

Determinants of Financial Performance with Islamic Financial Technology Moderation in Sharia Commercial Banks in Indonesia

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ABSTRACT

The research aims to examine and analyze the determinants of financial performance with the moderation of Islamic financial technology in Islamic commercial banks in Indonesia.

The type of research used is classified as quantitative with an explanatory approach. The data used in this study is a type of secondary data. The population and sample in this study are six Islamic commercial banks registered with the Indonesian Financial Services Authority (OJK). Data management and analysis techniques were carried out by inferential analysis and Partial Least squares (PLS).

The results of the Direct Effect Research show that: 1) firm size has a negative and significant effect on Financial Performance in Islamic commercial banks in Indonesia. 2) the current and debt-to-equity ratios have a negative and insignificant effect on Financial Performance in Islamic commercial banks in Indonesia. 3) Moderation of Islamic Fintech significantly strengthens the influence of Firm Size on Financial Performance in Islamic commercial banks in Indonesia. 4) Moderation of Islamic Fintech significantly strengthens the influence of the Current Ratio on the Financial Performance of Islamic commercial banks in Indonesia. 5) Moderation of Islamic Fintech significantly strengthens the influence of the debt-to-equity ratio on the Financial Performance of Islamic commercial banks in Indonesia.

This study concludes that: 1) firm size with many total assets does not necessarily mean the company has a significant profit. It could decrease company profitability if these assets are not utilized and managed properly and efficiently. Companies with significant assets can utilize and support business development operations to maximize profits and increase company profitability. 3) The high current ratio indicates excess current assets, affecting the company's profitability. The reason is that a high current ratio is only sometimes good because it will show excess current assets that are not used effectively, which can lead to a smaller level of profit or profitability, resulting in lower profitability. 3) a high debt-to-equity ratio indicates the availability of significant funds from the use of debt for company operations to increase the profitability of Islamic banks. Banks that finance their assets with debt cause their profitability to decrease because banks have to pay the costs that must be incurred due to the use of debt. 4) With Islamic fintech as a moderator between firm size, current ratio, and debt to equity ratio, Islamic fintech can optimize financial performance because by adopting fintech in Islamic banking among the public, it is easier to transact online because Islamic Fintech provides various services such as payment zakat, health, and lending as well as transfers between banks.

Keywords: Firm Size, Current Ratio, Debt to Equity Ratio, Financial Performance, and Islamic Financial Technology.

INTRODUCTION

Banks have many vital roles in the economy. Banks act as a haven where their position is to act as the

primary source of credit or financing for households, small and medium enterprises (SMEs), companies, and governments (Berger *et al.*, 2020). Banks provide opportunities for entrepreneurs to start their businesses, innovate, and improve their economy. The current global challenge is the outbreak of the Covid-19 virus, which not only attacks the human body and the global economy and has become a significant challenge to the business world. One of the most affected sectors is the banking and financial services industry. Most researchers and experts in world economics state that this epidemic is the cause of the largest global financial crisis, surpassing the Asian financial crisis that occurred in 1997 (Yusuf dan Ichsana, 2021).

The growth of Islamic commercial bank assets is undoubtedly factored into significant profitability. Profitability can also be an indicator for measuring the financial performance of a company, whether it is a financial institution or a non-financial institution (Mahmudah dan Harjanti, 2016). Bank Indonesia looks more at ROA than ROE in determining banking success. The greater the value of ROA at a bank, the greater the percentage of profit the bank gets (Alaamsah *et al.*, 2021).

The soundness level of a bank can also be seen through good financial performance. Performance is essential for a bank because the banking business is a business of trust. The bank must show its credibility so that more people will transact there (Syakhrun *et al.*, 2019). The profitability ratio is one of the most appropriate indicators to measure a company's financial performance.

The better the profitability ratio, the better it describes the company's ability to achieve high profits. If the bank can increase profitability, then this can show good financial performance. And conversely, if the profitability is low, then the bank's performance is less than optimal in generating profits (Khasanah *et al.*, 2022).

Company size in terms of total assets. The size of a company is influenced by operating activities, variability, and the level of company sales which can affect the speed of submission of financial reports to the public. To achieve timely annual financial reporting, one of the influencing factors is company size (Prasetyo dan Sulastiningsih, 2022).

The larger the size of the banking company also has the more incredible opportunity to increase the risk that the Bank must bear. This will occur if the assets owned by the Bank are not managed and used optimally for the Bank's operational activities, so the Bank will tend to incur more significant asset management costs. The larger the company's assets, the more capital is invested in those assets. On the Bank's balance sheet, assets show the position of using funds (Pratama, 2016).

The current ratio illustrates a company's ability to meet financial obligations that must be met immediately or when billed (Mursidah *et al.*, 2023). The liquidity of a banking company refers to the bank's ability to pay debts to customers in the form of demand deposits, savings, and time deposits when customers receive funds, as well as to fulfill the ability to provide credit to customers who meet financing requirements. Each company has a liquidity ratio of 200% if the company is healthy. If the liquidity ratio is below 200%, it is considered unfavorable because the amount of current assets is insufficient to cover short-term liabilities if the value of current assets decreases. Regardless of the bank's health (viewed from its liquidity), the most important thing is that the bank can provide cash and other means of payment to meet its short-term obligations (Makaombohe *et al.*, 2014). The current ratio is the objective of measuring a company's ability to pay short-term obligations or debts that will mature soon. Excess current assets will hurt profitability if there is a high current ratio (Angelin dan Banjarnahor, 2022).

Debt to equity ratio memberikan penilaian tentang kemungkinan perusahaan untuk terus menghimpun kewajiban utangnya (Dahiyat, 2016). Artinya, seberapa besar beban utang yang ditanggung perusahaan

dibandingkan dengan asetnya. *Debt to equity ratio* yang baik akan mempengaruhi kepercayaan masyarakat khususnya investor pada suatu perusahaan, sehingga meningkatkan nilai perusahaan (Ningsih dan Sari, 2019). *Debt to equity ratio* diharapkan akan mampu mengukur seberapa jauh modal pemilik dalam menutupi utang – utang perusahaan (Wahyuni dan K.H., 2018).

Financial technology, also known as fintech, is a link between technology and digital innovation in the financial sector (Demirdöğen, 2021; Ferdinandus *et al.*, 2022; Syahwildan dan Damayanti, 2022) which is seen as something that is reshaping the financial services industry by using new business models. Asset management, crowdfunding, loans, and the capital market are involved in making payments. Fintech offers several advantages for banking, including expanding customer reach and developing the products and services offered (Almulla dan Aljughaiman, 2021). The emergence of fintech has opened up significant prospects for the Islamic finance sector globally and promoted the inclusion of Islamic finance in emerging markets such as Indonesia (Hudaefi *et al.*, 2023).

The application of fintech in Islamic banking can increase the efficiency of operational activities and the quality of service to customers. The use of fintech is in line with the growing public need for online-based financial services and the use of internet media to access digital data such as ATMs, mobile payments, phone banking, sms banking, QR Code, e-money, and internet banking (Aditya dan Rahmi, 2022; Kristianti dan Tulenan, 2021).

Research results by Singh *et al.*, (2021); Wang *et al.*, (2021) Show that adopting banking fintech can improve existing traditional business models, reduce operational costs, increase service efficiency, strengthen risk control, create business models that are far more attractive to customers, increase competitiveness, and increase banking profitability.

FORMULATION OF THE PROBLEM

1. Does firm size affect financial performance at Islamic Commercial Banks in Indonesia?
2. Does the Current Ratio affect the Financial performance of Islamic Commercial Banks in Indonesia?
3. Does the debt-to-equity ratio affect the financial performance of Islamic Commercial Banks in Indonesia?
4. Does Islamic Fintech moderate the effect of Firm size on Financial performance at Islamic Commercial Banks in Indonesia?
5. Does Islamic Fintech moderate the effect of the Current Ratio on Financial performance in Islamic Commercial Banks in Indonesia?
6. Does Islamic Fintech moderate the effect of the debt-to-equity ratio on Financial performance at Islamic Commercial Banks in Indonesia?

RESEARCH PURPOSES

1. Review and analyze the effect of Firm Size on Financial performance in Islamic Commercial Banks in Indonesia.
2. Review and analyze the effect of the Current Ratio on Financial Performance in Islamic commercial banks in Indonesia.
3. Review and analyze the debt-to-equity ratio's effect on Islamic Commercial Banks' financial performance in Indonesia.
4. Review and analyze Islamic Fintech, which moderates the effect of Firm Size on Financial performance in Islamic Commercial Banks in Indonesia.
5. Review and analyze Islamic Fintech, which moderates the effect of the current ratio on Financial performance in Islamic Commercial Banks in Indonesia.

6. Review and analyze Islamic Fintech, which moderates the effect of the debt-to-equity ratio on Financial performance in Islamic Commercial Banks in Indonesia.

THEORETICAL STANDARPOINT

Shariah Entererprise Theory

Shariah enterprise theory is one of the main supporting theories in sharia compliance and Islamic corporate governance. Aiming to build society and the economy with Allah SWT. As the highest stakeholder, there are five supporting factors, namely, maintaining religion, nurturing the soul, preserving life, protecting the mind, managing generations, and managing wealth, so that in the end it achieves Al-Maqasid Shariah, namely protecting the welfare of the people. Shariah enterprise theory is a corporate theory that has internalized divine values (Meutia, 2010).

By placing Allah as the highest stakeholder, it will be able to raise awareness of divinity as a connecting link between users and their behavior, so that sharia treatment is carried out and guaranteed. In principle, Amanah is an absolute attitude contained in SET, an obligation entrusted by Allah to be used in the manner and purpose set by the trustee. That is, in principle, all the resources owned by stakeholders are God's commands, for which there is accountability, because the use of these resources, both individually and collectively, is limited because, in essence, stakeholders only have the right to utilize them (Triyuwono, 2015).

Referring to this opinion, a theoretical concept that is able to provide a basis for the formation of accounting principles and techniques that produce forms of accountability and information needed by stakeholders is company theory. In the Sharia Enterprise Theory, it is explained that the most important axiom that must be the basis for any determination of its meaning is Allah as the creator and sole owner of all the resources in this world. So what applies in the Sharia Enterprise Theory is God as the source (Abdullah, 2021).

Shariah enterprise theory is based on a believable metaphor that contains a lot of concern for others. Suppose it is linked to temporary strike fund management, which is said to support Islamic banking ethics. In that case, we will target managers who are no longer responsible for fellow human beings (entities or clients) but for the theory. Trying to provide Everyone in the Entity with self-awareness; everything on Earth is just an illusion, and humanity, as the bearer of the mission, is tasked with dealing with it without forgetting the eternal owner (Wahyuni, 2020).

Fundamental Analysis Theory

Fundamental analysis is an analysis of the company's financial statements that aims to measure the financial condition and performance of the company over a certain period through the analysis of financial ratios (Sudirman *et al.*, 2020). Financial processing data is reference data for investors to see that an issuer is deemed worthy of ownership as an investment decision, which can be the hope of getting profits in the future. The existence of aspects of the issuer's financial data makes it essential to see the condition of a company, both in terms of performance and other data conditions, so that it can be a reference for making investment decisions (Santoso, 2010).

The success of every company in carrying out its business activities depends on the realization of performance that is under target or better from time to time. To find out the company's performance, one can analyze the company's financial statements. In line with that, companies can determine financial performance benchmarks by comparing their performance with that of other companies in the same industry. Not only that, companies can also evaluate performance achievements from previous periods (Putri dan Shabri, 2022).

The fundamental school argues that this analysis is suitable for making investment decisions in the long term while analyzing company performance by looking at the annual financial reports using ratio analysis (Santoso, 2010).

Technology Acceptance Model (TAM)

The technology acceptance model (TAM) was first introduced by Davis in 1987 (Bogozzi *et al.*, 1987; Marikyan dan Papagiannidis, 2006), followed by the development of TAM 2 in 2000 by Venkatesh and Davis, and TAM 3 in 2003 by Venkatesh and Bella (Darmansyah *et al.*, 2020). TAM is applied to determine information technology acceptance, adoption, and utilization (Zaineldeen *et al.*, 2020). Acceptance and use of information technology can bring immediate and long-term benefits at the organizational and individual levels, such as increased performance, financial and time efficiency, and convenience (Khan *et al.*, 2022).

TAM has three processes (Min *et al.*, 2021) namely: first, external factors (system design features); second, cognitive responses (perceived ease of use and perceived usefulness); and third, affective responses (attitudes toward using technology or intention), thereby influencing usage behavior (Marikyan dan Papagiannidis, 2006). According to Granić dan Marangunić (2019), the use of TAM is determined by the user's intention and attitude toward adopting the system and whether the user will use or reject the introduced system. Therefore, various studies use TAM to study a person's satisfaction with the use of provided information technology, such as Han dan Sa (2022), Isaac *et al.*, (2018) dan Abd Ghani *et al.*, (2017). Qu dan Chen (2021) theoretically explain that satisfaction is a dimension of attitude because it measures the affective component, an element of attitude.

The fundamental elements used in TAM are, first, perceived usefulness. *Perceived benefits* are the extent to which the person believes using a particular system will improve his job performance (Marangunić dan Granić, 2015). Kedua, kemudahan penggunaan yang dirasakan (*perceived ease of use*). Second, the perceived ease of use directly influences perceived usefulness and the extent to which the person believes that using a particular system will be better, easier to understand and use, capture expectations from positive behavioral outcomes, and save labor usage (Marangunić dan Granić, 2015).

TAM provides a structured theory of acceptance and use of technology and a persuasive explanation of one's motives for using a system and its applications. Therefore, TAM is recognized as a stable and manageable framework for understanding user acceptance of new technology systems in various organizations (Kang *et al.*, 2021; Usman *et al.*, 2022).

Islamic Bank

Islamic banks are a banking system based on the principles of Islamic Sharia law (Abdullah Saif Al Nasser dan Datin, 2013). Islamic law prohibits so-called "Riba" (i.e., payments on what has been lent or causes the payment of interest or usury to be wrong) (Gerrard dan Barton Cunningham, 1997). Islamic banking provides interest-free services to its customers. Interest payments and withdrawals are prohibited in all forms of transactions. This prohibition is one of the differences between the Islamic banking system and conventional banking. Islamic banks also have products engaged in the distribution of funds or financing. Products that Islamic banks commonly use are Mudharabah, Musyarakah, Murabahah, Ijarah, and so on (Ismawati, 2018).

In Indonesia, Islamic bank regulations regarding Law No. 21 of 2008 concerning Islamic Banking. Sharia Banks are banks that carry out their business activities based on Sharia principles and by type consist of

Sharia Commercial Banks, Sharia Business Units, and Sharia People's Financing Banks (BPRS) (Ilyas, 2018). Sharia principles are principles of Islamic law in banking activities based on fatwas issued by institutions authorized to issue fatwas in the field of Sharia. The Islamic banking industry generally understands the characteristics inherent in the banking industry, namely highly regulated industries and industries based on trust. The Islamic banking system in Indonesia is carried out under the principle of profit sharing, prioritizing shared values, *ukhuwah*, and avoiding speculative elements in every transaction (Marlina *et al.*, 2021).

In the operation of Islamic banks, paying and receiving interest is prohibited in all transactions, so interest at the bank is part of usury itself (Shahinpoor, 2009). banks that have an Islamic concept, this is explained in the word of Allah swt Q.S Ali Imran/3: 130, "O you who believe, do not eat usury multiplied and fear Allah so that you will be successful" (Departemen Agama R.I, 1989).

The interpretation is "The interpretation of the verse above explains for those who believe in Allah and His Messenger and carry out His Shari'a, stay away from usury of all kinds, and do not take extra in your loans exceeding the amount of your capital assets, even if it is small, especially if the additional is borne a lot, multiplying each time the debt payment is due. And fear Allah with commitment to the teachings of His Shari'a, so that you will get good luck in this world and the hereafter" (Kementerian Agama Saudi Arabia, n.d.). The verse also emphasizes the command and prohibition not to take usury, especially if the usury is multiplied. Allah SWT commands believers to be pious by abandoning usury; that way, those who obey will get good luck (A. Syafi' AS., 2018).

Firm Size

Firm size is defined as the size of a banking company. In this case, company size can also be known as firm size; company size can be expressed in total assets (assets), sales, and market capitalization. The greater the total assets, the more the company has good prospects in the long term (Putra *et al.*, 2022).

Banks with large firm sizes can enjoy the benefits of their economies of scale. This is because the bank can expand its operational activities, thereby reducing the average operating cost level. Low costs (the low-cost advantage) will allow a reduction in bank interest rates. Low interest rates will increase customer loan requests, affecting the bank's income and profitability (Damayanti dan Mawardi, 2022).

The size of the company in this study is a reflection of the size of the company in which the value of the company's total assets on the balance sheet at the end of the year as measured by the natural logarithm (Ln) of significant total assets will reduce the value of the company when assessed from the owner of the banking company, but when viewed from the perspective of the owner of the banking company. On the management side, the ease with which it controls the company will increase the value of the company (Nadia Samantha, 2015)

Current Ratio

The Current Ratio (Liquidity) is a ratio to measure the ability to fulfill short-term obligations (debt) when billed by a company (Yohanna *et al.*, 2021; Yusra, 2016), This is also one of the critical factors that investors consider when making investment decisions, as it represents the ability of assets to be traded quickly and cheaply (Batten dan Vo, 2019). A company that wants to maintain the continuity of its business activities must have the ability to pay off financial obligations that are immediately repaid. Thus, liquidity indicates a company's ability to pay its financial obligations at maturity using available current assets (Hapsoro dan Falih, 2020; Siti Amaroh, 2008).

Liquidity has two risks, and the first is when there is an excess of funds where many funds in the bank are

unemployed. This will result in a high-interest rate sacrifice. The second is the risk of a lack of funds, as a result of which no funds are available to meet the needs of short-term obligations. Furthermore, they will also receive a penalty from the central bank (Najma, 2021).

The bank does not expect both of these conditions because they will disrupt the bank's financial performance and public confidence. It can be concluded that when a bank expects maximum profit, it will be risky at a low level of liquidity or when high liquidity means that the profit level is not optimal. There is a conflict of interest between maintaining high liquidity and seeking high profits. Liquidity management is crucial for banks, especially to overcome the liquidity risk caused by the two things above. To prevent this liquidity risk, liquidity management policies can be implemented, among others, by maintaining short-term assets such as cash (Adrianto dan Firmansyah, 2019).

Aspects of the concept of liquidity include ratios such as the current ratio, quick ratio, cash ratio, and net working capital to total assets ratio. These aspects reflect management's ability to control working capital financed by the company's current liabilities and cash balances and show management's performance. This study uses the Current Ratio as an indicator of liquidity. Kasmir explained in 2015 that the current ratio (CR) is a ratio that measures a company's ability to pay short-term liabilities or liabilities that will mature soon when fully billed (Saladin dan Damayanti, 2019; Susilawati, 2014)

Debt to Equity Ratio

The debt-to ratio (Solvability) is a ratio used to measure the extent to which a company's assets are financed by debt. That is, how much the company bears the burden compared to its assets. In a broad sense, the solvency ratio is used to pay all of the company's short-term and long-term obligations if the company is liquidated (Syukhandri dan Rahayu, 2022).

This ratio shows the extent to which a bank is financed by debt (outside funds). The higher this ratio, the greater the loan capital the company uses, thereby increasing the risk the bank bears. In addition, this ratio is used to compare the volume (amount) of funds obtained from various debts (short-term and long-term) and other sources outside the bank's own model and the volume of investment of these funds in various types of assets owned by the bank (Pitasari, 2019).

Financial Performance

Performance is a description of the company's achievements in its operational activities, both in terms of financial aspects, marketing aspects, raising and distributing funds, technological aspects, and human resource aspects. Financial performance is a factor that shows the effectiveness and efficiency of an organization in order to achieve company goals. The company's goals will be challenging to achieve if the company does not work efficiently, so the company is unable to compete with competing companies. Measuring company performance is necessary to show its ability to carry out its production process (Parmitasari *et al.*, 2019).

This study's financial performance analysis, or the company's profitability, is very strategic because it involves how the company can generate returns from its operational activities. Every business activity has an ultimate goal to be achieved by a company, the most important of which is to obtain maximum profit (Winarno, 2017). Profitability describes a company's ability to profit from all available characteristics and sources, such as sales activity, cash, capital, number of employees, branches, Etc. Profitability is the difference between income received and costs financed in Islamic banking (Lase *et al.*, 2022). The profitability of Islamic banking is related to adherence to Islamic values, which are unrelated to interest rates like conventional banking. Islamic bank income comes from service-based products and capital collected from the community. The profitability of Islamic banking can only be measured based on interest-free

transactions and direct investment results (Alharbi, 2015; Zarrouk *et al.*, 2016).

he profitability ratio is a ratio that can be used to measure a company's ability to earn profits (Darwis *et al.*, 2022). Return on assets, or ROA, is a ratio that describes a bank's ability to manage the funds invested in all assets profitably. ROA is the most important ratio of all existing profit ratios because this ratio shows how much net profit can be obtained from all funds invested in total assets (Cupian dan Akbar, 2020; Husni Shabri dan Anisa Azhari, 2022; Lase *et al.*, 2022).

Islamic Financial Technology

Financial Technology, or fintech, refers to using technology in the financial services industry to demonstrate new, innovative solutions in developing applications, products, or business models. Fintech also refers to the relationship between modern technology, especially technology related to the internet, such as cloud computing, mobile internet, and others, and existing business activities, one of which is loan transactions and banking transactions (Chuen dan Low, 2018; Gomber *et al.*, 2017).

Fintech is broadly defined as a financial technology innovation that generates new business models, applications, processes, or products that significantly impact financial institutions and the provision of financial services. The main attribute of fintech is a financial service provider with innovative technology, new products, customer orientation, efficiency, transparency, and flexibility. These factors from the primary attributes ultimately lead to high efficiency, cost reduction, flexibility, and automation (Lee *et al.*, 2021; Syahwildan dan Damayanti, 2022).

Objective evidence of progress in fintech is the many modern payment tools and applications using digital applications (Sepriani *et al.*, 2022). There are several benefits of fintech, namely providing benefits through better services and prices, simplifying payments, and reducing operational costs. Meanwhile, the benefits of fintech for the country are that it can encourage economic development for every Indonesian citizen through better currency circulation and economic policies. Fintech is here to reduce startup costs due to changes to a more efficient payment system. Fintech also plays a role in payment instruments, transferring money between accounts, mitigating risks common in traditional payments, and providing capital loans (Safitri, 2020).

The main difference between fintech and Islamic fintech, in general, is the principles used because Islamic fintech uses Islamic principles in financial technology innovation and also has Islamic features such as Islamic greetings, calls to prayer, prayer times, zakat calculators, and qurbani, as well as information on appeals for social assistance (zakat, infaq, and alms). The utilization of technology is one of the conveniences Islamic banking uses to provide easy transactions for customers at low costs (Usman *et al.*, 2022). Customers can also use this Islamic finesse to access banking services such as financing, payments, remittances, and buying and selling shares and securities (Siska, 2022). In other words, fintech provided by Islamic banks must fulfill Sharia principles in transactions, or at least customers feel that fintech offered by Islamic banks fulfills elements of Sharia principles, according to the TAM theory of perceived ease of use, especially in providing satisfaction to Islamic banking customers. Thus, Sharia principles are the main differentiator between Islamic banking and conventional banks or other financial technologies that provide technology-based financial services (Usman *et al.*, 2022).

In Islamic fintech, the nature of the transaction is cooperation, where the borrower is freed from the system of interest rates or usury. The profit-sharing system is a system that is used in cooperation and is agreed upon by both parties (lenders and investors). Islamic fintech promotes transparency and fairness (Yahya, 2021). Financial Technology currently developing in Indonesia can be divided into several categories: Payment channels and systems, Digital Payments, peer-to-peer (P2P) learning, Digital Insurance, Crowdfunding, and Investments. This research will focus on Sharia fintech in the Digital Payment segment

(Fuadi dan Munawar, 2022; Marginingsih, 2019; Purwanto *et al.*, 2022; Yudhira, 2021).

METHODS

Types of research

this study, the type of research used is quantitative research in numerical form that needs to be analyzed. Quantitative research is the process of finding knowledge using data in the form of numbers that needs to be analyzed (Supriyanto dan Machfudz, 2010). his type of quantitative research emphasizes testing theory by measuring research variables with numbers and analyzing data using statistical procedures (Saunders *et al.*, 2009). he type of data used in this study is secondary data, where data obtained and stored by others is usually past or historical (Wibisono D, 2002). Secondary data can be used to test hypotheses and generalize research findings. Secondary data for this research comes from the complete financial reports of the Islamic banking industry in Indonesia. This research can be classified as a type of longitudinal research. Longitudinal research is a type of research that measures the influence of variables over a certain period (Saunders *et al.*, 2009).

Research sites

This research was conducted at Islamic Commercial Banks in Indonesia registered with the Financial Services Authority (OJK). Data collection in this study was carried out on the website of each Islamic Commercial Bank, which will be used as a research sample. The data taken is from the annual financial reports of Islamic Commercial Banks for 2015–2022

Approach

The approach used in this study is explanatory (Saunders et al., 2009). Quantitative research with an explanatory approach aims to explain the linkages and relationships between the variables to be used and tested to obtain a more transparent and detailed description of the relationships between these variables. Explanatory research is also commonly referred to as confirmatory research (Zaluchu, 2020).

Population and Sample

Populasi The population in this study is all Islamic banking in Indonesia, a total of 33 Islamic banking, consisting of 13 Islamic Commercial Banks (BUS). The sampling technique in this study used purposive sampling. Purposive sampling is a form of sampling based on specific criteria, characteristics, or certain characteristics based on the characteristics or characteristics of the population. Based on the sampling criteria, six sharia commercial banks are the selected samples. So that there are four exception banks, namely: Bank Syariah Mandiri, Bank Negara Indonesia Syariah, and Bank Rakyat Indonesia, and the result of the merger is Bank Syariah Indonesia

Data analysis technique

The analysis begins with a research framework that will then be developed into a research model. Data analysis techniques were carried out with the help of Structural Equation Model (SEM) software (Romadhon, 2020). The structural equation model (SEM) is a multivariate statistical analysis technique to link structures that are relatively difficult to measure simultaneously. In addition, it can be used to analyze the structural relationship between measured variables and latent constructs. This technique combines factor analysis (factor analysis) and multiple regression analysis (multiple regression analysis). A testing process is needed to ensure that the model is built correctly and the results are valid. Several data analyses were carried out, namely testing the validity and reliability of the instrument and data analysis method.

RESULTS AND DISCUSSION

First Stage: Evaluation of Other Models (Measurement Models)

Convergent Validity

Testing the convergent validity of reflexive indicators with the Smart PLS program can be seen from the loading factor value of each construct indicator. The factor loading value for explanatory research is $> 0.6-0.7$. In this study, a factor loading limit of ≥ 0.7 was used. The following results of the Convergent validity test can be seen in Table 1 and Figure 1: (Ghozali, 2021). In this study, a factor loading limit of ≥ 0.7 was used. The following results of the Convergent validity test can be seen in Table 1 and Figure 1:

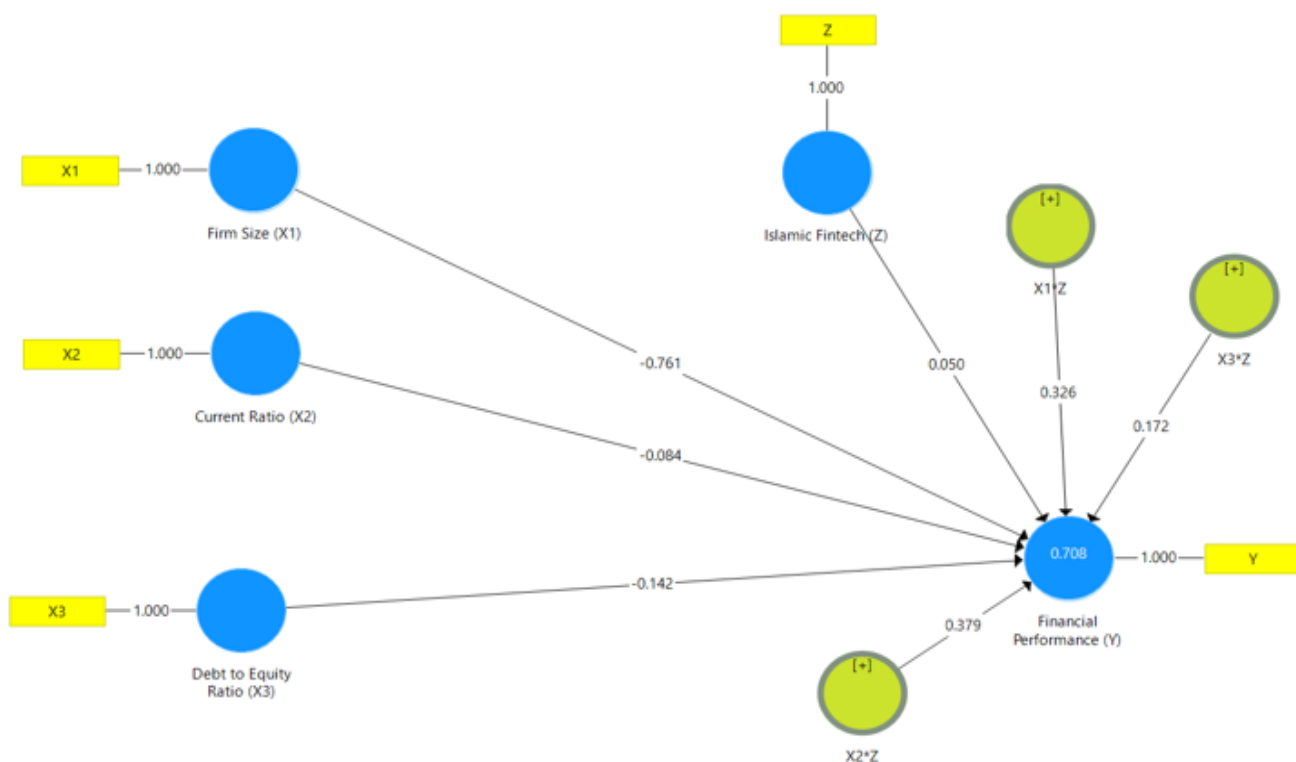


Figure 1. Initial Stage Test Model (Other Loading)

Table 1. Convergent Validity

	Current Ratio (X2)	Debt to Equity Ratio (X3)	Financial Performance (Y)	Firm Size (X1)	Islamic Fintech (Z)
Firm Size				1,000	
CR	1,000				
DER		1,000			
FS			1,000		
IF					1,000

Based on testing the validity of the outer loading in Table 1 and Figure 1, it can be seen that the Firm Size, Current Ratio, Debt to Equity Ratio and Islamic Fintech indicators have an other loading value of 1,000, it is known that all outer loading values are above 0.7 which can be concluded that the majority of indicators are valid because of its high outer loading value. All of the indicators above are valid and appropriate for use in each variable or construct in this study.

Discriminant Validity

After testing convergent validity, the next step is to look at discriminant validity. Discriminant validity testing is carried out to ensure that each concept of each variable is different from other variables. There are several stages of discriminant validity testing, including the following:

Table 2 Heteroit Monotrait (Discriminant Validity)

	Current Ratio (X2)	Debt to Equity Ratio (X3)	Financial Performance (Y)	Firm Size (X1)	Islamic Fintech (Z)
Current Ratio (X2)					
Debt to Equity Ratio (X3)	0,160				
Financial Performance (Y)	0,111	0,432			
Firm Size (X1)	0,092	0,435	0,579		
Islamic Fintech (Z)	0,142	0,177	0,180	0,376	

Based on the table above, it can be seen that the results of the discriminant validity test with the HTMT approach show that all values are <0.9, which means that it can be concluded that they have met the requirements for discriminant validity based on the HTMT approach.

Table 3 Fornell Larcker (Discriminant Validity)

	Current Ratio (X2)	Debt to Equity Ratio (X3)	Financial Performance (Y)	Firm Size (X1)	Islamic Fintech (Z)
Current Ratio (X2)	-1,000				
Debt to Equity Ratio (X3)	-0,160	-1,000			
Financial Performance (Y)	-0,111	-0,432	-1,000		
Firm Size (X1)	0,092	0,435	-0,579	-1,000	
Islamic Fintech (Z)	-0,142	0,177	-0,180	0,376	-1,000

Based on Table 3 above, there is good discriminant validity because the AVE root value in each construct is greater than the correlation between the constructs. The AVE root value can be seen in the number in bold (1,000); for each value below the AVE root value not in bold, it is a correlation value.

Construct Reliability and Validity

Test the construct reliability as measured by composite reliability, Cronbach’s alpha, and Average Variance Extracted (AVE) for each construct or variable in this research. A questionnaire is reliable if the composite

reliability and Cronbach's alpha values are ≥ 0.70 . As for the AVE value, if it is ≥ 0.50 , then the concurrent validity requirements have been met and are good.

Table 4 Validity Testing Based On Cronbach' alpha, Composite Reliability, Average Variance Extracted (Ave)

	Cronbach's Alpha	Composite Reliability	Average Variance Extracted
Firm Size (X1)	1,000	1,000	1,000
Current Ratio (X2)	1,000	1,000	1,000
Debt to Equity Ratio (X3)	1,000	1,000	1,000
Financial Performance (Y)	1,000	1,000	1,000
Islamic Fintech (Z)	1,000	1,000	1,000
Firm Size * Islamic Fintech	1,000	1,000	1,000
Current Ratio * Islamic Fintech	1,000	1,000	1,000
Debt to Equity Ratio * IslamicFintech	1,000	1,000	1,000

Based on the table above, it can be seen that the Cronbach's alpha and Composite Reliability values of all variables have met the convergent validity requirements well, which are suggested to be above 0.7. As an illustration, it is known that all Cronbach's alpha values are 1.000 greater than 0.70, which means that they have fulfilled the reliability requirements based on Cronbach's alpha and Composite Reliability properly. It can be seen that the Average Variance Extracted values of all variables have met the convergent validity requirements well, which are suggested to be above 0.50. As an illustration, it is known that all Average Variance Extracted values, namely 1.000, are greater than 0.50, which means that they have fulfilled the convergent validity requirements based on Average Variance Extracted (AVE) properly.

Second Stage: Evaluation of the Inner Model (Structural Model)

R Squares

R Squares can be used to explain the effect of certain exogenous latent variables on endogenous variables and whether they have a substantive effect. The R Squares value, as quoted by (Ghozali 2021) is 0.75 (strong), 0.50 (moderate), and 0.25 (weak). The R2 value in this research can be seen in Table 5 below.

Tabel 5: R Square Adjusted

	R-square
Financial Performance (Y)	0.708

Based on the R-Square value of Financial Performance (Y) of 0.708, which means Firm Size, Current Ratio, and Debt to Equity Ratio, Islamic Fintech can explain or influence Financial Performance by 70.8%; the remaining 29.2% is influenced by other factors. Based on Table 4.7 above, the value of the coefficient of determination (R2) on the financial performance variable is 0.708 in the strong category. The R2 financial performance value of 0.708 is said to be moderate because the value is greater than 0.50. The influence of Firm Size, Current Ratio, debt-to-equity ratio, and Islamic fintech moderation on Financial Performance is 70.8%. The contribution of the three variables is moderate, namely 70.8%, while the remaining 29.2% is the contribution of other variables that are not included in the study and have a weak contribution.

Signifikansi (two-tailed)

Testing the significance of the structural model is by looking at the t-statistic and p-value values between exogenous and endogenous variables with the requirement that the t-statistic has a value > 1.960 and a p-value <0.05 (Imam Ghozali, 2016). The following are the direct and indirect influences between construct relationships as in the hypothesis presented in the following table:

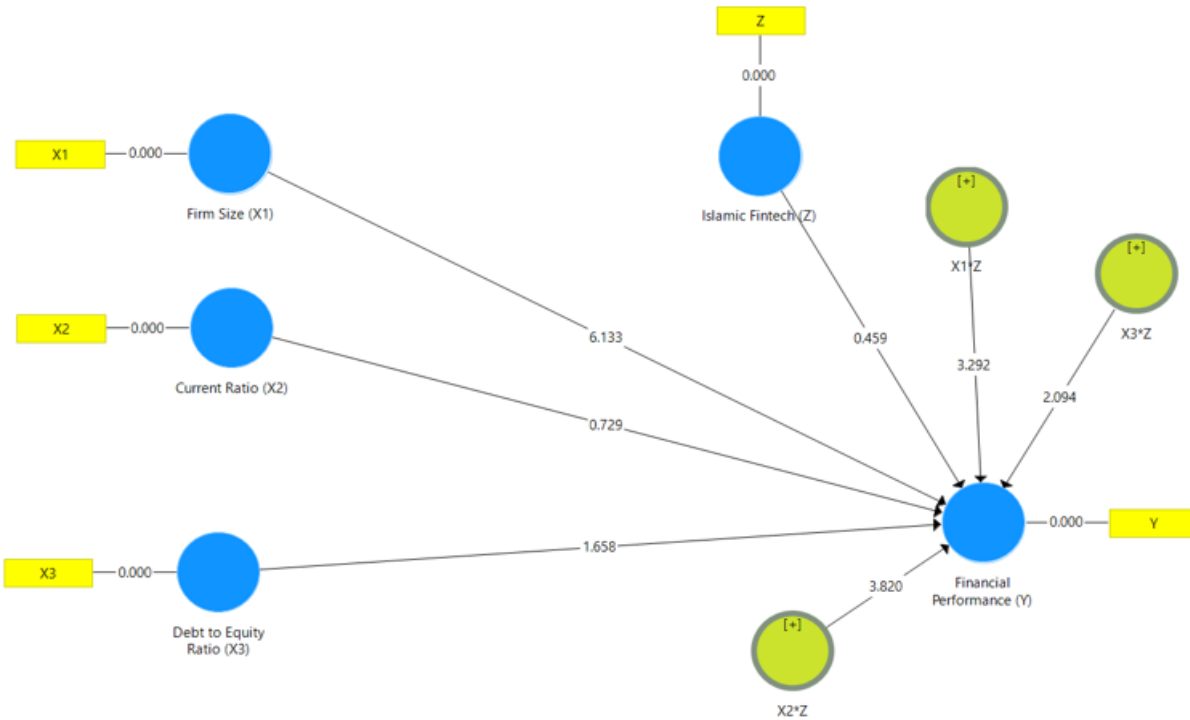


Figure 2: Structural Model Output (Bootstrapping)

Table 6: Path Coefficients And Significance Of Direct Influences

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Firm Size (X1) -> Financial Performance (Y)	-0,761	-0,757	0,124	6,133	0,000
CR (X2) -> Financial Performance (Y)	-0,084	-0,094	0,115	0,729	0,466
DER (X3) -> Financial Performance (Y)	-0,142	-0,160	0,086	1,658	0,098
X1*Z -> Financial Performance (Y)	0,326	0,338	0,099	3,292	0,001
X2*Z -> Financial Performance (Y)	0,379	0,383	0,099	3,820	0,000
X3*Z -> Financial Performance (Y)	0,172	0,156	0,082	2,094	0,037

Firm Size harms Financial Performance with a coefficient value of -0.761 and is significant with P-Values = 0.00. The current Ratio harms Financial Performance, with a coefficient value of -0.084, but is not significant, with P-Values = 0.466 > 0.05. This shows that the current Ratio does not affect financial performance by increasing profitability. The results of this study align with the theory, which states that a high current ratio indicates an excess of current assets, which will negatively affect the company's profitability. The reason for the negative relationship between Current Ratio and banking financial performance is that a high Current Ratio is not always good because it will show excess current assets that are not used effectively, which can lead to a smaller level of profit or profitability, which can also result in lower profitability.

The debt-to ratio harms Financial Performance, with a coefficient value of -0.142, but is not significant, with P-Values = 0.098 > 0.05. The results of this study indicate that the company's performance is not measured by the increase or decrease in the debt-to-equity ratio because the debt-to-equity ratio is the ratio used to measure a company's ability to fulfill its obligations by guaranteeing its equity. However, debt does not affect the company's profits because equity has guaranteed the risk due to changes in the debt-to-equity ratio, so it does not interfere with the company's financial performance.

Islamic Fintech significantly moderates the effect of Firm Size on Financial Performance, with P-Values = 0.01 < 0.05. This shows that if fintech technology is easier to use by users (such as customers), then it is likely that there will be an increase in the adoption and use of these products. Easier use of fintech technology can increase efficiency and productivity in financial transactions, affecting a company's financial performance by reducing costs and increasing revenue. Since users perceive that fintech technology provides clear benefits and adds value to their financial activities, they are more likely to adopt it. For example, Fintech, such as digital payment applications that facilitate non-cash transactions, can increase convenience for customers, and this can have a positive impact on a company's financial performance because it can increase turnover or income.

Islamic Fintech significantly moderates the effect of the Current Ratio on Financial Performance, with P-Values = 0.000 < 0.05. Liquidity can affect perceptions of the ease of use of Fintech because if a company faces liquidity problems and is constrained in meeting its financial obligations, it may be more careful in adopting Fintech. Fintech's ability to assist companies in managing liquidity and optimizing cash flow can influence perceptions of the usefulness of this technology.

If companies experience liquidity challenges and fintech technology can offer straightforward solutions and positively impact their liquidity management, they are more likely to adopt the technology. For example, using digital payment platforms or financial services based on blockchain technology can help companies improve efficiency and speed up the payment process, impacting overall liquidity.

Islamic Fintech significantly moderates the effect of the debt-to-equity ratio on Financial Performance, with P-Values = 0.037 < 0.05. The application of fintech technology can help automate business processes, improve risk analysis, speed up financial transactions, and provide better banking services for customers, all of which can strengthen a bank's financial position and solvency. Users believe that using fintech services can provide significant benefits, such as more accessible, faster, and more transparent access to finance, so they will be more likely to adopt them. With Fintech, it can help developers identify aspects that need to be improved, both in terms of usability and ease of use. By improving these aspects, adopting fintech technology can increase the number of users and the success of financial service providers.

CONCLUSION

This study concludes that firm size has significant negative effects on financial performance because, even

though a company's total assets are significant, it does not necessarily mean that the company has large profits. It could decrease company profitability if these assets are not utilized and managed properly and efficiently. Significant results are due to large company assets that can be utilized and supported by business development operations to maximize profit and increase company profitability. Current Ratio and Debt to Equity Ratio show negative and significant results, indicating that a high Current Ratio is not always good because it will show excess current assets that are not used effectively, which can lead to a smaller level of profit or profitability, which can also result in lower profitability. A high debt to equity ratio indicates the availability of significant funds from the use of debt for company operations in order to increase the profitability of Islamic banks. Banks that finance their assets with debt cause their profitability to decrease because they have to pay the costs that must be incurred due to the use of debt. With Islamic Fintech as a moderator between Firm Size, Current Ratio, and debt-to-equity ratio, Islamic Fintech can optimize financial performance because, by adopting fintech in Islamic banking, it is easier for people to transact online. After all, Islamic Fintech provides various services such as zakat payments, health and loan services, and bank transfers.

RECOMMENDATION

In this study, we know that the financial performance of Islamic commercial banks in Indonesia, by looking at the firm size, current debt-to-equity ratio, and Islamic fintech, by adopting fintech services in Islamic banking, will further increase the attractiveness of the public to invest in Islamic banking. In future research, it will be necessary to increase the number of samples or the number of variables to develop this research in the Islamic banking sector.

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