

The Sharia Compliance Level of Islamic Banks in Asia and Its Implications on Financial Performance and Market Share

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Abstract— This study aims at showing the influence of the Sharia compliance level of Islamic banks in Asia and how it affects their financial performance and market share. It analyzing whether the average level of the Sharia compliance of Islamic banks in Asia is adequate. It incorporates a descriptive quantitative research design. The sample comprises 62 Islamic banks located in Asia with the observation period ranging from 2016 to 2018. However, following the analysis, the results of the study could not show whether the Sharia compliance level of Islamic banks in Asia has an influence on the financial performance and market share. The limiting factors behind this could be attributed to the limited sample and the short observation period of this study. However, the results of this study can be considered by stakeholders when investing their funds. In this regard, the regulators in Indonesia are expected to make deeper regulations for Islamic banks. This study contributes to the Islamic economic literature because the number of studies that look at the level of Sharia compliance with one measurement in the Asian region and see the implications of the level of this compliance on financial performance and market share is still limited.

Keywords- Sharia; compliance; financial; performance; Islamic; bank

I. INTRODUCTION

Islamic banking operates side by side with conventional banks. It makes the competition between them very challenging [1]. The competition drives Islamic banks (IBs) to work harder and be more creative and innovative in order to gain adequate market shares [2]. The main challenge of Islamic banking and finance is to provide products and services that are diverse, innovative, and competitive with the conventional financial instruments while still being in accordance with Sharia [3]. In carrying out its operations, IBs base their rules on the Qur'an and Hadith. All Islamic banking activities must comply with the Islamic Sharia principles and regulations made by the Sharia supervisors [4]. In this regard, shareholders and

Islamic scholars are entitled to the services provided by Islamic banks in accordance with Sharia law [5].

There are several studies which show that Sharia compliance is the most important factor for prospective customers in choosing an IB [6] [7] [8]. Sharia compliance also guarantees an IB's credibility and inspires trust in their shareholders and stakeholders. To achieve uniformity of Sharia compliance among financial institutions, the Islamic Financial Services Board (IFSB) and the Accounting and Auditing Organization of Islamic Financial Institution (AAOIFI) were formed. Their responsibilities include forming the accounting, auditing, and government standards while also implementing the ethics that are in accordance with the Islamic law for financial institutions. An IB is determined by its commitment in following Sharia in all aspects [9]. The compliance of IBs and financial institutions to AAOIFI and IFSB standards is very important to manage the Sharia compliance risk, mitigate operational risks, and ensure transparency in financial statements [10].

Islamic financial institutions are exposed to Islamic disobedience risk which is a unique risk for these institutions [8]. Several cases of IBs and financial institutions violating Sharia principles raise serious doubts about Sharia compliance [7]. Examples include the Dubai Islamic Bank (DIB) scandal, Sunrise Equities Inc. case, and Dana Gas sukuk scandal. IBs and conventional banks are very similar in how they operate, due to which the former often ends up violating the Sharia principles and hindering the achievement of a Sharia principle's goals [11] [12]. Many of the financing offered by IBs have similarities with debt instruments rather than profit and loss sharing (PLS) practices. These practices negatively affect public perception [7]. They make customers skeptical of an IB with regards to its Sharia compliance [13].

In this regard, a Sharia compliance analysis would be beneficial for prospective customers and bank customers [8]. Most shareholders and investors are very concerned about the funds they invest and whether it is in alignment with Sharia principles or not [14] [7]. Therefore, there is an obligation on

banks to reflect Islamic values in all their activities [9]. Sharia compliance is also important to promote trust, as it will increase customer protection. Customers trust an IB with their investment because they believe that it truly adheres to Sharia principles that prohibit usury, speculation, and undue risk [7]. In this regard, IBs have claimed that they are complying with the Sharia principles [15] [10] [16].

However, the fact remains that the level of Sharia compliance cannot be qualified as compliant or non-compliant; there must be a ranking system that regulates compliance with the law, including levels/categories such as high, satisfying, weak, and non-compliant. The different levels of Sharia compliance between banks in different countries cannot be compared because they use different measurements. There is no certain model that can describe the Sharia compliance of each IB [13]. Therefore, it is important to use a uniform measurement model so that the Sharia compliance levels of IBs in Asia can be compared fairly. The Sharia compliance ranking system is very helpful in measuring the progress toward achieving the goals of the Islamic Financial System and in gaining the stakeholders' trust. In addition, high compliance can help and support AAOIFI and IFSB in improving improve their standards so that they can be applied by Islamic financial institutions globally [15] [8].

Market forces should obey Sharia principles to increase the efficiency and competitiveness of the Islamic banking industry [17]. A majority (75%) of respondents agree that high Sharia compliance guarantees more financial benefits in Bangladesh [10]. A study using five categories of financial performance, namely profitability, efficiency, risk, asset quality, and liquidity, to examine the financial performance of IBs and conventional banks in Pakistan was conducted. The result shows that IBs are relatively better in terms of profitability, efficiency, risk, and liquidity management, while conventional banks are superior in asset quality [18]. On the other hand, Sharia compliant companies underperform compared to non-Sharia compliant companies. The Sharia compliance also has an impact on a bank's market share. The higher the level of a customer's or prospective customer's trust in IBs, the more people will invest their funds in these banks [19].

The aim of the study is to also expand the scope of or improve upon the previous research. The relationship between Sharia compliance and an IB's performance in Asia is an interesting issue. No previous paper discussed this topic and case before. The structure of the paper starts from the introduction and then proceeds to the literature review and hypothesis development. This is then followed by the research method and the analysis, the last of which is the conclusion.

II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

A. *Corporate governance theory*

Corporate governance is a set of internal corporate arrangements that defines the relationship between managers and shareholders and is aimed at supporting financial stability, sustainable growth, and economic efficiency. The OECD principles can be adapted by Islamic financial institutions so

that they can conduct business according to Sharia principles which are fair and honest with others. The scope of governance in Islamic principles is broader, as it not only prioritizes the interests of stakeholders but also the socio-economic interests. Based on the OECD principles, the only party entitled to decision making and internal business transaction participation is the Board of Directors (BOD) and senior management. However, in the case of in Islamic principles, anyone related to the organizational stakeholders is given the full right and responsibility to participate and convey their thoughts and ideas in reforming corporate governance [20].

The distribution of profit sharing is carried out fairly in accordance with the agreement of the two parties (bank and customer), which is determined at the time of the contract. Disclosure and transparency are emphasized in governance according to the Islamic principles. According to these principles, banks or financial institutions are not only responsible to the BOD, but also to Allah SWT. Therefore, it is important for IBs to pay attention to the Sharia compliance, as it is one of the good governance principles. By complying with Sharia principles, an IB has achieved certain key goals, namely carrying out activities that are free of usury and oriented to profit and social welfare.

B. *Financial performance*

Financial performance is a company's ability to manage and control its resources [21]. The measurement of financial performance is carried out by looking at the profitability level of the company, such as Return on Assets (ROA) [22] [23]. This ratio measures the company's ability to use its assets to make a profit. Financial ratios are taken from financial statements and made available to the public [24] [25]. A financial ratio analysis is useful for the management and interested parties to evaluate financial conditions expeditiously.

C. *Market share*

Market share is a proxy to see market power [26]. Companies that have a high market share tend to have more innovation. Companies with high market shares that continue to innovate also get higher valuations in the stock market than companies that do not [27].

D. *Sharia compliance*

In carrying out its operations, IBs are required to comply with laws, regulations, and Islamic principles because they are fundamental factors that distinguish IBs from conventional banks. Despite close supervision being carried out by various parties in this regard, various Sharia principles have been violated in the banking industry. Islamic scientists says that in conducting Sharia banking transactions, an IB does things that are contrary to Islamic regulations [28]. This is caused by ineffective governance, human resources, the role of the Sharia supervisory board, and unscrupulous people [29]. The implementation of Sharia compliance in Islamic banks must be reported and requires standards in order to produce a systematic financial report that can be understood by all parties who need information. AAOIFI has developed standards on

auditing, governance, and accounting for Islamic financial institutions. In this regard, the Sharia compliance can be influenced by various factors, namely bank size [10], a Sharia internal audit and audit committee, profitability, board independence, and liquidity [30].

E. Hypothesis development

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Most IBs adhere to Islamic principles, such as those in Bahrain and Malaysia [16]. However, it is worth noting that not all banks with Islamic labels follow Sharia principles [7]. One reason for this is that the modern Islamic banking financial system is similar to conventional banking [11] [12]. Only a small portion of financing that is actually based on PLS and Islamic deposits is not interest free so it is as same as conventional deposits too. This certainly violates Sharia and hinders the achievement of Islamic principles. In addition, there are several cases of Sharia violations committed by IBs that occurred during the mid-1980s. One example of this is how Islamic banks in Turkey have deviated from the practice of Islamic banks [31]. In this context, the question on whether IBs in Asia comply well with Sharia remains to be answered. This has led to the formulation of the first hypothesis:

H1: The average level of the Sharia compliance of Islamic banks in Asia is compliant.

Increasing the competitiveness and efficiency of the Sharia banking industry can be done if the market force complies with the Sharia principles [17]. The greater the compliance level of IBs with Islamic law, the greater the customer's intention to get funds from these banks so that the latter can sustain their customer base [32]. The majority (75%) of respondents agree that better Sharia compliance guarantees more financial benefits in Bangladesh [10]. Islamic banks are relatively better at profitability, efficiency, risk, and liquidity management than conventional banks [18]. On the other hand, companies that are Sharia compliant perform lower than companies that are non-Sharia compliant [19]. It is on this basis the second hypothesis has been formed:

H2: The more compliant the Islamic bank is with Sharia principles, the better the Islamic bank's financial performance.

The more compliant the IBs are with Islamic principles and regulations, the greater the customer's intention to continue to obtain funds from them [32]. Customers will check for the Islamic compliance of an IB before deciding to choose it [7]. This will certainly increase the number of customers and the market share of the bank. In this regard, the third hypothesis has been formed:

H3: The more compliant the Islamic banks are with the Sharia principles; the market share of the Islamic banks will increase.

III. RESEARCH METHOD

This study follows a descriptive quantitative research design that uses secondary data, namely the annual financial statements published by Islamic bank. The sample for this study comprises all the IBs of Asia that are registered in ORBIS from 2016 to 2018. The annual reports for each IB are obtained through its official website. Out of the 113 IBs in the Asian region, only 62 fulfilled the sample selection criteria. Following this, the researchers tested the Sharia compliance with financial performance using a simple linear regression analysis with the following model.

$$ROA_{it} = \beta_0 + \beta_1 \text{Compliance}_{it} + \text{Size}_{it} + \text{Branch}_{it} + \text{Age}_{it} + \varepsilon$$

$$ROE_{it} = \beta_0 + \beta_1 \text{Compliance}_{it} + \text{Size}_{it} + \text{Branch}_{it} + \text{Age}_{it} + \varepsilon$$

$$OER_{it} = \beta_0 + \beta_1 \text{Compliance}_{it} + \text{Size}_{it} + \text{Branch}_{it} + \text{Age}_{it} + \varepsilon$$

$$NPF_{it} = \beta_0 + \beta_1 \text{Compliance}_{it} + \text{Size}_{it} + \text{Branch}_{it} + \text{Age}_{it} + \varepsilon$$

$$CTD_{it} = \beta_0 + \beta_1 \text{Compliance}_{it} + \text{Size}_{it} + \text{Branch}_{it} + \text{Age}_{it} + \varepsilon$$

$$CAR_{it} = \beta_0 + \beta_1 \text{Compliance}_{it} + \text{Size}_{it} + \text{Branch}_{it} + \text{Age}_{it} + \varepsilon$$

$$FDR_{it} = \beta_0 + \beta_1 \text{Compliance}_{it} + \text{Size}_{it} + \text{Branch}_{it} + \text{Age}_{it} + \varepsilon$$

$$MS_{it} = \beta_0 + \beta_1 \text{Compliance}_{it} + \text{Size}_{it} + \text{Branch}_{it} + \text{Age}_{it} + \varepsilon$$

Descriptions:

ROA_{it}: Return on Assets of Islamic bank i in t

ROE_{it}: Return on Equity of Islamic bank i in t

OER_{it}: Operating Expense to Revenue of Islamic bank i in t

NPF_{it}: Non-Performing Financing of Islamic bank i in t

CTD_{it}: Cash to Deposit of Islamic bank i in t

CAR_{it}: Capital Adequacy Ratio of Islamic bank i in t

FDR_{it}: Financing to Deposit ratio of Islamic bank i in t

MS_{it} : Market Share of Islamic bank i in t

Compliance_{it}: Sharia compliance of Islamic bank i in t

Size_{it} : The assets value owned by Islamic bank i in t

Branch_{it} : Number of branches owned by Islamic bank i in t

Age_{it} : Period years of bank operates

The level of Sharia compliance from IBs is measured by using the Sharia compliance index developed by Ashraf and Lahasna [13]. There are 14 indicators that look at this. They are grouped under five categories: support from regulators, quality of Sharia supervision, business structure, composition of assets and deposit base, and capital adequacy standards. Each indicator is assessed according to a predetermined score. A bank can get a maximum risk-weighted score of 150 and a minimum risk-weighted score of -138. The formula used to get the percentage of each IB is

% Sharia compliance= (Achieved score)/(Maximum achievable score)

After the IB compliance percentage value is obtained, the IB is classified as shown in Table 1.

Table 1. Sharia compliance levels

Achieved degree of compliance	Rating	Interpretation
≥80%	SSS	High Sharia compliance
50%–80%	S+	Satisfactory Sharia compliance
0–50%	S-	Weak Sharia compliance
Nilai negatif	SN	Sharia non-compliant

Source: [13]

The dependent variables in this study are financial performance and market share. Financial performance is measured using several financial statement ratios, namely ROA, ROE, OER, NPF, CTD, FDR, and CAR. The market share variable is measured using the formula from Berger [26]:

Market share= (total assets of Islamic banks/ total assets of national Islamic banks) x 100%

The total IB national asset is obtained from the stability report issued annually by the IFSB. In the stability report, the total IB assets in the world per region and their presentations for each country are given. Based on this percentage, the total assets of the national Islamic banking in each country are calculated, while the total IB assets are obtained from each IB's annual financial statements.

IV. RESULTS

Table 2. Descriptive statistics

Variables	Average	SD	Max	Min
ROA	0,0101	0,0294	0,1842	-0,1077
ROE	0,0802	0,1347	0,3685	-0,9401
OER	0,7223	0,5764	6,2130	-0,2039
NPF	0,0579	0,1079	0,8910	0
CTD	0,4709	3,9200	53,529	0,0015
CAR	0,1847	0,2579	1,6307	-1,2508
FDR	0,8410	0,5613	4,7373	0,0190
MS	0,2228	0,2739	1,0000	0,0156
SC	0,6982	0,0736	0,84	0,44

Descriptions:

ROA (*Return On Asset*); ROE (*Return On Equity*); OER (*Operating Expense to Revenue*); NPF (*Non Performing Finance*); CAR (*Capital to Adequacy Ratio*); CTD (*Cash to Deposit*); FDR (*Financing to Deposit Ratio*); MS (*Market Share*); SC (The value of Sharia compliance level)

Source: Authors' elaboration

The value of each variable in Table 2 shows the effectiveness of the investment management (ROA) and capital (ROE) conducted by an IB, the amount of profitability of IBs (OER), the quality of financing provided by IBs (NPF), the

amount of IB funds used for financing (CTD), IB capital adequacy (CAR), and the amount of financing provided for deposits received by the banks (FDR). The highest ROA value of 0.1842 is owned by the Bank of Punjab Taqwa Islamic Banking (Pakistan, 2018) while the lowest ROA value of 0.1077 is owned by Bank Mega Syariah (Indonesia, 2017). The highest ROE value of 0.3685 is owned by Al-Hilal Bank (Kazakhstan, 2018) while the lowest ROE value of -0.9401 is owned by Bank Panin Syariah (Indonesia, 2017). Meanwhile, the highest OER value of 6.2130 is owned by ICB Bank (Bangladesh, 2017) while the lowest OER value of -0.2039 is owned by ICB Bank (Bangladesh, 2018). The highest NPF value of 0.8910 is owned by the Muamalat Malaysia Berhad Bank (Malaysia, 2017) while the lowest NPF value of 0 is owned by the ABC Islamic Bank (Bahrain, 2016). The highest CTD value of 53,529 is owned by Maybank Syariah (Indonesia, 2018) while the lowest CTD value of -0.0015 is owned by the Alliance Bank (Malaysia, 2016).

The highest CAR value of 1.6307 is owned by Maybank Syariah (Indonesia, 2018) while the lowest CAR value of -1.2508 is owned by the ICB Islamic Bank (Bangladesh, 2018). The highest FDR value of 4.7373 is owned by the Khaleeji Bank (Bahrain, 2017) while the lowest FDR value of 0.0190 is owned by Bank Muamalat Malaysia Berhad (Malaysia, 2018). The highest MS value of 1,0000 is owned by Al-Hilal Islamic Bank (Kazakhstan), Islamic Bank of Thailand (Thailand), and the Maldives Islamic Bank (Maldives) while the lowest MS value of 0.0156 is owned by Maybank Syariah (Indonesia, 2018). The Islamic bank that got the highest value of Sharia compliance (0.84) is the Meezan Bank (Pakistan) while the one who got the lowest Sharia compliance value (0.44) is the Gulf International Bank (Bahrain). The average value obtained was 0.6982.

In determining the level of Sharia compliance, a scoring is conducted on the annual financial statements of IBs in Asia. Based on the scoring result, there are three IBs in the satisfactorily compliant category, 61 IBs in the high-compliant category, and one IB in the less-compliant category with none in the non-compliant category. The scoring results show the average Sharia compliance level of Islamic banks in Asia is compliant. This proves H1 that IBs in Asia comply with Sharia principles. There are only three IBs in the high-compliant category, namely the Aljazeera Bank, Jordan Islamic Bank for Finance and Investment, and Meezan Bank. These banks have very high Islamic compliance because their amount of distribution of financing in the form of mudarabah and musyarakah is very high compared to other Islamic banks. However, what should be underlined here is that this assessment is based on the annual financial statements of the IBs. The less compliant Islamic Bank is the Gulf International Bank (GIB) because the Sharia supervisory board reports the shariha compliance opinion to the CEO so its independence is less than the Islamic Bank reporting to the BOD or directors. Moreover, GIB also does not have its own Sharia supervisory board report although it has its own risk management report. In this regard, it is more focused on risk management compared to Sharia compliance. Moreover, it does not make a breakdown of the income earned (murabahah, musharaka, mudarabah or

ijarah). Instead, it has a pool of funds mixed with conventional banks because it is a business unit of conventional banks.

Some other interesting things were also discovered by researchers in scoring the IBs' annual financial statements. First, the separation of the Islamic banking law from conventional banking law is carried out by three countries, namely Bahrain, Iraq, and Kuwait. In contrast, other countries have one single banking law that regulates Islamic Bank with conventional banks. However, Indonesia and Malaysia—despite having a single law governing Islamic banks with conventional banks—have separate guidelines and regulations for IBs. Second, there are some Sharia supervisory boards that are in charge of conducting Sharia audits, while there are those who only serve as advisors of Sharia banks. Based on the scoring, most countries require Islamic audits. Countries that assigned Sharia supervisory boards as advisors to Islamic banks include Indonesia, Sri Lanka, Iraq, and Brunei Darussalam. Third, a majority of the sample reports the opinion results to the BOD, compared to the CEO and directors. The IBs, in general, also report the results of the assessment (opinion) of the Sharia compliance in the financial statements very well, namely by notifying what is done. Following this, further advice or recommendations are given on the basis of these findings, in addition to explaining that the IB is compliant with Sharia. Fourth, a majority of the sample have separate legal entities within conventional banks. In addition, certain IBs have very little Profit Equalization Reserve, namely those in Bahrain (3 Islamic banks), Kuwait (1), Oman (2), and Pakistan (1). Fifth, the majority of IBs in the sample have separate but not independent charity funds (charity funds are obtained from non-halal income or obtained from zakat). Only a few IBs have foundations or special programs for their charity funds such as Al-Bilad Bank (Saudi Arabia). Sixth, the sample mostly has 6 to 10 types of financing products. The majority of third-party fund structures owned by IBs are obtained from mudarabah and musyarakah rather than murabahah. Finally, the sample in this study has a very good capital adequacy in accordance with IFSB rules which is above 12%. Some even have CARs above 20%.

Based on the scoring results, it can be concluded that IBs in Asia have a level of Sharia compliance at 50–80% which is 69.82%. This is in line with Vinnicombe which states that political, economic, social, and geographical factors have an impact on the level of compliance with AAOIFI standards [9]. In most countries, IBs are placed under the supervision of a central bank and treated the same as conventional banks.

Table 3. Results of H2

Variable	Model 1		Model 2	
	Coef.	Prob.	Coef.	Prob.
Constants	-0,0157	0,3005	-0,2303	0,0410
SC	0,0168	0,4470	0,1052	0,2265
Size	0,0008	0,7420	0,0115	0,0190
Branch	-0,0036	0,7440	0,0007	0,1020
Age	-0,0005	0,5440	0,0009	0,2310
R2 Overall	0,0127		0,1930	
F-	0,8664		0,0007	

statistics				
	Model 3		Model 4	
Constants	24,535	0,0000	0,0966	0,308
SC	-10,301	0,0435**	0,0356	0,381
Size	-0,0487	0,0200**	-0,0036	0,380
Branch	0,0001	0,6230	0,0001	0,655
Age	-0,0073	0,0320**	0,0001	0,988
R2 Overall	0,1796		0,0093	
F-	0,0013		0,9209	
statistics				

Descriptions:
 SC: Sharia compliance level of Islamic bank; Size: Logarithm of total assets; Branch: Total branches of Islamic banks; Age: The period of bank operate
 Coef: Variable coefficient
 ***: significant level 1%; **: significant level 5%; *: significant level 10%.

Source: Authors' elaboration

The result of testing model 1 shows that the independent and control variables have no significant effect on the dependent variable. The R2 overall value in model 1 is 0.0127. This shows that high or low ROA value does not have a relationship with Sharia compliance. IBs, especially in Indonesia, have a small ROA compared to conventional banks because the former bear a greater cost than the income earned. The model 2 test results show that the independent variable and control variables do not have a significant effect on the dependent variable. The R2 overall value in model 2 is 0.1930, i.e., the level of ROE does not affect the level of Sharia compliance. The ROE shows how the more efficient Islamic bank managers manage their capital to conduct financing. The results from testing model 3 show that the independent variable has a significant influence on SC at a significance level of 5%. The control variables, namely size and age, significantly influence the dependent variable at a significance level of 5%. The overall R2 value in model 4 is 0.1796. That is, the more compliant the IB, the lower the OER ratio. This is contradictory to Lassoed's findings that IBs have to bear higher costs when providing quality services [33]. This is because quality services are supported by diverse facilities and friendly services, which, in turn, require huge expenses to sustain it. Qualified human resources are needed due to which, it is necessary to recruit and provide adequate training to the employees.

Table 4. Results of H2 and H3

Variable	Model 5		Model 6	
	Coef.	Prob.	Coef.	Prob.
Constants	0,7534	0,8250	-0,1129	0,6080
SC	-62,865	0,0685	0,5109	0,0031**
Size	0,2426	0,1010	0,0011	0,9070
Branch	-0,0003	0,8310	-0,0006	0,4840
Age	-0,0158	0,5070	-0,0038	0,0120**

R2 Overall	0,0452		0,1181	
F-statistics	0,3405		0,0188	
	Model 7		Model 8	
Constants	0,5008	0,2950	-0,2036	0,3810
SC	0,9303	0,0585*	-2,942	0,1540
Size	-0,0190	0,3580	0,0346	0,0010***
Branch	-0,0006	0,0010**	0,0001	0,2810
Age	-0,0064	0,0520*	-0,0008	0,6140
R2 Overall	0,1285		0,1452	
F-statistics	0,0120		0,0058	
Descriptions:				
SC: Sharia compliance level of Islamic bank; Size: Logarithm of total assets; Branch: Total branches of Islamic banks; Age: The period of bank operate				
Coef: Variable coefficient				
***: significant level 1%; **: significant level 5%; *: significant level 10%.				

Source: Authors' elaboration

The model 5 test result shows that the independent variable does not have a significant effect on the dependent variable. The R2 overall value in model 5 has a value of 0.0452. In other words, Sharia compliance does not affect CTD. A large amount of cash violates the Maqasid Syariah principles because the cash is idle money that should be used to distribute financing to customers. The more cash in the bank, the more it implies that the money is buried in the bank. Fewer IBs give financing to customers. The model 6 test result shows that the independent and control variables significantly influence the SC variable at a significance level of 5%. The overall R2 value in model 6 is 0.1181. This shows that Sharia compliance has a relationship with the CAR. The more compliant the IBs, the higher the CAR value. This ratio shows the adequacy of the capital owned by IBs in bearing the risk of losses that may occur due to mudarabah, musharakah or other transactions.

The result from testing model 7 shows that the FDR variable significantly influences the dependent variable at a significance level of 10%. There are two control variables that have a significant influence on Sharia compliance, namely the number of branches and age of IBs at the significance level of 5% and 10%, respectively. On the other hand, the overall R2 value in model 7 is 0.1285. From this, it is quite evident that the Sharia compliance affects the FDR. The more compliant the IBs, the higher the FDR. IBs which have a lot of financing are getting better because they achieves their goal of providing financing to their customers. Significant control variables operate behind an IB's size and number of branches in affecting the level of Sharia compliance [10]. The model 8 test result shows that the MS variables and the majority of control variables do not significantly influence the dependent variable. There is one control variable that influences Sharia compliance, namely an IB's size with a significance level of 1%. The R2

overall value on model 8 is 0.1452 which implies that the Sharia compliance does not affect market share. All in all, from the market share, one can see the development of IBs.

Based on the regression results above, it can be concluded that H2 was rejected. This finding is in accordance with the fact that Sharia compliant companies have lower performance compared to non-Sharia compliant companies [19]. Although Sharia compliance is a governance principle, financial performance depends on not only Sharia but also the internal control systems, risk management systems, and services provided by employees. Considering all this, the results of the regression test failed to prove that better Sharia compliance guarantees more financial benefits [10]. However, the study supports Bizri (2014) in the fact that prospective customers prefer IBs based on security, trustworthiness, quality of service rendering, and price of financing compared to Sharia compliance [7].

V. CONCLUSION

The study aimed to determine the Sharia compliance level of IBs in Asia and its influence on their financial performance and market share. The level of Sharia compliance of IBs in Asia on average can be classified under the high-compliant category. This is due to the people in the sample countries upholding Islamic principles in various aspects of life including banking. This opinion is consistent with previous studies that investors in the sample countries prioritize Sharia bank compliance before investing their funds [34] [35]. Based on the regression results, Sharia compliance affects the OER, CAR, and FDR of IBs. However, the ROA, ROE, NPF, and CTD are proven not to be affected by Sharia compliance. The establishment of IBs in countries that do not have a majority Muslim population is hindered by regulations. Moreover, they also do not have the support of the central bank due to which, the level of compliance remains low. In this regard, the IBs in Indonesia must emulate the IBs in Asia so that the level of Sharia compliance is maintained and further enhanced. This is because an adequate level of Sharia compliance is the goal of IBs. The results of this study can be considered by stakeholders before investing their funds. They can find out whether IBs actually comply with Islamic regulations because they are the basis that distinguishes IBs from conventional banks. The regulators in Indonesia are expected to be able to make deeper regulations for IBs, as has been done in several countries, such as Bahrain, Iraq, and Kuwait. These three countries have Islamic banking laws that are separate from conventional banks.

However, there are certain limitations to the study due to which, its scope can be extended further in future studies. For instance, the sample is limited and the observation period is quite short. Moreover, the measurement of Sharia compliance is not the best one. Future research could keep these limiting factors in mind while deciding on research designs and components that would be more efficient. It is also worth noting that the results of the study are subjective as well, as the assessment is based on the annual Islamic financial statements. In future, it is recommended that case studies be conducted for

each IB to better ensure a sufficient level of Sharia compliance on the part of IBs.

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