

IMPACT OF INVESTOR CONFIDENCE TOWARDS OPERATIONAL STABILITY (AN EVIDENCE FROM SHARIA BANKING AS THE DEPOSIT BENEFICIARY OF HAJJ FUND IN INDONESIA)

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Abstract: *The research model refers to nonstructural approach in performance evaluation theory of the banks. The hypotheses are verified based on bank concentration-stability discourse. Hence, this study examines the operational stability of sharia banks as the deposit beneficiary of Hajj fund and its causal relationship to the investor hajj fund confidence. With in the hajj fund management of Government of Indonesia, performance evaluation of sharia banking directed to know how banks can operate stable with regards to compliance aspect of sharia and hajj fund development program. Taking the advantages of partial least square (PLS) formative-reflective validation model, the results showed that there are positive significant causal relationship between investor hajj fund confidence toward operational stability. Rational findings on this Islamic bank study is to reinforce the hypothesis of fund concentration-stability on sharia banks as it's on conventional ones.*

Keyword: *Investor Hajj Fund Confidence, Operational Stability, Sharia Banks as Beneficiary of Hajj Fund and Partial Least Square.*

1. INTRODUCTION

1.1 Background and Issues

Indonesia as a country with a majority Muslim population, each year serves its Muslims citizen to carry out the holy worship to the holy land in Saudi Arabia. Ministry of Religious Affairs is the government representative who has the duty to carry out this task every year. Quota policy of Saudi Arabia government resulted in a long queue (waiting period of departure) of prospective pilgrims in Indonesia even though they have already paying off the cost of Hajj as set by the government, initial deposit of each prospective pilgrims are credited 25 Million per each, this initial deposit is so called as cost of hajj or fund of hajj (BPIH). The waiting period is currently varied based on the province, usually between 10 to 20 years.

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The Indonesian government set 27 commercial banks (conventional and sharia) as the Deposit Beneficiary of Cost Hajj (BPS), approximately 30 trillion of the deposit funds managed by 27 banks (BPIH financial statements, 2013/2014). The fund of hajj continues growing from year to year due to the increasing public interest to carry out hajj in Indonesia. In 2014, Director General of Hajj and Pilgrimage (DJPHU) -Ministry of Religious Affairs of the Republic of Indonesia conducted reselection of BPS, which then determined only 17 sharia banks and sharia business units as deposit beneficiary of hajj cost. In that year occurred massive transfer of funds from commercial banks and sharia 27 to only 17 sharia Banks.

Referring to the regulation of Minister of Religious Affairs (PMA) No. 23 of 2011, Article 11, that the development fund of cost of organizing the Hajj (BPIH) may only be done by way of purchase Sharia Debentures Securities/SBSN (*sukuk*), purchase Government Securities (SUN) and place it in the form of time deposits at the sharia banks. The following illustration is the composition of the placement of Hajj funds (BPIH) 2014:

Concentration of pilgrim's confidence (investor) in depositing the initial deposit to BPS will certainly affect the stability or even vice-versa (fragility). In that context, the working mechanism of BPIH management is very demanding of BPS conditions. This matter is deemed as a reason for Director General of Hajj and Pilgrimage (DJPHU) Ministry of Religious Affairs of the Republic of Indonesia to increase the authority capacity of reviewing the development model of BPIH optimally on each year on an ongoing basis, so that the world of sharia banking as the deposit beneficiary of Hajj fund may give an interesting return placements.

The phenomenon of organizing the Hajj up to year 2014 shows the fact that the demand to increase the services on the organization of Hajj each year is not linear with the increase of organizing the Hajj cost (direct cost). Currently in aggregate hajj funds reaches 20% of the third party funds from BPS Sharia banking.

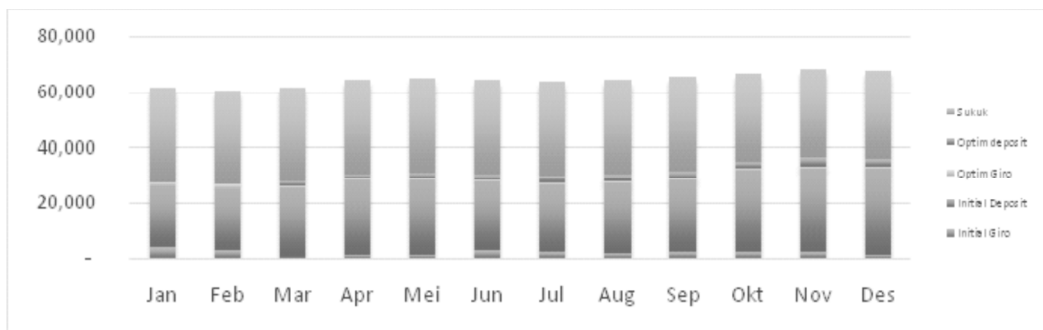


Figure 1: Placement of Hajj Fund (BPIH) year 2014 (in Million)

Source: Data compiled from the Financial Statements 2014

These conditions continue to evolve and Hajj funds become a source of cheap capital of sharia banking industry. Growth optimization of hajj fund (profit sharing) for the last 3 years (compounding growth) ranges by 15%, while the growth in using the funds for optimization fund for Hajj operational (indirect costs) as of 22%. The number of pilgrims who registered in the last three years decreased (the growth of negative compounding as of -16%). (BPIH Financial Statements, 2014).

From the above conditions, it needs the continuously efforts in order to improve -in confidence-the profit sharing rate of hajj fund that managed by DJPHU Ministry of Religious Affairs. It was then becomes a stimulus for DJPHU to initiate issued the law which regulate on the financial management of the pilgrimage that has now been ratified into a law, namely Law No. 34 of 2014. In the Law, give the space to the Hajj financial management agency (BPKH) which later on to invest the Hajj funds into more varied investment portfolios, not only for banking products or *sukuk*. By the expansion of asset class from Hajj portfolio later on it be more easy to predict in order to reduce the portion of the amount of funds that may be managed by sharia banking as BPS BPIH.

The rate of stability or level of stability as proposed by Jeong (2003) will increase the risk assets with higher returns while reducing the safe investment with a low rate of return. Investment in the asset is more risky so that requires the banks to provide the bigger volume of time deposits (deposits). Mufraini (2013), explains that the stability of capital, earnings, liquidity and management of Islamic/sharia banks in Asia is very related to the concentration of deposits and margin financing.

Previous research in the context of conventional banks- showed that the results which have not been consistent in the relationship between concentration and stability. Dultuvaite (2010) explains that the higher the concentration of investor confidence has more impact to the stability of the bank or even otherwise the higher concentration of funds will affect to the fragility. While Lee (2012) explains that the economic theories is confronted with the issues that arise a long debate, related to the concentration of investor confidence and the stability of bank. Hussein (2010) express that the research related to the predictive relationship between the concentration of customer confidence (investor) and the improving stability of banks has not been developed in the context of Islamic/sharia banking.

Such as conventional banks, sharia banking is an institution of trust and confidence, therefore, the bank's management must use all operations devices to be able to maintain the confidence of prospective pilgrims. On the other hand, DJPHU is continually making an effort to optimize the hajj funds for the interest of the service. This management model has the meaning of hajj funding concentration on BPS BPIH which it should have a positive influence (industry side) to BPS BPIH operational stability. However based on the scientific experience

(Deltuvaite, 2010) which associated with it indicates that the things could have been different, or vice versa. Therefore, this study aims to understand the hajj fund management and how the management may affects the stability of the BPS BPIH. As a part of alignments to the sharia industry-regardless of the amount of funds managed by the sharia banking, the predictive relationship of Hajj funds and BPS BPIH stability becomes very important to conduct in depth study.

1.2 Data and Research Method

This research has verification descriptive nature. Description is made to analyze the model of hajj fund management which developed by the Director General of Hajj and Pilgrimage (DJPHU) Ministry of Religious Affairs of the Republic of Indonesia based on the laws and regulations. Verification is done to view the relationship between each variable, with BPS BPIH financial statements as an instrument that will be examined and constructed to meet the needs of multivariate data analysis. 17 BPS BPIH which is the object of this study consists of sharia business units of Bank DKI Jakarta, Bank Jawa Timur, Bank Riau, Bank Sumatera Utara, Bank Sumatera Selatan, Bank Aceh, Bank Jawa Tengah, as well as commercial bank of sharia, that's are Bank Tabungan Negara (BTN), Bank Syariah Mandiri (BSM), Bank Negara Indonesia Syariah (BNIS), Bank Rakyat Indonesia Syariah (BRIS), Mega Syariah, Muamalat, Permata Syariah, Niaga Syariah and Panin Syariah.

Investor confidence is an independent variable or exogenous variables (X) are the variables that affect or become the cause of dependent variable. Variable Construct is counted latent with an indicator or formative-reflective proxy. Operationalization of Investor confidence variables illustrated at the following Table.

Table 1
Variable Operationalization of Investor Confidence

<i>Concepts and Investor Confidence Variable</i>	<i>Dimension</i>	<i>Proxy</i>	<i>Size</i>	<i>Scale</i>
A large number of deposits and unrestricted investments which deposited by the pilgrim. Determination and selection of proxies is refer to Hussein (2010), Diamond and Rughuram (2000)	-	Initial and optim Giro, on call deposits, time deposits (<i>Wadiah</i> Savings and <i>Mudharabah</i> , Savings)	<i>DPK/DH</i> DPK: Nominal funds of third party <i>mudharabah</i> <i>mutthlaqoh</i> and <i>muqoyyadah</i> deposits and savings DH : Nominal hajj funding	Ratio

<i>Concepts and Investor Confidence Variable</i>	<i>Dimension</i>	<i>Proxy</i>	<i>Size</i>	<i>Scale</i>
			Hajj Fund (DH) DH: Nominal hajj funds from initial giro, on call deposits and time deposit and optimgiro and deposit	

Operational stability of banks is dependent variable or endogenous variable (Y). Constructs variable counts latent with an indicator or formative/reflective proxy (endogenouslatent variable). Operationalization of the variable stability is illustrated in the following Table:

Table 2
Operationalization of Stability Variable

<i>Concepts and Investor Confidence Variable</i>	<i>Dimension</i>	<i>Proxy</i>	<i>Size</i>	<i>Scale</i>
Banking stability according to CAMEL Model. Deltuvaitë (2010) and Hussain (2010), Muljawan (2005), Sarker (2007), Hasbi and Haruman (2011) and Kouser (2012)	Quality of capital (capital adequacy)	Capital adequacy ratio	CAR : E/RWA E : Equity (tier 1, 2 and 3) RWA : Risk Weighted Assets	Ratio
	Asset Quality	The ratio of investment to total assets	ITA : I/TA I : investment TA : Total Assets	
	Earning Quality	Return on Equity	ROE :EAT/PC EAT : Earning After Tax PC : Paid in Capital	
	Liquidity Quality	Total loans to total deposits	TLTD : TL/TD TL : Total Loan TD : Total Deposit	

Diamantopoulos *et. al.* (2008) identifies that one of the difficulties in establishing the constructs variables are the indicators developed count formative or reflective. So far, the researchers apply the inconsistent, argue on this matter has not been completed. In addition, Andreev (2009) identifies that related to how to validate the formative variables between one researcher and others is also inconsistent, this then led the researchers chose to be skepticism. Therefore in this study each variable will be tested in formative and reflective.

The researchers propose a model relationship between the variables of investor confidence and operational stability by utilizing the method of partial least square (PLS). In terms of determination of PLS model, as proposed by Casta *et al* (2012) in Mufraini (2013), working under the assumption that:

- The model was built to predict the relationship between variables does not stand on a strong theory if it is associated with the unit of analysis of sharia banking
- More than one proxy may be used for the dependent and independent variables
- The data is not normal and BPS BPIH unit do not have too much amount, thus its observation unit is not too much when compared with the proxy parameters that can be used.
- In addition to look at the relationship, the researchers wanted to uncover the most appropriate proxy (composite factor) to predict the formative and reflective variables that raise in the study. The number of proxies that are used in research on each variable allows the researchers to do interchangeability as a proxy as the basic assumptions indicators that built in formative.
- Data used for the variable *X* is a financial ratio data, so that between the proxy is assumed to have a strong correlation. PLS was able to overcome the multico-linearity that often arise in the use of financial data, although in the analysis multi co-linearity examination is still recommended

2. INVESTOR CONFIDENCE AND OPERATIONAL STABILITY OF THE BANK

Swedberg (2010) argued that an understanding of “trust” (confidence) of investor in the level of financial studies can be referred to the field of Psychology and Sociology study as well as a field of Economics study. Each of the particular field of psychology and sociology study had already developed the concept of confidence or trust. Yousafzai *et. al.* (2003) found that the trust shall be considered as catalysts in a variety of transactions between sellers and buyers, the fulfillment of the obligations in an exchange relationship, so that customer satisfaction can be realized as expected. But Todd (2007), Castelfranchi & Falcone (2008) found that confidence and trust are not synonymous, although the two terms are systematically related one to another. In its development the confidence or trusts becomes the study of various disciplines (Riegelsberger *et al.*, 2003; Murphy and Blessinger, 2003; Kim and Tadisina, 2003).

Sinkev (2002) explains that the client/investor in choosing a financial institution is very concerned about the price, convenience, and confidence that formed by

market forces and regulators. According to Freixas and Santomero (2003), there are at least three reasons why banks have a competitive advantage in terms of number of account opening of the customers and depositors, the first is due to the existence of a bank as an intermediary institution, then the bank will always try to do a screening process to any potential borrowers customer and the third banks are the institution which is able to be monitored.

Julius *et. al.* (2011) quotes from Shiller (2000), that investor confidence is an attitude that nothing can go wrong with an investment, so investors may be able to sleep well because nothing needs to be feared. Julius *et. al.* (2011) explained that ensuring the investor confidence will increase the participation of investors in the market and encourage the savings and channeling the savings into productive real investment, thus encouraging the accumulation of capital and efficiency in investment and development of real sector. Nonetheless it was debated whether the protection to the investor promote market efficiency. In a banking context, the above opinions on the confidence of investors and its relationship with the bank are still very relevant.

Bank within the meaning of sharia is a bank that is free of interest (interest free banking). This understanding gives the direction to Islamic banking initiations operations as well as the selection of banking instruments that should avoid the interest. In a broader context, sharia banking is not only meant to avoid interest-based transactions but is also expected to participate actively to achieve the goal of an Islamic economy as a whole. (Mannan, 1998; Iqbal and Mirakhor, 1999).

Sharia banking activities in general is the implementation of Islamic economic principles, such as the prohibition of usury on every activity; not allowed to elicit the concept of time value of money because money is a medium of exchange is not a commodity; adhere the concept of no income without the expense or no return without risk; do not use the two prices for one price of services and goods; not allowed two transactions in one contract and not allowed to conduct any speculative (*gharar* and *maysir*). (Ghattis, 2010)

The philosophy underlying the activities of a bank is a public trust and concern to the customer/investor will be the main requirement if the bank without interest wanted to keep it up and thrive. According to Diamond and Rughuram (2000), investor confidence can be measured through the number of deposits and unrestricted investments deposited by those investors. Therefore, in this study associated with fund collection system on sharia banking, such investor confidence can be seen from Giro, Savings and Time Deposits.

Product fundraiser on sharia banking introduced a number of products. First, *Wadiah* deposits; *Wadiah* deposit is *Giro wadiah yad-dhamanah* deposits namely the

customers entrust the funds to banks with a return in the form of bonuses based on the discretion of the bank. Second, *mudharabah* savings, the depositors (*rabbu al maal/investor*) may be withdrawn in accordance with the requirements as specified by the agreement. *Mudharabah* savings investment is stated at the holders of savings (*rabbu al maal/investor*) in the bank (*al amil/workers*) and get rewarded for the results of the bank's revenue for the use of these funds, with the ratio set by a previous agreement only between the bank and the depositor. Third, *mudharabah* deposits, *mudharabah* time deposits which represent deposits of depositors (*rabbu al maal/investor/mudharib*) which can be drawn at a certain time in accordance with the agreement between the holders of time deposits *mudharabah* (*rabbu al maal/investor/mudharib*) with the bank.

Mudharabah time deposits are stated at nominal value in accordance with an agreement between the holders of deposits with the bank and get the return of the bank's revenue for the use of these funds, with the ratio for the result set and approved in advance based on agreement. Deposits may apply for *muthlaqoh* (unrestricted investment accounts) and can apply for *muqoyyadah* (restricted investment accounts). Based on the illustration of product collection of Islamic bank funds above, can be delivered that the relationship built by the depositor holders of investment funds (investor) with the bank as a worker should be a partnership. (Arifin, 1999), (Mustafa, *et. al.*, 2007)

Understanding the issue of investor confidence, Hussein (2010) indicated that most of the surveys used in the United States and other parts of the world, usually based on consumer perceptions/depositors/investors than the consequent behavior. Therefore, in his journal, Hussein (2010) emphasizes data bank approach directly measure and test the confidence of consumers/depositors/investors. Data on the bank level is assumed to reflect the actual behavior is not the observed behavior.

Hussein (2010) conducted a study of the key factors of the level of stability of bank is liquidity, capital and risk which associated with consumer confidence in the Islamic and conventional banks that operate in the same market. Using a fixed effect to a sample of 190 banks that operate in the OIC between 2000 and 2007, Hussein (2010) found that liquidity is not determined by the product mix of banks but caused by systemic factors. However, non-performing assets (representing loans to sub-prime borrowers) has a positive and significant correlation with liquidity. It indicated that during the crisis of Islamic/sharia banks is tend to take a strict risk strategy compared to conventional banks. In addition, the level of trust of the sharia banks generally tend to be higher because they are more capitalized than conventional banks, although conventional bank showed on average higher liquidity compared to ansharia bank. Moderate levels of consumer

confidence or discipline of depositors' as shown by the sharia bank deposits and customer funding for obligations is generally appear higher when compared to conventional banks.

Between trust and stability considered that their relationship such as eggs and chicken. Whether the banks should be stabilized first before trusted by the depositor or otherwise. The stability of banking sector is the basis of reliability of entire financial system as well as banks plays a central role in the process of money creation, in payment systems, in the financing of investment and economic growth. Furthermore, to maintain monetary and financial stability of central banks and supervisory authorities shall have a particular interest in assessing the stability of the banking system.

To build a framework that related to the relationship between the two could be said that Jeon and Miller (2002) and (2006) express that investor confidence through the concentration of collection funds (deposits and savings) in the bank will be more influenced positively to the profitability of banks. Profitability is defined as a reference of the bank's operational performance measurement as a whole. Causality test results also prove that it is only effect in one way and not vice versa, where the concentration of fund collection effect bank profitability and does not occur otherwise. Hasbi and Haruman (2011) proved that the continuity of operations in CAMELS formula that represented by CAR, ROA, FDR, NPF and OEOI data, by using a multiple regression model has a significant positive relationship to the growth of deposits of Islamic banks (investor confidence). The model was built and able to explain 30% of the overall effect.

Some academics (Allen and Gale, 2000, 2004; Beck *et. al.*, 2006, 2006) in Deltuvaitė (2010) showed that the banking system is made up of small banks with low levels of concentration of investors' funds are more vulnerable to the financial crisis than the concentration of funds investors in the banking system which consisting of large banks ("concentration-stability" hypothesis). Meanwhile, the opponent group of "concentration-fragility" states a hypothesis that banking structure which is more concentrated may increase the fragility of the banking system.

Academics Demirgüç-Kunt and Levine (2000), Beck *et. al.* (2003, 2006, 2006), Chang *et. al.* (2008), Uhde and Heimeshoff (2009) in Deltuvaitė (2010) distinguishes two hypotheses relationship between the two variables conflicting "the concentration of investor confidence in the stability" hypothesis and "the concentration of the fragility of investor confidence" hypothesis.

On the other hand, some researchers (Boyd and Runkle, 1993; Demirgüç-Kunt and Levine, 2000; Ruiz-Porras, 2007) in Deltuvaitė writing (2010) shows the results

of the third, in which the developed hypotheses is “no relationship between the concentration of investor confidence - stability (nor fragility) “. The third hypothesis suggests that the association of investor confidence concentration - Analysis stability (fragility) involves more than merely simple trade-off. Ruiz-Porras (2007) states that this hypothesis could explain the conflict results that found by many researchers and the effects of the concentration on the stability of the banking system may depend on specific economic conditions, assumptions, circumstances and data used to analyze the concentration and stability. The argument of the hypothesis is to explain the relationship of concentration-stability in the banking industry and a survey of the empirical evidence as presented in Deltuvaitė study, (2010).

Financial stability (financial stability) is one part of the operational stability, sustainable financial stability is closely related to the performance capabilities of the organization to create the sources of support for achieving organization vision. The report of ‘Islamic Finance and Global Financial Stability’ (2010) recommends that the development of Islamic banks operational stability development shall be made within sharia frame parameters and shall meet the main objective of sharia itself, namely to realize the benefit of everyone (Jarhi and Iqbal, 2001; Islamic Financial Services Board (IFSB) - Islamic Research and Training Institute (IRTI) - Islamic Development Bank (IDB), 2010).

According to Muljawan (2005) central bank rating system became one of the vital tools for banking authorities to assess the quality of the operational stability of banking institutions. Banks with good quality will be expected to operate more stable and continuously. In every country there are different approaches to develop its assessment system, depending on the specific needs of each country. Most countries use a rating system that refers to C (capital), A (asset quality), M (management), E (earning), L (liquidity) and S (sensitivity to market risk). Some countries only assess CAEL for assessing the quality of the bank’s operations. However, CAMELS being developed from year to year the development component includes the qualitative aspects and quantitative. Wirnkar and Tanko (2006) said that the current financial ratio is often used to gauge the interest of the bank’s financial condition and represents the quality of the bank itself. Thus it is common for the regulators then utilizes the financial ratios as an approach for CAMELS analysis.

The framework and modalities of the CAMEL rating can be practically developed on the terms of the values of adherence to sharia “(Sarker, 2006). Muljawan (2006) stated at the time of the Islamic Economics and Finance Conference in Jakarta, that in assessing the sustainability of operations of Islamic banks can still use indicators CAMELS, it’s just that some adjustments need to be formulated, particularly with regard to the Agency Role in the assessment of capital, value

added distribution, the identification of the different risks that associated with the transaction system of collection and distribution of funds and the implementation of Islamic values.

The phenomenon of the rapid growth of Islamic financial institutions, especially the banks, studies assessment on the performance also continues to grow, performance measurement is not only focus on profitability but also the need to review the issue of social responsibility and legal frame work (Zubair& Hassan, 2007). In the process of Islamic bank operations will not be free from error. Some financial ratios are often used to look at the performance of Islamic banks, and even become a tool of analysis for comparing between the Islamic banks and conventional banks. (Zubair and Hassan, 2007). At least two broad approaches to measure performance of the bank, a non-structural model and other is structural model. The non-structural model compare productivity and performance ratios and considers how these ratios related to the bank investment strategies and characteristics. The structural model concern and relies on the theoretical model of the banking firm and a concept of maximization or economics of cost minimization. (Hughes, 2008)

3. EMPIRICAL RESULTS

3.1 Mechanism and Development of Hajj Fund on Islamic Banking

Based on the interviews and studies of documents that available on DJPHU Ministry of Religious Affairs of the Republic of Indonesia, in simple way the flow of hajj fund management is starting from the initial deposit of each prospective pilgrim, 25 Million Rupiah, are credited to a checking account (Giro) on behalf of the Minister of Religious Affairs. DJPHU qq.pilgrimagecandidates on each BPS BPIH. At the time amount of money available on checking account reaches a certain value, automatically becomes the placement of on call and time deposits. The placement applies automatically with the standing instructions on each BPS BPIH as stated in the agreement¹. Based on country balance deficit need, DJPHU may also have an authority to place BPIH initial deposits into a government *sukuk*.

In term of book separation between BPIH initial deposits and its benefits (bonuses of checking account and profit share of deposit account and *sukuk* profits), every end of the month, the value of the benefits will be transferred to Bank Indonesia account on behalf of the Minister of Religious Affairs. DJPHU qq.pilgrimage candidates. After one or two or three months, pooled benefits at Bank Indonesia account will be distributed again to prospective selected BPS BPIH as - so called-BPS *Optim*, designated by the DJPHU for a certain period.

In term of financial management and due to effort of profit maximization, DJPHU set a very short of period and apply to minimize amount of money settle

on checking account on each BPS BPIH. Profit sharing rate (indicative return) of on call and time deposits on BPS BPIH quotation shall not least or equal with Bank Indonesia rate of the current month. BPS BPIH gives competitive bonuses of Giro as long as BPS BPIH obtains best benefit. DJPHU may move some of checking or deposits account balances that available in BPS BPIH from one to another if Giro bonus or profit deposits is considered less competitive. Profit sharing rate (indicative return) of *Optim* deposits² is equal with Bank Indonesia Rate plus of 25 (twenty-five) basis points to 100 (one hundred) basis points.

BPS *Optim* issued *optim* deposit slips no later than one (1) working day after the benefits funds go into giro account on behalf of Minister of Religion cq. DJPHU qq. pilgrimage candidates which available. BPS *Optim* carry out in full redemptions of *optim* deposits which formed in the current month and combining all nominal of *optim* deposits along with the profit sharing/return and also the funds available for *optim* deposits on the last business day of the current month to one (1) slip of new *optim* deposit on behalf of the Minister of Religious Affairs cq. DJPHU qq. pilgrimage candidates on the last business day of each month.

Disbursement of *optim* deposits above is free of charge and deposit disbursed still will be given a return as profit sharing (indicative return) of *optim* deposits proportionally. BPS *Optim* send the ability offers to implement the process of profit arrangement on the deposit no later than on the 20th of March, June, September and December for the ability of the next quarter. If the 20th falls on a holiday, then the offer delivered the latest is on the last working day before the 20th. Ministry of Religious Affairs in writing assign BPS *Optim* to process the arrangement of deposit returns in the following quarter at the latest on the 27th of March, June, September and December. When the 27th falls on a holiday, then the determination is delivered the latest is on the last business day prior to the 27th;

Sukuk profits at maturity date payment is credited to checking account at Bank Indonesia on behalf of Minister of Religious Affairs. Ministry of Religious Affairs is projecting the revenue of *sukuk* returns per position on 14 and 28 during the current month. Once every first working day of that month, Ministry of Religion makes and submits two (2) pieces of postdated checks to Bank Indonesia dated 14 and 28 of the current month with the value equal with the return on revenue projections for *sukuk* profit. Check is drawn to be transferred to the account on behalf of Minister of Religion in BPS *Optim*.

Handling *sukuk* profits, BPS *Optim* issued the deposit no later than H + 1. The amount of *optim* deposit indicative return is equal with BI Rate plus twenty five (25) basis points up to one hundred (100) basis points. All of *optim* deposits that formed in running month in a break and combine a whole of *optim* nominal deposits following with its return and the funds which available for *optim* deposits on the last business day of the current month, to be one (1) new *optim* deposit slips on

the behalf of Minister of Religion on the last business day of each month. Break deposit above is free of charge and break optim deposit is given the profit such as an optim deposits profits indicative return.

Three Parties Swap Mechanism Enforcement; The basic concept of Three Parties Swap Mechanism is a mutual assistance between the DJPHU of Ministry of Religious Affairs with BPS BPIH through the mediation of Cooperation Forum (FK BPIH BPS) of bank Sharia which is a forum of non-formal institution who's the membership currently consists of 17 (seventeen) BPS BPIH.

BPS BPIH Cooperation Forum collects the data of BPS BPIH that have long position and short position. BPS BPIH Cooperation Forum submits BPS BPIH data that have long position and short position to the DJPHU of Ministry of Religion. Minister of Religious Affairs, represented by the DJPHU Management Fund deliver confirmation to FK BPS BPIH to process Three Parties Swap Mechanism with BPS BPIH that have long position and that have short position.

FK BPS BPIH prepares Three Parties Swap Mechanism implementation document in the form of the Cooperation Agreement which signed by the parties concerned. Funds that can be included in the Three Parties Swap Mechanism³ is the fund of Ministry of Religious Affairs Hajj funds either from the initial BPIH deposit or funds that derived from the general optimization. BPS BPIH agrees to follow Three Parties Swap Mechanism program either while it is in a long position or a short position as long as there is any vacant position. Ministry of Religious Affairs agrees to follow the program of Three Parties Swap Mechanism as far as it meets the needs of management and Hajj fund development.

3.2 Relationship between Investor Confidence and Operational Stability of Bank Beneficiary of Cost Hajj Deposit

3.2.1 Outer Validation Model

Before examining the construct validity of each latent variable in the study, shall perform the examination of discriminant validity in advance for overall variable, namely Investor Confidence and stability.

Table 3
Validity Discriminant

	<i>Concentration</i>	<i>Stability</i>
Investor confidence	1.000	
Stability	0.660	1.000

Source: Processed data

The examination requires the absence of a strong correlation between the two variables. For that reason, the correlation value must be below than 0.71. (Trochim,

2006). As the following table the correlation value is 0.660, therefore it may be presented as no strong correlation between investor confidence and stability in the model proposed in this study.

Reliability constructs to view the internal consistency of investor confidence measurement model through multi co-linearity test. For the purposes of diagnosis multi co-linearity proxy constructs tested with the dependent variable stability. Output of reliability diagnosis of data construct variable construct showed the VIF value for the entire proxy close to 1, Tolerance value close to 1, it can be said that there is no multi co-linearity in the construct.

Table 4
Co-linearity Diagnosis of Investor Confidence

<i>Data</i>	<i>Co-linearity Statistics 2011</i>	
	<i>Tolerance</i>	<i>VIF</i>
DPKDH	0.704	1.420
DHG	0.704	1.420

Source: Processed Data

For the purposes of multi Co-linearity diagnosis constructs proxy, the Stability is tested with the dependent variable of investor confidence, the results of processed data indicates the reliability of diagnosis output of variable construct stability data that showed VIF value for the entire proxy close to 1, Tolerance value close to 1, it may be said that there is no multi co-linearity in the construct.

Table 5
Diagnosis of co-linearity Stability

<i>Data</i>	<i>Co-linearity Statistics 2011</i>	
	<i>Tolerance</i>	<i>VIF</i>
Capital	0.746	1.340
Asset	0.879	1.138
Earning	0.749	1.335
Liquidity	0.971	1.030

Source: Processed Data

3.2.2 Inner Validation Model

To prove the hypothesis of the influence of pilgrim confidence towards the BPS BPIH stability, with the numbers of data which is not too large, only for 17 banks in the period of one year, inner model validation process is quite difficult. Assuming the use of weighting scheme path, maximum iteration 300 and stop criterion 7

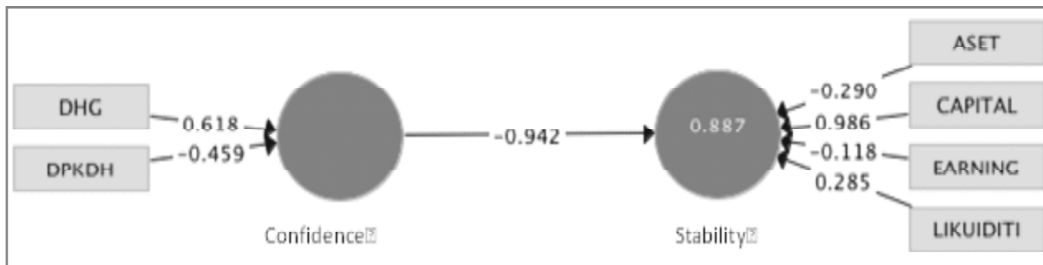


Figure 2: Formative Model

Source: Processed Data

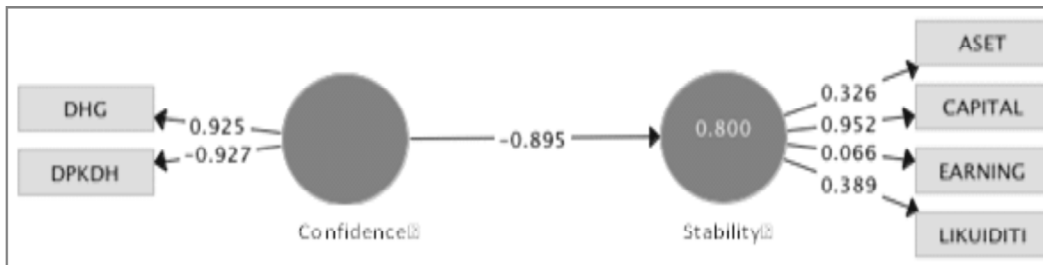


Figure 3: Reflective Model

Source: Processed Data

performs the testing models in a way of reflective and formative. In the first test, a model prepared in formative both for stability and contraction, as showed by the testing results as following:

Predictive power value of the model is still showed a negative number, this model is still difficult to conduct the continuation of its analysis (see figure 2), with the understanding that a negative value on the model above may deceive the results of analysis (Andreev: 2010) and is strongly alleged there will be multi co-linearity on the model. For that, the analysis is not followed and it transfers to reflective models (see figure 3). In re-testing of reflective predictive power results have not shown positive results, as in the image. Re-Analysis was discontinued as the above explanation.

To prove the hypothesis of the influence of pilgrimage fund confidence towards the stability of BPS BPIH, the model testing is done by formative to contraction and reflective on the stability, the result of the predictive power shows positive value (see figure 4). To that end, the analysis can be continued and can be assumed as the best model, as can be seen in the image below:

Explanatory power assesses the R -square (R^2) and explores the effect size of the model construction. Then assess the change of R^2 , which also known as the

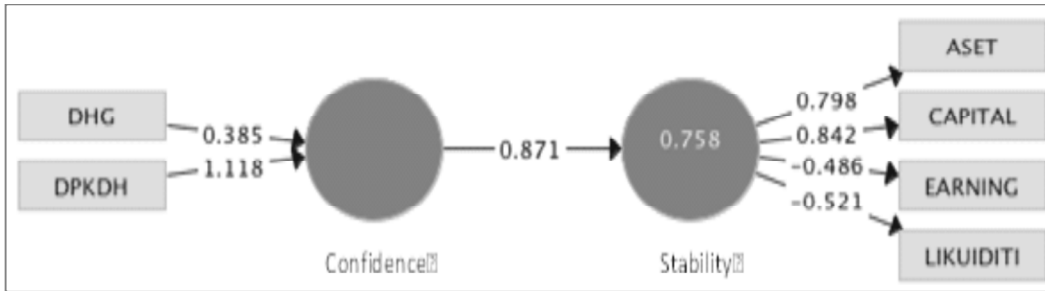


Figure 4: Reflective and Formative Model

Source: Processed Data

size effect tests to investigate the substance impact of each independent constructs towards dependent construct. In processing the data set, for *R*-square value relationship between contractions toward stability is as of 0.758. Therefore it can be said that the exogenous variables of investor confidence with independent nature towards the stability of the endogenous variables in the model is able to predict empirical phenomena by 76%, while 24% is explained by other variables which not included in this study.

Table 6
Validation Output of *R*² Structural Model Investor confidence towards stability

Variabel	<i>R</i> Square
Investor confidence > Stability	0.758

Source: Processed Data

Predictive power involves the path of coefficients significance tests in terms of the model's ability to contribute and predictive the relevance. Standardized path estimates shows the magnitude of the influence of concentration independent construct to dependent construct operational stability, which interpreted in the same approach as the path coefficients in double regression. Data process results in path coefficients value and *t* statistics as follows:

Table 7
Path Coefficient and *t* Statistics

Path	Coefficients	<i>t</i> Statistics
Investor confidence -> Stability	0.871	9.538977 ***

Source: Processed Data

Note: *significant on $p < 0.10$; ** $p < 0.05$; *** $p < 0.01$ (Df84; two tail test, *T* Table value 10% = 1.66, 5% = 1.98, 1% = 2.63). Bootstrapping $m = n$.

Results of processed data influence the investor confidence towards the stability of Beneficiary Bank for hajj deposit shows:

$$\xi_2 = 0.871 \xi_1$$

(9.538977)

Stability = 0.871 Investor confidence

With the provision of the value of t table for alpha 1% as of 2.63, and a t value as of 9.538, then t is greater than t table. It can be said that there is not enough evidence to reject H_0 and accept H_1 with an alpha level of significance at 1% to the value of the coefficient is positive as of 0.871.

It can be said that there is not enough evidence to reject H_0 , which means that there is positive influence between the confidences towards stability level. The increase of one unit on investor confidence will give rise to the level of stability of 0.871. From the test result above, it appears that in the test statistics showed the result is very close between investor confidence towards BPS BPIH stability. It means that the more concentrated Hajj fund, it will result in the increased levels of stability, and vice versa.

Contribution to BPIH BPS stability (factor loading) assets and capital are the most affected by the amount of funds received by Hajj BPS BPIH. The effect of Hajj funds to the stability of earnings, reflectively not show an interesting matter, another case with liquidity, a loading factor above 0.3 is negative enough to explain that the presence of Hajj funds will largely determine over or under liquid conditions of the financial condition of BPS BPIH. The combination of lower loading factor between the earnings and liquidity if it is associated with the assets and capital, it shows that Islamic banks still require a stronger innovation for instrument distribution of funds to maximize the revenue. Instead of the increase of fund from hajj funding, with limited instruments available it may reflect the conditions of over liquid BPS BPIH.

Based on the examination of the inner model there is positive influence between investor confidences in the stability of BPS BPIH with alpha 1%. The results are consistent with previous studies conducted by Mufraeni (2013) who found a significant correlation between the concentrations of Hajj funds to a level operational stability of Islamic banks. Where more and more depositors concentrate their funds on a particular bank, it will provide higher stability in the bank's operations without seeing the great or small characteristics of the bank (Deltuvaitė, 2010). Meanwhile in the context of Islamic banking more specifically Hussein (2010) explained that the relation between the investor confidence towards the stability, the concentration of investor confidence directed to conventional banks which opening the Islamic branches (dual banking system).

In order to manage the Hajj funds in sharia banks is categorized into Islamic banks and conventional commercial banks that have Islamic services units, as the research result shows that either for Islamic banks and conventional commercial banks which have Islamic services units that the existence of hajj fund managed by each bank has a very strong relationship to the level of stability of sharia banks. It is very interesting to study furthermore, because the hajj funds which sourced from the prospective pilgrims fund are in the category of the third party funds managed by the bank. Hasbi and Haruman (2011) stated that it is important to see the performance stability of Islamic bank. This can increase the public confidence that has excess funds, so an increase in savings and also increase the number of new savings (initial deposit of Hajj savings).

Deposit collected from Hajj funds is a deposit in a giro account-based on *wadiah* schemewhich stored on behalf of Minister of Religious Affairs cq.DJPHU qq.pilgrimage Candidate. Furthermore, as the applicable agreement between Ministry of Religious Affairs and BPS BPIH that after reaching a certain value it will become the deposits with *mudharabah*. Furthermore, the amount of the Hajj funds that are concentrated will affect the stability of the bank. This proves that the level of stability in sharia banks is not only affected by the size of funds raised or managed by BPS BPIH. This proves that the hajj funds have a role or a large stake which associated with the stability of sharia banks (BPS BPIH).

It is important to be noticed by sharia industry players (BPS BPIH) that the management of hajj funds provides an enormous impact on bank's operations. In other words, the better to manage the funds Hajj, it will contribute positively to the level of stability of the bank.

4. CONCLUSIONS AND RECOMMENDATIONS

Based on the analysis above, the confidence of prospective pilgrims in depositing the hajj funds to Islamic bank (BPS BPIH) has a large effort in determining the level of operational stability of the bank. Investor confidence may constructs formativelywhile operational stability by CAMEL proxy may constructs reflectively. Composite formative factor of investor confidence is the pilgrimage fund that compared with third-party funds.

Meanwhile the composite reflective factor of stability is the ratio of capital adequacy and the ratio of assets. Relation shown from the research namely is a positive relationship between confidence concentrations of hajj funds with a stability level of operational Islamic banks, Islamic banks stability is more reflected through the hajj fund through asset and capital stability of the earnings and liquidity.

Based on the above conclusions, the suggestions of this research is for the managers of Islamic banks of BPS BPIH, they shall give special attention to the existence of hajj funds which saved in such bank. For the sustainability interest of sharia banking operations still require innovation instrument of fund distribution that may open up opportunities to increased the revenue. Products portfolio in the financial sector and the real sector is absolute. Further testing with a longer period and number of data is deemed necessary for the development of research model that proposed in this study. For Ministry of Religious Affairs as the party who has the authority to manage the Hajj funds shall consider the flow of the Hajj fund cash flow which available in respective BPS BPIH.

Note

1. Giro account balance will be transferred automatically in the form of on-call deposits at the time of sharia giro bank account balances has reached twenty billion rupiah (Rp. 20,000,000,000, -). The balance of deposits on call sharia transferred automatically in the form of Time deposits at the time of sharia on call deposit balance is exceed twenty billion rupiah (Rp. 20,000,000,000, -).
2. Definition of *optim* deposits is the deposits which the fund is originate from the bonus of checking account, profit sharing (indicative return) of deposit account of initial deposit of pilgrim candidates and *sukuk* benefits.
3. Minimum nominal of SWAP mechanism as of fifty billion rupiah (Rp. 50,000,000,000, -) and maximum as of five hundred billion rupiahs of (Rp. 500,000,000,000, -) per transaction. SWAP period minimum 3 (three) months and maximum of twelve (12) months. Profit sharing rate (indicative of return) minimum twenty-five (25) basis points over the return on the last bank placements on long position and at least twenty-five (25) basis points over Bank Indonesia rate. Period of deposit at least for one (1) month. Maturity the fund returns on account on behalf of Ministry of Religious Affairs at the bank in long position and placed directly into 1 (one) month deposit with an indicative return of BI rate (initial deposit of BPIH deposit) and the indicative return of BI Rate plus twenty-five (25) basis points up to one hundred (100) basis points (*optim* deposits).
4. Giro account balance will be transferred automatically in the form of on-call deposits at the time of sharia giro bank account balances has reached twenty billion rupiah (Rp. 20,000,000,000, -). The balance of deposits on call sharia transferred automatically in the form of Time deposits at the time of sharia on call deposit balance is exceed twenty billion rupiah (Rp. 20,000,000,000, -).
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Bank Indonesia rate. Period of deposit at least for one (1) month. Maturity the fund returns on account on behalf of Ministry of Religious Affairs at the bank in long position and placed directly into 1 (one) month deposit with an indicative return of BI rate (initial deposit of BPIH deposit) and the indicative return of BI Rate plus twenty-five (25) basis points up to one hundred (100) basis points (optim deposits).

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