermediaries, where banks theoretically collect funds from depositors and distribute them to financing clients/customers. However, over the years there have been developments in the financial industry, when financial deregulation occurred, where the role of providing credit was not only owned by banks but also other financial institutions. As a result, banks are no longer considered as centers of financial intermediation but can be replaced by other financial institutions.

Basyarah, (2016) argues that one that is considered to be able to improve the competitive position of Islamic banking in a wider market share not only in Indonesia and not only competing with banks in Indonesia can also compete with foreign banks requiring special strategies, as well as operational cost efficiency Islamic Bank.

Fikri, (2019) argues that in the ong run credit and financing channels are still relevant for use in monetary transmission mechanisms after the development of the financial sector and changes in monetary policy. However, only impacts the economy and does not affect inflation.

Previous studies on the mechanism of monetary transmission, specifically bank lending channels, have been carried out, by research by Agha et al., (2005), Simpasa et al., (2015), Caldas Montes and Monteiro, (2014), and Sanfilippo-Azofra et al., (2018), which states that credit channels are very effectively used in monetary transmission mechanisms that affect economic growth in 33 developing countries

CONCLUSION

Competitiveness of Islamic banking competitiveness in Indonesia in 2016- 2020 on Institutional Performance which recorded 14 Sharia Commercial Banks, an Average CAR Ratio of 18.10 percent, compared with the same indicator on Islamic Banking in Pakistan which recorded a growth rate of 6,5 percent, and also BOPO with an average growth of 92.35 compared to the same indicator in Islamic Banking in Pakistan which only recorded growth of 65.86

Competitiveness of Islamic banking in Pakistan in 2016-2020, namely the NPF Net Financial Ratio Performance of 0.88 percent compared to Islamic banking in Indonesia which recorded 2.35, FDR of 57.44 percent compared to Islamic banking in Indonesia which amounted to 82 percent and Bopo by 65.88 compared to sharia banking in Indonesia at 92. 35 which ranks first in terms of the soundness of the bank, and an average market share growth of 12.78 percent compared to sharia banking market share in Indonesia at 5.49 and financing growth at 32.5 percent compared to the same indicator in Islamic banking in Indonesia which is only 19.2 percent.

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