

Original Research Article

Profitability Determinants Analysis at Sharia Guarantee Company in Indonesia

ABSTRACT

Aims: to research the internal and external factors that influence it in order to conduct an in-depth analysis of the condition of the sharia guarantee company in Indonesia and the company's management strategy in Indonesia.

Study design: Quantitative-qualitative design with data obtained from the monthly Management Reports of PT Jaminan Pembiayaan Askrido Syariah and PT Pembiayaan Jamkrindo Syariah, Indonesian Guarantee Statistics 2014-2019

Place and Duration of Study: PT Jaminan Pembiayaan Askrido Syariah and PT Pembiayaan Jamkrindo Syariah, Indonesian Guarantee Statistics 2014-2019

Methodology: The data is gained from four respondents of Presidents Director of PT Askrido Syariah, Presidents of Director of PT Jamkrindo Syariah, Head of Business Department of PT Askrido Syariah, and Head of Assurance Business Division of PT Jamkrindo Syariah.

Results: From the panel data analysis, the variables that affect the company's profitability are Claim Ratio (CR), Return on Investment (ROI), Subrogation Level (SUBR), Company Size (Total Assets) and total Islamic financing carried out by Islamic Commercial Banks (LKS). Based on the results of the analysis of the relationship between internal and external factors above as well as a SWOT analysis, several strategic recommendations for the development of the sharia guarantee industry can be described, including collaboration/synergy with the parent company, business expansion, utilization of information technology, improvement of sharia guarantee product quality, strengthening of asset management functions, developing human resource capabilities, strengthening capital, building communication and seeking support from various relevant stakeholders.

Conclusion: In order to be able to implement the strategy as intended and in order to increase profitability or maintain business continuity, sharia guarantee companies need the ability of managers to formulate company strategies in the form of appropriate work programs and receive support from various parties including the Government or Regulators (Financial Services Authority) and Shareholders, especially in facing challenges in the current pandemic. For academics, the authors recommend that further research is needed on sharia guarantee companies from other aspects outside of financial performance such as the amount of the multiplier effect resulting from economic growth due to sharia guarantee activities.

Keywords: Profitability, Shariah Guarantee, SWOT Analysis

1. INTRODUCTION

Sharia guarantee is an activity of providing guarantees by guarantors for the fulfillment of guaranteed financial obligations to recipients of guarantees based on sharia principles. The sharia guarantee is provided by a financial institution or other form of business activity which based on the law mentioned above can provide guarantees by prioritizing to support micro, small and medium enterprises and cooperatives[1]. A sharia guarantee company is a legal entity engaged in financial services so that its business activities are regulated and closely monitored by the Financial Services Authority (OJK).

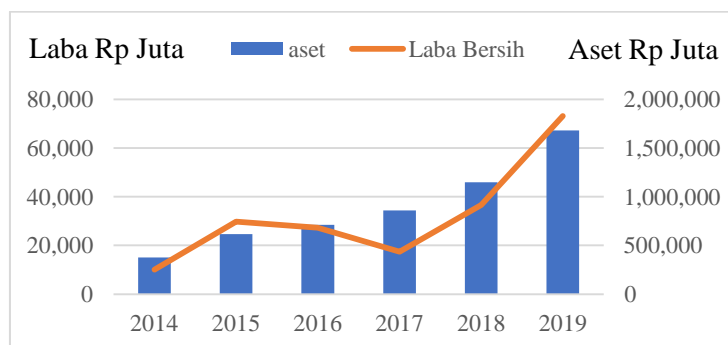


Fig. 1. Graph of the Combined Performance of PT Askrindo Syariah and PT Jamkrindo Syariah

Source: Management Report (processed)

The graph above illustrates the significant growth in assets of the sharia guarantee industry during the period 2014 - 2019. However, the volatility of net profit of sharia guarantee companies reflects the high risk faced.

Table 1. 6 Years Performance of PT Askrindo Syariah

| Indicator | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | CAGR |
|-----------------------|-----------|-----------|-----------|-----------|-----------|-----------|------|
| Asset 1 | 622,708 | 401,228 | 391,355 | 357,209 | 326,737 | 125,774 | 38% |
| Liability 1 | 112,333 | 75,697 | 80,719 | 53,033 | 41,994 | 15,084 | 49% |
| Equity 1 | 510,375 | 325,531 | 310,636 | 304,176 | 284,743 | 110,690 | 36% |
| Gross Ujroh Kafalah 2 | 317,279 | 223,485 | 176,300 | 156,216 | 111,149 | 47,407 | 46% |
| Net Profit 2 | 36,562 | 14,085 | 6,226 | 20,484 | 24,036 | 9,865 | 30% |
| ROE 3 | 7% | 4% | 2% | 7% | 8% | 9% | |

Source: Company Periodic Report

Notes:

- ¹ Total asset growth, liabilities and equity during 2014-2019 were 38%, 49% and 36% per annum, respectively.
- ² Gross ujroh kafalah revenue growth and net profit from 2014-2019 were 47% and 30% per year, respectively.
- ³ The profitability (ROE) of PT Askrindo Syariah from year to year tends to experience a downward trend.

The business process of a sharia guarantee company is different from the business process of a service company in general. The higher the level of profitability of a sharia guarantee company, it can be seen that the risk exposure is increasing from year to year, mainly from the addition of the company's liabilities or obligations.

Table 2. 6 Years Performance of PT Jamkrindo Syariah

| Indicator | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | CAGR |
|-----------------------|-----------|-----------|-----------|-----------|-----------|-----------|------|
| Asset 1 | 1,059,614 | 746,638 | 469,331 | 354,758 | 288,525 | 250,685 | 33% |
| Liability 1 | 501,889 | 406,145 | 195,472 | 93,889 | 31,533 | 433 | 310% |
| Equity 1 | 557,725 | 340,493 | 273,859 | 260,869 | 256,991 | 250,252 | 17% |
| Gross Ujroh Kafalah 2 | 215,424 | 151,895 | 68,832 | 44,558 | 18,893 | 9,694 | 86% |
| Net Profit 2 | 36,579 | 22,543 | 11,189 | 6,829 | 5,690 | 252 | 171% |
| ROE 3 | 7% | 7% | 4% | 3% | 2% | 0% | |

Source of Company Periodic Report

Notes:

- ¹ The growth of total assets, liabilities and equity in 2014-2019 was 33%, 310% and 17% per year, respectively.
- ² Gross ujroh kafalah revenue growth and net profit for 2014-2019 were 88% and 171% per year, respectively.
- ³ The profitability (ROE) of PT Jamkrindo Syariah from year to year tends to experience an increasing trend.

These risks, among others, stem from uncertainty over investment returns, uncertainty over the acquisition of ujroh and subrogation income as well as claims expenses that occur in each period adding to the burden and liability for the company.

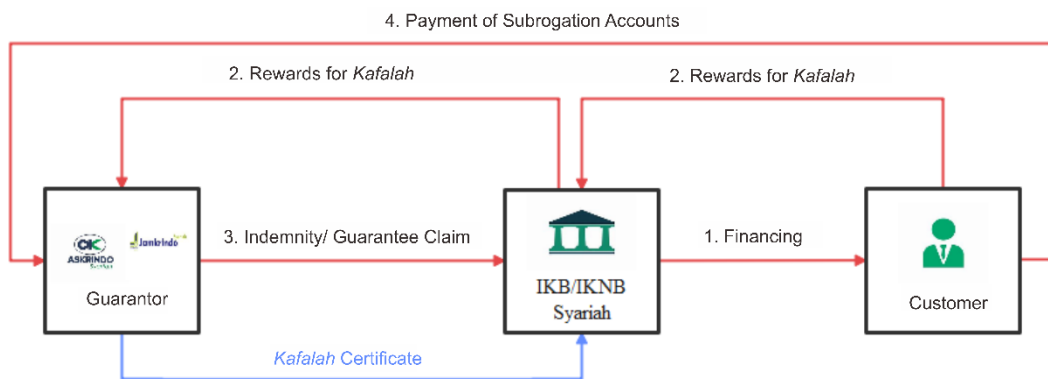


Fig. 2. Sharia Guarantee Business Process

Source: Data processed

On the other hand, the opportunity for the sharia guarantee industry in Indonesia is very large to develop its business in the long term. These opportunities include the volume of sharia financing from both Islamic Commercial Banks (BUS) and Sharia Business Units (UUS), which continues to experience quite high growth (an average of 13% per year) for the last 5 years. Based on the Islamic banking statistical data from the Financial Services Authority (as of May 2020), the said sharia financing reached around IDR 364.6 trillion[2]. Growth has also occurred in groups of micro, small and medium enterprises (MSMEs), cooperative groups and other sharia financing institutions that are partners for sharia guarantee companies[3]. The Ministry of Small and Medium Enterprises Cooperatives noted an increase in the number of MSMEs by 1.4 million per year so that in 2018 it became 64, 19 million business units. This is an indicator of market share growth for the sharia guarantee industry in the country. However, when compared to the existing underwriting capacity, the number of companies engaged in sharia underwriting is still relatively small. With a high level of guarantee risk, in order to maintain the sustainability of the profitability of a sharia guarantee company and ensure business continuity in the future, it is necessary to research the internal and external factors that influence it in order to conduct an in-depth analysis of the condition of the sharia guarantee company in Indonesia and the company's management strategy in Indonesia[4].

Therefore, this research aims to determine the internal and external factors that may affect the profitability in sharia guarantee in Indonesia with SWOT analysis. The research problem formed is do the internal and external factors such as Operating Expenses Operating Income (BOPO), Claims Ratio (CR), Return on Investment (ROI), Subrogation (SBR), Company size, Inflation (INF), Bank Indonesia Sharia Certificate (SBIS), Sharia Financing (LPS), and Gross Contribution of Takaful Companies (LKB) affect the profitability of sharia guarantee in Indonesia. The hypothesis formed is that all factors affect the profitability of sharia guarantee in Indonesia.

2. METHODOLOGY

This research uses descriptive analysis design to analyze the profitability determinants at sharia guarantee company in Indonesia. Descriptive research design is a type of research design that aims to obtain information to systematically describe a phenomenon, situation, or population[5]. More specifically, it helps answer the what, when, where, and how questions regarding the research problem, rather than the why [6]. In addition, the approach used in this research is quantitative-qualitative research approach. The population of this research is all sharia guarantee in Indonesia with sample is in PT Jaminan Pembiayaan Askrido Syariah and PT Pembiayaan Jamkrindo Syariah.

The data used is secondary data obtained from the monthly Management Reports of PT Jaminan Pembiayaan Askrido Syariah and PT Pembiayaan Jamkrindo Syariah, Indonesian Guarantee Statistics 2014-2019 data and other secondary data obtained from several government agencies. In addition, in compiling managerial implications, the authors use primary data from interviews or in-depth interviews with company management.

The managements involved are four managements in total, such as president director from both companies, head of business, and head of assurance business division[7]. This choice is carried out because those management positions are considered to understand more about the data needed and responsible to the data.

Table 3. Respondent Resource Person

| Name | Institution | Information |
|------|--|--------------|
| SH | President Director of PT Askrido Syariah | Practitioner |
| GS | President Director of PT Jamkrindo Syariah | Practitioner |
| NTW | Head of Business Department | Practitioner |

| Name | Institution | Information |
|------|--|--------------|
| APG | PT Askrindo Syariah Head of Assurance Business Division PT Jamkrindo Syariah | Practitioner |

The data is analyzed by using the Panel Data Regression Analysis method to understand the relationship between variables and uses the SWOT approach and the interview method (depth interview) to formulate alternative strategies for increasing profitability in the Islamic guarantee industry.

3. RESULTS AND DISCUSSION

Based on panel data regression analysis of 96 observational data consisting of 48 periods in 2 cross sections and Chow test, it is known that the relationship between the dependent variable (ROE) which reflects the level of company profitability with the selected independent variables shows the results as shown in the table below.

Table 4. Statistical Test Results

| Variable | Coefficient | Standard Deviation | t test | Probability | Result |
|----------|-------------|--------------------|----------|-------------|---------------|
| BOPO | 0.04227 | 0.04156 | 1.01698 | 0.31210 | Insignificant |
| CR | -0.06290 | 0.01550 | -4.05716 | 0.00001 | Significant |
| YOI | 0.79821 | 0.22669 | 3.52118 | 0.00007 | Significant |
| SUBR | 0.07689 | 0.02271 | 3.38544 | 0.00110 | Significant |
| LVOA | 0.20560 | 0.05675 | 3.62304 | 0.00050 | Significant |
| LVOL | -0.07647 | 0.01911 | -3,99771 | 0.00010 | Significant |
| LVOE | -0.08773 | 0.04137 | -2.12058 | 0.03690 | Significant |
| INF | 0.07770 | 0.46821 | 0.16594 | 0.86860 | Insignificant |
| SBIS | 0.17438 | 0.31673 | 0.55056 | 0.58340 | Insignificant |
| IDIC | 0.09339 | 0.02829 | 3.30069 | 0.00140 | Significant |
| LKB | 0.00139 | 0.00510 | 0.27187 | 0.78640 | Insignificant |

Source: 2016 -2019 data processed

3.1 Internal Factor Analysis

3.1.1 Operating Expenses Operating Income (BOPO)

Based on panel data regression analysis, the variable Ratio of Operating Costs to Operating Income shows a positive and insignificant correlation to ROE with a probability calculation of 0.31210. This research is interlinked with the research conducted by [8] who stated that BOPO has significant and positive effect on ROE in Islamic banks.

For the sharia guarantee industry, which has only recently developed since 2014, efforts to penetrate the market are a strategy that needs to be carried out and evaluated regularly.[9] These evaluations include looking at the trend of Operating Costs to Operating Income which in the long term is expected to be more efficient with innovations in marketing and products and high revenue growth. From the results of interviews with management, one of the evaluations related to the high growth in operating costs is influenced by the need for information technology development or the development of an integrated core system. In addition, over the last few years the company has added marketing offices in various regions which has resulted in an increase in the number of human resources. The current workload analysis is sufficient so that by utilizing information technology, human resource cost efficiency and speed in decision making, especially acceptances can be improved[10]. Management can analyze data more accurately so that they can make strategic decisions such as changing the direction of the business which was originally dominant in sharia financing (cash loans) to non-cash loans or surety products that have a relatively shorter guarantee period. This is also balanced with efforts to improve relations with partners[11]. over the last few years, the company has added marketing offices in various regions which has resulted in an increase in the number of human resources.

3.1.2 Claims Ratio (CR)

The claim ratio shows a negative and significant correlation to profitability (ROE) with a probability calculation of 0.00001. This research is in accordance with research conducted by [12] who stated that claim ratio has a significant negative effect on profitability of guarantee companies in Palestine.

In the last 4 years, the claim ratio for both Askrindo Syariah and Jamkrindo Syariah has experienced an increasing trend. In addition, there is a tendency for claims to increase within a certain period (2 years). This is inseparable from the characteristics of the guaranteed products, which are mostly microfinance with short and medium term coverage. The claims ratio interval in the sharia guarantee industry in 2019 ranged from the level of 25.85%-74.42%. The gap interval from the fairly wide claims ratio explains the high risk faced by companies operating in this industry. In other words, the risk of sharia financing activities inherent in sharia banking is part of the risk profile of a sharia guarantee company that must be managed and mitigated properly. From the results of the interview, one of the efforts that can be made by management is, among others, re-guarantee. In addition, with the availability of a complete data base in each segment or type of sharia guarantee product, the management of the business portfolio becomes more focused. Management can reduce sales of products with a high claims ratio profile to increase profitability[13]. On the other hand, management also revealed that the Key Performance Indicators and profitability targets set by shareholders will have a major impact on the business sector that can obtain guarantees in accordance with management's risk appetite[14]. Therefore, support from various stakeholders through the concept of assignments or mandates as well as forms of relaxation or incentives from the government/regulators to sharia guarantee companies so that the benefits of guarantee activities can be given to business actors, especially micro, small and medium enterprises in certain sectors such as agriculture and fisheries by NPF profile is high and still requires government support for access to financing, credit can still be done.

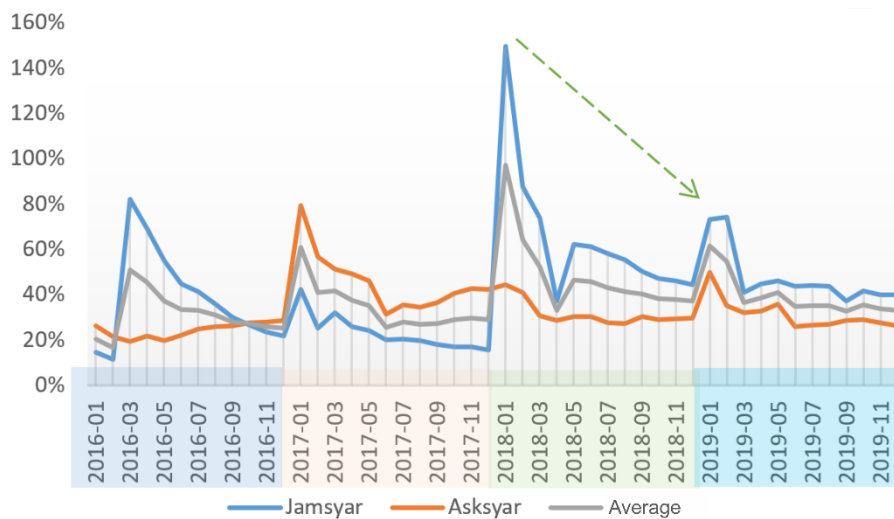


Fig. 3. Claim Ratio Trend Chart

Source: processed data

Khan and Ahmed (2018), in their book have identified several risks in the Islamic financing model in the table below.

Table 5. Islamic financing risk

| Types of Shariah Financing | Risk Profile |
|-------------------------------------|---|
| Murabaha Financing | Viewpoints in understanding contracts can trigger counterparty risk as a result of an ineffective judicial system |
| Financing greetings | <i>Counterparty Risk</i> from failure to supply goods at the agreed time or failure to supply goods according to the quality and quantity of goods. |
| Istishna Financing | <ol style="list-style-type: none"> 1. <i>Counterparty Risk</i> in terms of quality and delivery time. 2. The risk of default by the buyer to pay in full and on time. 3. Cancellation of the contract or delaying the delivery time. |
| Mudharabah and Musyarakah Financing | Greater financing risk due to the absence of guarantee provisions, the risk of moral hazard, adverse selection (misuse of financing facilities by customers). |

3.1.3 Return on Investment (ROI)

Based on panel data regression analysis, the return-on-investment variable shows a positive and significant correlation to profitability (ROE) with a probability calculation of 0.00007. This result is in accordance with research by [15] that stated that return on the investment deposits of Islamic banks and its profitability are closely related each other.

The allocation of investment fund placements made by sharia guarantee companies is mostly in the form of Sharia Bank Deposits. This is closely related to business reciprocity which is part of the terms of cooperation with Islamic banking so that sharia guarantee companies do not have enough opportunities to place funds that have been collected in investment instruments with higher yields. The limited amount of investment funds and an allocation strategy that prioritizes liquidity for companies resulted in a fairly low ROI in 2019 ranging from 3.79% - 5.59% per year. Investment strategy is very influential in encouraging an increase in company profitability. In the event of a claim, the quality of the investment assets will help the company to meet its obligations. In addition, the return on investment as the main component of operating income is expected to cover operating costs so that the company's operations are not disrupted. Investment asset management should be carried out by investment managers who are professional, experienced, trustworthy and reliable. From the results of interviews conducted with management, in line with changes in the company's business direction, there is a strategy of switching investment instruments from deposits to sukuk or state securities with higher yields compared to deposits. This type of financial instrument also has a low level of risk.

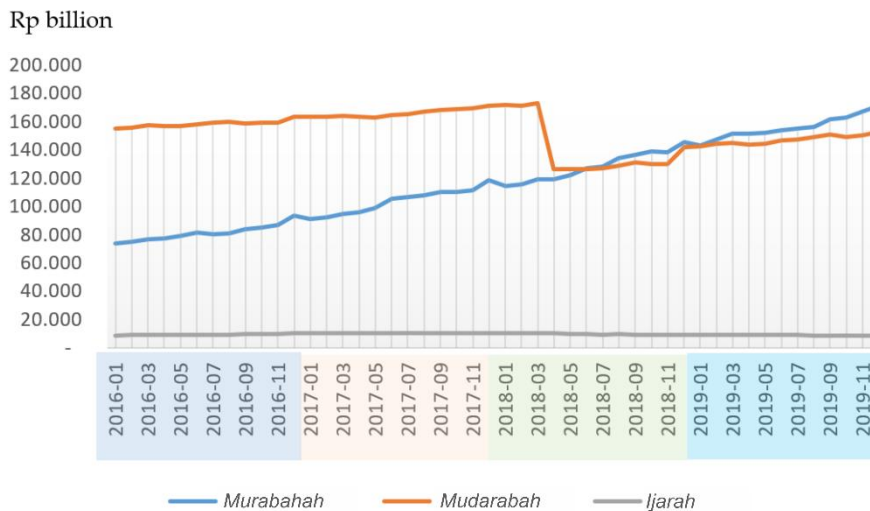


Fig. 4. Return on Investment Trend Graph (ROI)

Source: processed data

3.1.4 Subrogation (SBR)

Based on panel data regression analysis, the Subrogation variable shows a positive and significant correlation to profitability (ROE) with a probability calculation of 0.00110.

This research is in accordance with research conducted by [16] who stated that subrogation has the significant effect on probability in Zambia perspective. Subrogation is a principle in guarantee that gives the right to claim compensation from the guarantor to the guarantor or the right to ask for compensation from a third party that causes a loss. The ability of a sharia guarantee company to work together with sharia banking partners to get a recovery for the claims expense that has been paid is recorded as subrogation income which in turn reduces losses from underwriting activities or increases profitability. From the results of interviews, to increase subrogation income, several strategic and policy initiatives have been carried out by sharia guarantee companies, including collaborating with third parties to collect bills, conduct periodic reconciliations, build intensive communication with guarantors and arrange service level agreements. In general, Islamic banking partners have built a superior information system so that they can monitor each of their customers. For this reason, the smooth acquisition of subrogation income stems from the ability to maintain good relations with banking partners in order to obtain customer information, especially relating to guaranteed payments. In general, Islamic banking partners have built a superior information system so that they can monitor each of their customers.

3.1.5 Company size (LVOA, LVOL and LVOE)

To determine the relationship between firm size and profitability, the authors use the variables Total Assets (LVOA), Total Liabilities (LVOL) and Total Equity (LVOE). Based on the results of panel fund analysis, total assets to profitability (ROE) show a positive and significant correlation with a probability level of 0.0005. The result of this research is in accordance with the research conducted by [17] who stated that firm size and financial leverage cannot be ignored in profitability management of life guarantee companies after the post crisis in Pakistan.

The total liability and total equity variables show a negative correlation with a probability level of 0.0001 and 0.0369, respectively. On the other hand, through the multicollinearity test, the authors found a relationship between LVOL and LVOA variables. On average, the assets of a sharia guarantee company consist of 80% in the form of investment assets and 20% of non-investment assets. Investment assets consist of securities, time deposits, cash and cash equivalents as well as investments in other companies. Asset growth indirectly reflects the ability and credibility of a sharia guarantee company in managing its business, which is part of the company's value that must be maintained in quantity and quality. Investment assets also provide certainty for partners or guarantee recipients that they will receive payment for the company's obligations in the current year and in the future. In addition, the credibility of the sharia guarantee company can be seen from the total equity originating from the capital deposit of the founders or shareholders. From the analysis of the company's financial statements, the capital adequacy of Sharia guarantee companies in Indonesia is still well maintained. There is an initiative from the Shareholders (eg PT Askrindo) to make an additional capital deposit of Rp250 billion.

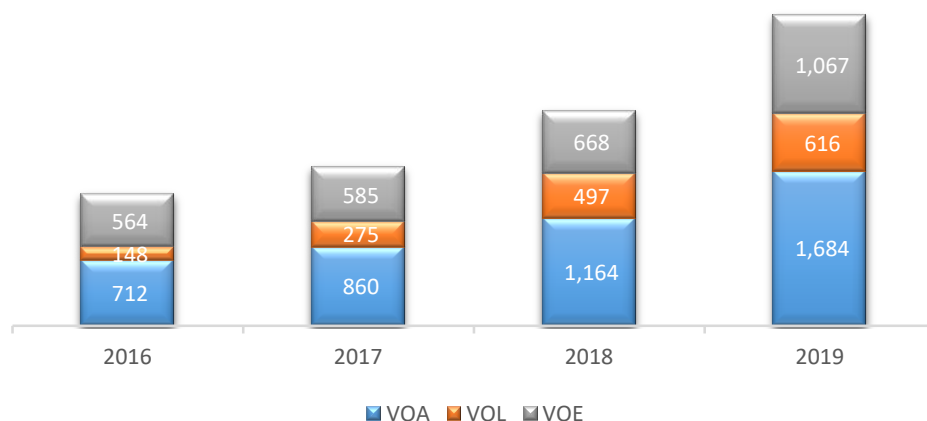


Fig. 5. Graph of Combined Financial Position (Rp Billion)

Source: processed data

3.2 External Factor Analysis

3.2.1 Inflation (INF)

Based on panel data regression analysis, the inflation variable shows a negative and insignificant correlation to profitability (ROE) with a probability calculation of 0.8686. This research rejects the research by [18] who stated that inflation has significant effect on profitability of sharia banking in Indonesia. Macroeconomic conditions in Indonesia since 2016 – 2019 (research period) appear to be quite under control. In addition, as a company that has not been established for a long time, several components of the company's costs such as operating costs that are fixed costs, employee salaries, depreciation costs and so on are relatively not so dominant and their growth is maintained to be lower than the inflation rate. Although there has been a slowdown in global economic growth caused by tensions and a decline in international trade activities between the United States and China which also affects developing countries that are partners with these countries, the inflation in Indonesia during this period was still around 3 – 4% per year.

3.2.2 Bank Indonesia Sharia Certificate (SBIS)

Based on panel data regression analysis, the yield variable for Bank Indonesia Syariah Certificates (SBIS) shows a positive and insignificant correlation to profitability (ROE) with a probability level calculation of 0.58340. This result rejects the research conducted by [19] that stated Bank Indonesia Sharia Certificates (SBIS) are substantial and certainly make the profits will be obtained by Islamic banks.

The SBIS yield in the 2016-2019 period has not become the main reference for Sharia guarantee companies considering there is another need, namely business reciprocity by placing their investment funds in Islamic bank deposits and obtaining certain returns determined by Sharia Banks as part of the terms of the guarantee cooperation.

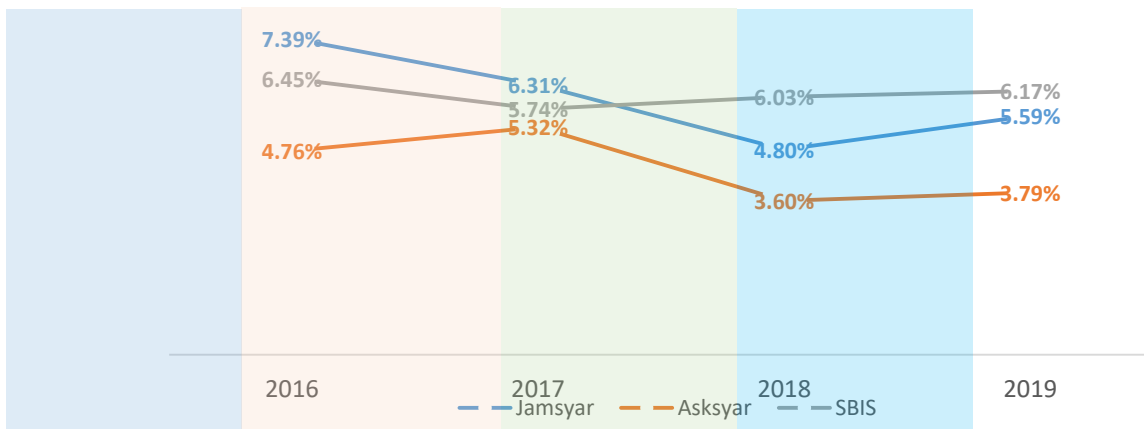


Fig. 6. Graph of Comparison of Company Investment Return (YOI) with SBIS

Source: processed data

3.2.3 Sharia Financing (LPS)

Based on panel data regression analysis, the Islamic financing variable shows a positive and significant correlation to profitability (ROE) with a probability level calculation of 0.00140. Sharia financing is the object of sharia guarantee, which in the last 5 years has shown good growth. This research is in accordance with the research conducted by [20]. She stated that the competitive financing in Indonesian Islamic banks can affect its the profitability.

Referring to the statistical data of Islamic financing contracts, it can be seen that financing Sharia is still dominated by murabahah/profit sharing contracts[21]. This shows that productive working capital financing is still growing. On the other hand, the Financing Deposit Ratio policy in 2019 which was above 85% indicates that Islamic banking is still expanding financing, so it is an opportunity for Sharia guarantee companies to increase market share[22]. Even though in 2020 there was a covid pandemic, there were incentives and relaxations provided by the Government and regulators to accelerate the national economic recovery, including restructuring credit/financing and guarantee programs for Corporate Business Actors (Business Actors) affected by the COVID-19 pandemic[23].

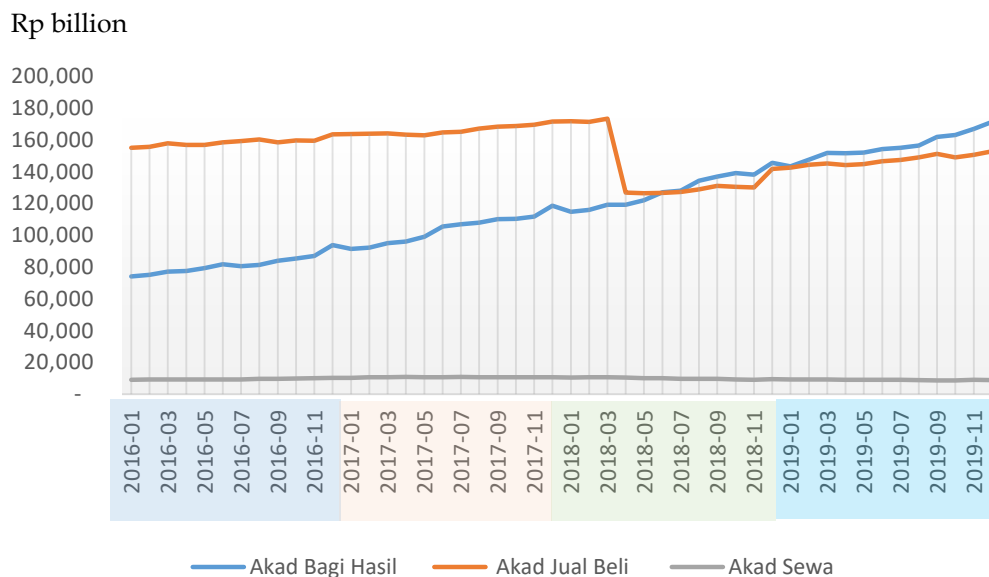


Fig. 7. Sharia Financing Trend Graph

Source: processed data

3.2.4 Gross Contribution of Takaful Companies (LKB)

Based on panel data regression analysis, the gross contribution variable received by takaful guarantee shows a negative and insignificant correlation to profitability (ROE) with calculation probability level 0.78640. This research is in accordance to the research by [24] which stated that gross contribution finds negative and insignificant relationship to the profitability in Karachi Stock Exchange. The negative correlation with the sharia guarantee industry illustrates an indication of competition even though it is in a different industry. The guarantee industry and the sharia guarantee industry are regulated by different laws, but the provisions governing the guarantee business and sharia guarantee are still very limited when compared to the banking business. In the Islamic finance industry, the existence of a sharia guarantee company is complementary to that of a sharia guarantee company [25].

3.3 SWOT analysis

Based on the analysis of internal and external factors above as well as deepening through interviews with informants. The analysis uses four-way SWOT (Strengths, Weaknesses, Opportunities, and Threats) because the author wants to look at internal and external factors that can affect the sharia guarantee company such as Jaminan Pembiayaan Askrido Syariah and PT Pembiayaan Jamkrindo Syariah in term of profitability determinants. In general, the SWOT analysis in the sharia guarantee industry in Indonesia can be mapped as presented in Figure 2 below [26].

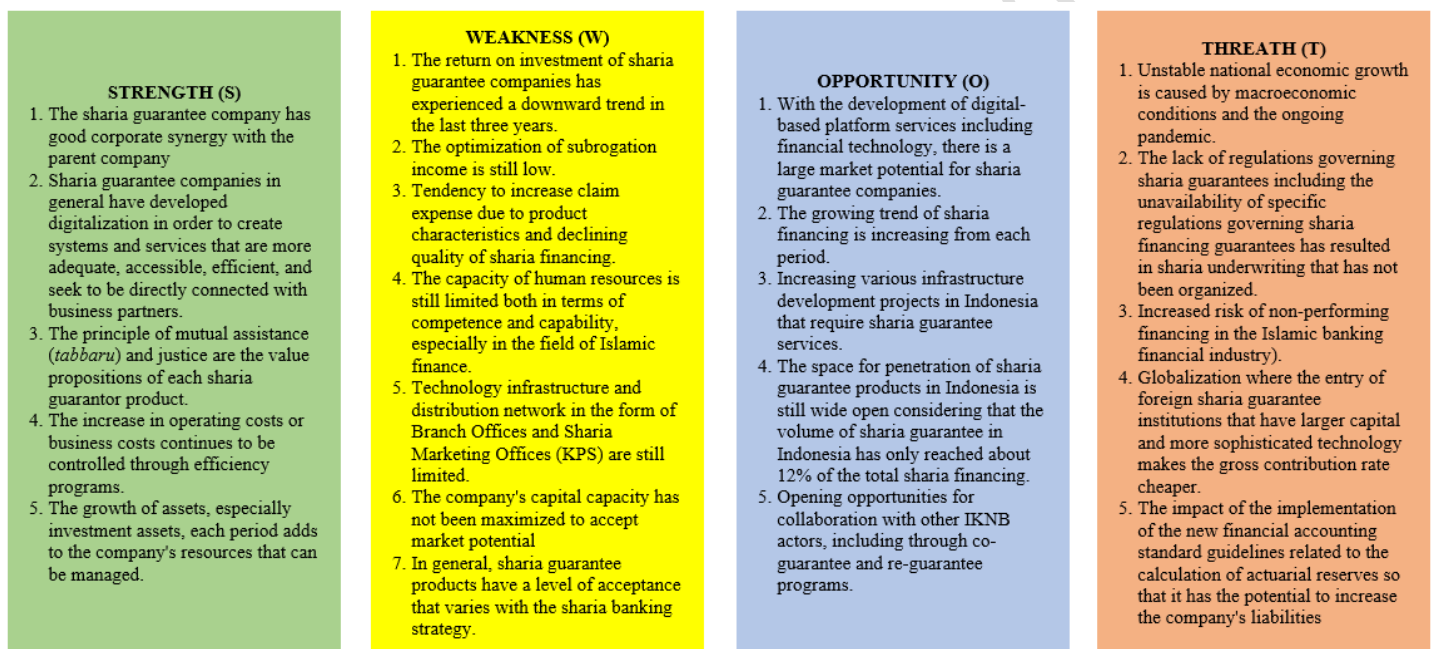


Fig. 8. SWOT Analysis Results

Source: Interview Results

The results of the SWOT analysis above are further elaborated into a company strategy consisting of SO, ST, WO and WT as follows.

3.3.1 SO Strategy

1. Increasing collaboration with the parent company, among others, by conducting business synergies to penetrate the sharia guarantee market, seeking to strengthen capital, and so on.
2. Encouraging business expansion by expanding services in various areas that have good economic growth potential.
3. Optimizing the use of information technology (mobile apps) as a distribution and marketing channel.
4. Diversify service products, such as collaborating with takaful guarantee companies or other business entities to provide wider guarantee services according to customer needs [27].

3.3.2 ST Strategy

1. Increasing sharia re-guarantee activities as an effort to strengthen corporate risk mitigation.
2. Mapping the quality of sharia financing in the country as well as the market outlook on a regular basis.

3. Proactively build communication and provide input to stakeholders to create a conducive business climate for the development of the sharia guarantee industry, including the MUI National Sharia Council in the event that a new fatwa related to sharia guarantee business is required.
4. The need for support from the regulator by providing incentives and strengthening governance for sharia guarantee industry players.

3.3.3 WO Strategy

1. Strengthening the company's capabilities, especially in the field of asset management, including by employing investment managers who are professional and experienced in their fields.
2. Develop a digitalization transformation roadmap with the aim of using information technology to be more efficient and able to improve services.
3. Reviewing various alternatives to increase access to capital, either from increasing owner's capital or Initial Public Offering.

3.3.4 WT Strategy

1. Consistently evaluate and improve the quality of sharia guarantee products to minimize claims ratio.
2. Evaluating corporate governance including standard operating procedures, especially in strategic units such as product marketing, risk management, and claims department.
3. Consistently develop the capability of Human Resources and socialize the values and work culture of the company.
4. Encouraging support and increasing development activities from the parent company, in this case PT Jamkrindo and PT Askrindo, to its subsidiaries

4. CONCLUSION

From the panel data analysis, the variables that affect the company's profitability are Claim Ratio (CR), Return on Investment (ROI), Subrogation Level (SUBR), Company Size (Total Assets) and total Islamic financing carried out by Islamic Commercial Banks (LKS). Based on the results of the analysis of the relationship between internal and external factors above as well as a SWOT analysis, several strategic recommendations for the development of the sharia guarantee industry can be described, including collaboration/synergy with the parent company, business expansion, utilization of information technology, improvement of sharia guarantee product quality, strengthening of asset management functions, , developing human resource capabilities, strengthening capital, building communication and seeking support from various relevant stakeholders.

In order to be able to implement the strategy as intended and in order to increase profitability or maintain business continuity, sharia guarantee companies need the ability of managers to formulate company strategies in the form of appropriate work programs and receive support from various parties including the Government or Regulators (Financial Services Authority) and Shareholders, especially in facing challenges in the current pandemic. For academics, the authors recommend that further research is needed on sharia guarantee companies from other aspects outside of financial performance such as the amount of the multiplier effect resulting from economic growth due to sharia guarantee activities.

REFERENCES

- [1] A. T. Wibowo and T. L. Prihatinah, "Legal Basis Of Using Debt Collector Services By Sharia Banks And Financing Institutions To Collect Defaulting Fiduciary Guarantee In Indonesia," 2021.
- [2] L. Gheeraert, "Does Islamic finance spur banking sector development?," *J. Econ. Behav. Organ.*, 2014, doi: 10.1016/j.jebo.2014.02.013.
- [3] M. Mohsin Hakeem, "Innovative Solutions to Tap 'Micro, Small and Medium Enterprises' (MSME) Market a Way Forward for Islamic Banks," *Islam. Econ. Stud.*, 2019.
- [4] R. Setyowati, L. Abubakar, and N. Rodliah, "SHARIA GOVERNANCE ON ISLAMIC BANKING: SPIRITUAL RIGHTS PERSPECTIVE ON CONSUMER PROTECTION IN INDONESIA," *Diponegoro Law Rev.*, 2017, doi: 10.14710/dilrev.2.1.2017.227-244.
- [5] D. R. Aryati, "THE DETERMINANT FACTORS OF PROFITABILITY ON SHARIA RURAL BANKS IN INDONESIA." President University, 2019.
- [6] A. Omair, "Selecting the appropriate study design for your research: Descriptive study designs," *J. Heal. Spec.*, 2015, doi: 10.4103/1658-600x.159892.
- [7] R. Agarwal and J. Ansell, "Strategic Change in Enterprise Risk Management," *Strateg. Chang.*, 2016, doi: 10.1002/jsc.2072.
- [8] W. I. Kusumastuti and A. Alam, "Analysis of Impact of CAR, NPF, BOPO on Profitability of Islamic Banks (Year

- 2015-2017)," *J. Islam. Econ. Laws*, 2019, doi: 10.23917/jisel.v2i1.6370.
- [9] Z. Boulanouar and F. Alqahtani, "IPO underpricing in the guarantee industry and the effect of Sharia compliance: Evidence from Saudi Arabian market," *Int. J. Islam. Middle East. Financ. Manag.*, 2016, doi: 10.1108/IMEFM-12-2014-0118.
- [10] A. Shobaki *et al.*, "The Efficiency of Information Technology and its Role of e-HRM in the Palestinian Universities," *Int. J. Eng. Inf. Syst. (IJEAIS)*, s.I, 2017.
- [11] Z. H. Orhan, "Business model of Islamic banks in Turkey," *J. Islam. Account. Bus. Res.*, 2018, doi: 10.1108/JIABR-10-2014-0037.
- [12] I. Abdeljawad, L. M. Dwaikat, and G. Oweidat, "The Determinants of Profitability of Guarantee Companies in Palestine," *SSRN Electron. J.*, 2020, doi: 10.2139/ssrn.3533345.
- [13] P. Pietro Biancone, S. Secinaro, and M. Kamal, "Crowdfunding and Fintech: business model sharia compliant," *Eur. J. Islam. Financ.*, 2019.
- [14] R. A. Maya, "Performance Management for Syrian Construction Projects," *Int. J. Constr. Eng. Manag.*, 2016.
- [15] P. Abedifar, S. M. Ebrahim, P. Molyneux, and A. Tarazi, "Islamic banking and finance: Recent empirical literature and directions for future research," *J. Econ. Surv.*, 2015, doi: 10.1111/joes.12113.
- [16] K. Chitoshi, "The interplay between indemnity and subrogation in eliminating unjust enrichment in guarantee contracts: Zambia in perspective," 2017.
- [17] I. Hussain, "Macro Economy And Profitability Of Guarantee Companies : A Post Crisis Scenario In Pakistan," *Pakistan Bus. Rev.*, 2015.
- [18] I. Hidayat, T. Aspiani, and Alwahidin, "The Effect of Inflation, Interest Rate, And Gross Domestic Products on The Profitability of Sharia Banking in Indonesia (Sharia Banking Financial Reports 2014-2018)," *J. Ind. Eng. Manag. Res. (Jiemar)*, 2020.
- [19] A. Alam, G. Thifal Anggraeni, and M. Anas, "The Influence of Determining Factors on Islamic Stock Index in Indonesia," *Int. J. Manag. Entrep. Soc. Sci. Humanit.*, 2020, doi: 10.31098/ijmesh.v3i1.120.
- [20] J. Sriyana, "Islamic banks' profitability amid the competitive financing in Indonesia," *Int. J. Appl. Bus. Econ. Res.*, 2015.
- [21] M. Maulin, "Juridical Review on the Determination of Murabahah Profit Margin and the Advantages and Drawbacks for the Banks and the Customers (a Comparative Analysis of Bank Rakyat Indonesia Syariah (BRIS) and Bank Jawa Barat dan Banten (BJB) Syariah)," *Int. J. Business, Econ. Law*, vol. 16, no. 4, pp. 11–21, 2018.
- [22] Nyabwanga Robert Nyamao, "Effect of working capital management practices on financial performance: A study of small scale enterprises in Kisii South District, Kenya," *AFRICAN J. Bus. Manag.*, 2012, doi: 10.5897/ajbm11.1418.
- [23] E. A. Arbay and L. A. Nusantari, "Analyzing the Impact of Financial Services Authority (OJK) Regulations in Supporting Economy Recovery During Covid-19 Pandemic: Evidence from Indonesia," *Int. J. Sci. Adv.*, 2021, doi: 10.51542/ijscia.spi2.03.
- [24] B. Shah, M. A. Gujar, and N. U. Sohu, "The Impact of Working Capital Management and Profitability : Case Study of Pharmaceutical and Chemical Firms Listed on Karachi Stock Exchange," *Int. J. Econ. Commer. Manag.*, 2018.
- [25] K. Alam, S. A. Rahman, H. Mustafa, S. M. Shah, and S. Hossain, "Shariah governance framework of Islamic banks in Bangladesh: Practices, problems and recommendations," 2019, doi: 10.18488/journal.aefr.2019.91.118.132.
- [26] E. GÜREL, "SWOT ANALYSIS: A THEORETICAL REVIEW," *J. Int. Soc. Res.*, 2017, doi: 10.17719/jjsr.2017.1832.
- [27] J. Wang and Z. Wang, "Strengths, weaknesses, opportunities and threats (Swot) analysis of china's prevention and control strategy for the covid-19 epidemic," *International Journal of Environmental Research and Public Health*. 2020, doi: 10.3390/ijerph17072235.