

# Impact of Government Policy on Hajj Funds Transfer on Conventional Bank and Islamic Bank Third Party Funds in Indonesia: Difference in Difference Approach

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**Keywords:** Government Policy, Hajj Fund Transfer, Third Party Fund, Difference in Difference.

**Abstract:** This paper aims to examine the impact of government policy that is Regulation of the Minister of Religious Affairs of Indonesia about Banks Receiving Deposit Fees for Hajj in 2013 which contains about the provisions of Islamic banks as the recipient bank deposits of pilgrimage. This paper seeks to investigate how the policy impacts on the performance of third party funds of conventional commercial banks and Islamic commercial banks. The data used includes the amount of third party funds collected by banks and researched for 8 years from 2009 to 2016. This paper uses difference in difference statistical method with the year 2013 as the year of the policy of the transfer of funds. The results showed that there is a significant effect between the policy of hajj fund transfer from conventional banks to Islamic banks to the amount of third party funds collected by conventional banks and Islamic banks. Government policies in Hajj funds have an effect on the decline in third party funds owned by conventional banks and in-and-pilgrim government policies have a significant effect on third party funds in Islamic banks. The implications of this research are the development of Islamic banks, especially Third Party Funds, need to be supported by the Government's policy and the strength of the Law and the implication of knowledge science that provides empirical support on the influence of government policies on the development of Islamic Bank.

## 1 INTRODUCTION

The Indonesian government is paying great attention to the development of Islamic banks because it believes Islamic banks will encourage the real sector because it is free from the elements of interest and unsure of speculation. One of the most important concerns and support from the government towards Islamic banks is the policy of hajj bank recipients. The reason behind the emergence of such a policy is the huge hajj of Indonesia and in the future, the potential for the fund will also be predicted to increase. According to a report from the Kompas daily quoting Abimanyu, the Indonesian Hajj pilgrimage after audited per year in 2016 reaches Hajj funding, both the initial deposit, the value of benefits, and the endowment of the Ummah reached Rp 95.2 trillion. Nevertheless, the large fund is not yet fully absorbed by Islamic banks in Indonesia it can be seen on the news website detikfinance report stating that Haj funds in each conventional banking reached Rp 16 trillion.

The Ministry of Religion sees this situation and seeks to help Islamic banks absorb these funds and fulfill the hopes of pilgrims so that haj funds can be managed by Islamic banks. In 2013 the Government of Indonesia or the Ministry of Religious Affairs shall issue Regulations Regarding Banks Receiving Deposit Haj funds shall be Islamic Banks. This policy is expected that all pilgrim funds can be managed by Islamic Bank and able to improve the performance of Islamic banks. The most influential implication due to the enactment of this policy is the third party funds of both types of banks. Third party funds are funds taken from public funds for the purpose of financial intermediation. With this policy it is suspected that third-party funds of conventional banks will shift to Islamic banks, thereby reinforcing the role of financial intermediation of Islamic banks.

Behavior of economic actors is influenced by several factors and among the factors that are considered important is the government's policy because of its coercive and binding nature and there is no other choice for economic actors besides

adhering to it Previous studies that learn about how important government in economic activity, for example, The influence of government policy in the economy is also found by Borisova and Yadaf (2015) that state-owned companies have a better-informed opportunity than private-owned firms so that they have a higher chance of trading activities because the state-owned enterprises are low risk. Government policies also contribute to the company's performance through various instruments such as taxes and subsidies and monopoly or cartel policies. Government policy can shape the market structure and in turn determines the level of corporate competition and includes the bank (Eaton, 1984). On the consumer side government policies also impact on their behavior as described by Hsu, Lee and Wang (2017) that the willingness to pay consumers for pollution product products is changing as Taiwanese environmental policies change.

The government's role in banking activities has often been investigated, for example, Ahmad and Hassan (2007) investigating the weakness of Bangladesh government policies that have not been optimal in boosting the progress of Islamic banks, ie the policy in the country still equates to conventional banks and Islamic banks. Arif (2014) points out the purpose of his research is to test a spin-off policy based on the Sharia Banking Law. 21/2008 will have an impact on third-party funds in the sharia banking industry in Indonesia. The results show that all independent variables have an impact on third-party funds in Indonesia's sharia banking industry. The implication of this result is that spin-off policies have a good impact on the growth of third-party funds in the Indonesian sharia banking industry.

Other experts such as Francis and Osborne (2012) indicated that the regulation on the adequacy of capital in the UK affects the amount of capital and the amount of slow financing in the UK compared with the number of fast financing in the UK. The Muslim government's policy of Islamic banking has also been investigated by Isik and Hasan (2003) which describes that banking liberalization policy in Turkey has an impact on the market structure of Turkish banking industry, before the liberalization, the banking market in Turkey is oligopoly and changing into the perfect competition. Whereas in Indonesia the support of the Indonesian government was reached through the Indonesian Muslim Intellectual Association (Ikatan Cendekiawan Muslim Indonesia) as the initiator of the first Islamic bank in Indonesia and the Indonesian Council of Ulama as the legal body of lawyer operationalization

of Islamic banking activities in Indonesia (Choiruzzad and Nugroho, 2013).

Encouragement and Support for Islamic banks in Indonesia continue to this day, and the policy of seizing the attention of the public is the issuance of the Regulation on Banks Receiving Funds for Hajj Deposit is Islamic Bank. The purpose of this study is whether the policy is effective and how far the impact of the policy on the third party funds of conventional banks and Islamic banks in Indonesia and tested whether after the government policy there is a transfer of haj funds (which is part of third-party funds) from conventional banks to Islamic banks.

## 2 METHODS

There are four basic procedures in this paper. First, collected data from bank financial reports and literature review. Second, we have analysis based on descriptive statistics. Third, based on Difference-in-differences (DiD) analysis. Fourth, comparing the result from DiD analysis and related literature. DiD method is a tool to estimate treatment effects comparing the pre- and post- treatment differences in the outcome of a treatment and a control group. In this research pre-treatment is third-party fund (DPK) panel data, observed from 2011-2013, before Ministry of Religion gives instruction for moving hajj fund to Islamic bank. Post-treatment for this research is DPK panel data, observed from 2014-2016, after Ministry of Religion gives instruction for moving hajj fund to Islamic bank. DiD illustrated in Figure 1.

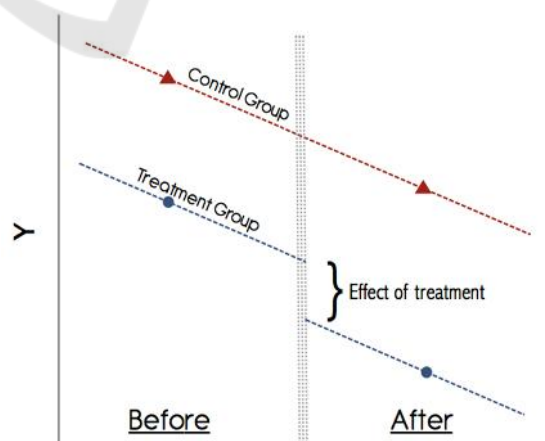


Figure 1: Graphical Illustration for DiD.

If we consider Figure 1, control group is DPK for conventional bank, and treatment group is DPK for

Islamic bank. Before mean period when both conventional and Islamic bank could receive hajj fund. After mean period when observation done to measure how significant implication from Ministry of Religion that gives instruction for moving hajj fund to Islamic bank, if we compare with last period according to DiD concept.

The most important assumption in DiD is the parallel trends assumption. If there is no convincing graph that shows the parallel trends in the pre-treatment outcomes for the treatment and control groups, it can be cautious. If the parallel trends assumption holds and we can credibly rule out any other time-variant changes that may confound the treatment, then DiD is a trustworthy method. For determining decision that new regulation, rule, law, and public statement gives impact in next data, based on previous data, one-way analysis is using comparison between p-value and significance level. An alteration will give impact if mostly p-value less than significance level. That criterion same with other experiments design or regression significance test. When compared with other experiments design method, DiD more applicable to a wider array of data than the standard fixed effects models that require panel data (Bertrand et al., 2002). More literature about DiD method can be studied in Angrist and Pischke (2008), and Ryan et al., (2014).

In this research, data was taken from financial report conventional and 7 appointment Islamic bank. There are two groups, Islamic bank and conventional bank. Both of them as subject. Islamic bank includes of 6 banks in Indonesia such as Islamic bank part of Mandiri, BRI, BNI, Mega, Panin Bank, and Muamalat Bank. Conventional bank includes of 5 banks in Indonesia such as Mandiri, BRI, BNI, Mega, and Panin Bank.

### 3 RESULT AND DISCUSSION

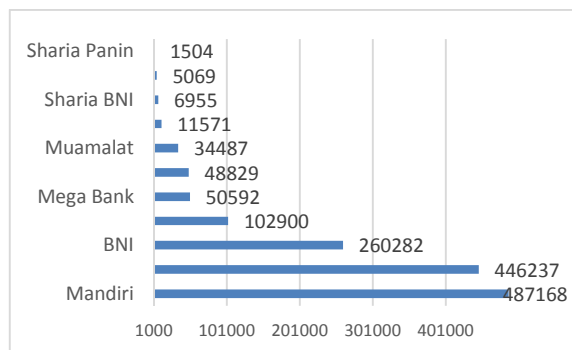


Figure 2: The Rankings of DPK Average 2011 – 2013.

Figure 2 shows the ranking of DPK average of Islamic bank in Indonesia from 2011 to 2013. The highest number is 487.168 and the lowest number is 1504. That number represents the low DPK of Islamic banks before the government policy to transfer hajj fund was applied.

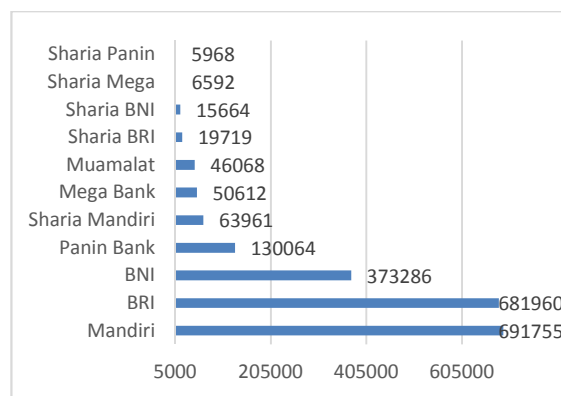


Figure 3: The Rankings of DPK Average 2014–2016.

Figure 3 shows the ranking of DPK average of Islamic bank in Indonesia from 2014 to 2016. The highest number of DPK in that year is 691.755 and the lowest number is 5968. It represents the significant increasing number of DPK in Islamic banks after the government policy to transfer hajj fund was applied in 2013. Generally the DPK growth of banking can be seen in figure 4 below:

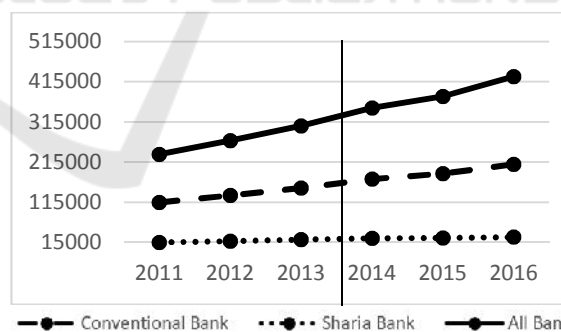


Figure 4: The Development of DPK Average for 2011-2016.

Based on Figure 4, can be interpreted that parallel trends assumption fulfilled, because trend of DPK for conventional bank, Islamic bank, and all bank parallely have specific trend. The trend is increase. As a result of the regulation of minister of religious affairs number 30 year 2013, requires transfer of hajj savings account from conventional bank to Islamic bank because conventional bank is prohibited to accept deposit of hajj cost. So that amount of third

party fund from Islamic bank change towards increase in amount. Regulation of the Minister of Religious Affairs of the Republic of Indonesia Number 30 Year 2013 concerning on Banks Receiving Deposit Fees for Hajj Pilgrimage which contains about the appointment of Islamic bank as the recipient bank of hajj deposit gives significant impact to third party fund collection in conventional bank and third party fund collecting in Islamic bank. Increasing the amount of third party funds collected by Islamic banks happened after the appointment policy of Islamic banks as recipient bank of hajj deposit. The policy applied by the government requires the clients of conventional bank hajj pilgrims to transfer the pilgrimage fund to Islamic banks, resulting in the addition of third party funds of Islamic banks. Significant impact seen from the comparison of the number of third-party funds of Islamic banks in years where the regulation of the minister of religion of the republic of Indonesia number 30 of 2013 on banks receiving deposit fees for hajj pilgrimage before applied and after applied. The running data though DiD in Islamic and conventional banks can be seen in tables:

Table 1: DiD Estimation Result for Islamic Bank.

Variable	Differences		
	(1)	(2)	(3)
DPK (Third Party Funds)	5991,17 <b>(0,074*)</b>	7723 <b>(0,077*)</b>	10632,5 <b>(0,046*)</b>
Constant	22646 <b>(0,035*)</b>	22093 <b>(0,032*)</b>	23528 <b>(0,024*)</b>
Obs.	6	6	6
Subject	6	6	6
State Effect	Yes	Yes	Yes
Year Effect	Yes	Yes	Yes
State Trends	Yes	Yes	Yes
Sig	Yes	Yes	Yes

\*) Compared with significance level 0,1 (10%).

Regulation of Minister of Religious Affairs number 30 of 2013 has decreases the number of bank choices for customers to make a fee for the pilgrimage. This regulation of the minister of religion requires the customer to make a deposit of the cost of hajj pilgrimage in the Islamic bank. When the regulation of Minister of Religious Affairs number 30 of 2013 does not exist yet, the fee of hajj can be done in all banks, both conventional and Islamic banks. But when the regulation is applied, the bank whose

allowed to receive the Hajj fund only in Islamic banks. Thus reducing the number of bank choices that can be chosen by the community.

Table 2: DiD Estimation Result for Conventional Bank.

Variable	Differences		
	(1)	(2)	(3)
DPK (Third Party Funds)	122861,8 <b>(0,023*)</b>	110031 <b>(0,095*)</b>	115405 <b>(0,097*)</b>
Constant	264464 <b>(0,027*)</b>	257307 <b>(0,010*)</b>	320245 <b>(0,031*)</b>
Obs.	6	6	6
Subject	5	5	5
State Effect	Yes	Yes	Yes
Year Effect	Yes	Yes	Yes
StateTrends	Yes	Yes	Yes
Sig	Yes	Yes	Yes

\*) Compared with significance level 0,1 (10%).

Before the regulation of the Minister of Religion is applied the number of banks that can receive the deposit of the cost of hajj pilgrimage amounted to hundreds of banks, but after that regulation applied, it reduced into 17 Islamic banks. The number of Muslims in Indonesia that reaches 85% of the whole population is the huge supply of Islamic banks for hajj funds. Changes in market structure caused by the government change the amount of supply faced by the market of Islamic banks. In addition, conventional banks also have to make the transfer of hajj funds to Islamic banks due to the implementation of the regulation of Minister of Religion number 30 of 2013.

## 4 CONCLUSION

The government policy as stipulated in the Regulation of the Minister of Religion on the Stipulation of the Recipient Bank Deposit Fee for Hajj, affects the transfer of hajj funds from conventional to Islamic banks and the result is the third party funds in conventional banks declined and third party funds in Islamic banks is risen. This research proved that the growth of Islamic banks fund can be happened by government supports. Suggestion from this research is the government must focus on regulation and policy that can increase third party fund in Islamic bank from hajj funds.

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