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The Impact of Capital Adequacy, Financing Risk, and Profitability on the Market Share of Islamic Banks in Indonesia

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Return on Assets

Abstract

This study aims to analyze the effect of the Capital Adequacy Ratio, Net Non-Performing Financing, and Return on Assets on the market share of Islamic Commercial Banks in Indonesia. Market share is measured as the percentage of Islamic Commercial Banks assets relative to total national banking assets. The study employs a quantitative approach using multiple linear regression analysis with quarterly aggregate data of Islamic Commercial Banks from Q1 2010 to Q4 2024. Data were obtained from the Islamic Banking Statistics published by the Financial Services Authority. The results reveal that Capital Adequacy Ratio and Net Non-Performing Financing significantly influence market share, while Return on Assets does not. Simultaneously, the three variables significantly affect market share with a coefficient of determination of 70.4%. These findings highlight that capital adequacy and financing quality are the primary factors driving the competitiveness of BUS, while profitability Return on Assets does not have a direct impact on market share expansion

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INTRODUCTION

Islamic banking in Indonesia has experienced significant growth in recent years, marked by increased total assets, financing, and the number of customers. The Financial Services Authority (OJK) recorded that total Islamic banking assets reached IDR 980.30 trillion as of December 2024, up from IDR 802.26 trillion in 2022, with financing growth of 9.92% year-on-year and Third Party Funds (DPK) of 10% (OJK, 2024). However, the market share of Islamic banking in the national banking industry remains stagnant, hovering between 7.21% and 7.72%, indicating that asset growth is not automatically accompanied by comparable market share expansion. This situation raises critical questions regarding how much Islamic banking's internal financial performance impacts its market share growth.

In theory, market share can be influenced by several financial indicators, such as the Capital Adequacy Ratio (CAR), Net Non-Performing Financing (NPF), and Return on Assets (ROA). CAR reflects a bank's ability to absorb risk of loss and maintain capital stability; the higher the CAR, the stronger its risk mitigation capabilities (Alnajjar & Othman, 2021). However, a CAR that is too high can also indicate that the distribution of funds is not optimal, thus hindering financing expansion. (Brigham & Houston, 2019)On the other hand, Net NPF indicates the quality level of the financing portfolio; high levels of non-performing financing will disrupt efficiency and depress profitability, ultimately reducing public trust.(Horne & Wachowicz, 2005). Meanwhile, ROA is a profitability indicator that measures the effectiveness of assets in generating net profit (Heikal et al., 2014), A low ROA can indicate less efficient use of assets in business expansion and increased market share(Rahayu, 2019).

The urgency of this research arises from the discrepancy between the significant growth of Islamic banking assets and the stagnant market share in the national banking market. Although the financial condition of Islamic banking is generally healthy, as evidenced by the average CAR reaching 21.53% throughout 2017–2023, market share growth has not been consistently observed. This raises the suspicion that financial performance factors such as CAR, Net NPF, and ROA have not significantly influenced market share, or that other non-financial factors are more dominant in controlling it. Previous research conducted by Alnajjar & Othman (2021) focused on the performance of Islamic banks in several countries in the MENA (Middle East and North Africa) region. This study concluded that CAR has a significant relationship with bank performance, particularly in the context of financial stability and risk management of Islamic banking in the region. This study was limited to MENA countries, so its findings and implications may not be relevant in Islamic banks in Indonesia or Southeast Asia, which have different industry structures, regulations, and market dynamics. Similarly, many studies have specifically researched the influence of these three variables on the market share ratio of Islamic banking in Indonesia.

Therefore, this study aims to analyse the influence of the Capital Adequacy Ratio (CAR), Net Non-Performing Financing (NPF), and Return on Assets (ROA) on the market share ratio of Islamic Commercial Banks in Indonesia during the period 2010–2024. This study is expected to provide an empirical contribution to the academic literature and serve as a basis for consideration for policymakers and industry players in designing more targeted strategies for Islamic banking market share growth.

LITERATURE REVIEW

Theoretical Concept

Bank Efficiency Theory

Bank Efficiency Theory states that a bank's ability to manage resources optimally will directly impact the bank's financial performance, competitiveness and profitability.(Berger & Mester, 1997)Bank efficiency refers to the ratio of inputs (labour, capital, and operating costs) to outputs (such as interest income, disbursed financing, and other financial services). According to this theory, an efficient bank can minimise expenses and maximise revenue without increasing resources proportionally. In the intermediation approach, efficiency is measured based on the bank's ability to transform inputs into financial outputs, for example, by effectively managing third-party funds into productive financing (Widiarti et al., 2015). Bank efficiency is also often measured through indicators such as the BOPO (Operating Cost to Operating Income) ratio, Data Envelopment Analysis (DEA), and the Stochastic Frontier Approach (SFA). Inefficient banks typically have high operating costs, weak risk management, and unproductive asset allocation. Therefore, efficiency is

considered a crucial element in modern banking theory, as it is closely related to long-term stability and competitiveness amidst intense industry competition, particularly in the Islamic banking sector, which faces particular challenges in complying with Islamic principles.

Risk Theory

Risk Theory explains that risk is uncertainty regarding the results of an activity or decision that can cause losses or deviations from expected results (Damodaran, 2008). In finance and banking, this theory states that every intermediation or investment activity is always accompanied by potential risks that must be identified, measured, and managed systematically. According to modern portfolio theory introduced by Harry Markowitz (1952), risk can be reduced through asset diversification, namely by spreading investments across various instruments so that adverse fluctuations in one asset do not significantly impact the portfolio as a whole. On the other hand, according to the risk management theory approach, risks can be classified into various categories: credit risk, market risk, operational risk, and liquidity risk (Allen, 2007). In the banking industry, this risk theory serves as a crucial foundation for developing a risk management system based on the Basel Committee on Banking Supervision framework, which requires banks to maintain a minimum level of capital to cover potential losses from these risks. Therefore, risk management is not merely a technical aspect, but an integral part of banking strategy to maintain stability, profitability, and long-term sustainability.

Market Structure Theory

Market Structure Theory explains that the market conditions in which a company or institution operates will influence its business behaviour and performance results, including price, production volume, efficiency, and profitability (Bothwell et al., 1984). This theory originates from the classical approach in industrial economics known as the Structure–Conduct–Performance (SCP) Paradigm, developed by Edward S. Mason (1939) and refined by Joe S. Bain (1951). According to this paradigm, market structure (such as the number of players, concentration level, entry barriers, and product differentiation) will determine business actors' behaviour (conduct), ultimately affecting market performance. In the banking context, this theory shows that the level of market concentration can influence interest-setting strategies, operational efficiency, and competitiveness between banks. Market structures can be divided into several types, namely perfect competition, monopoly, oligopoly, and monopolistic competition, each with different characteristics related to the number of players, market power, and price flexibility. In practice, the banking sector, including Islamic banking, often operates in an oligopoly market structure, where a few large banks control market share and significantly influence industry dynamics. Therefore, understanding market structure is crucial for formulating expansion strategies, determining profit margins, and measuring efficiency and competition in the financial system.

***Capital Adequacy Ratio*(CAR)**

The Capital Adequacy Ratio (CAR) is a capital adequacy ratio that functions to accommodate the risk of loss that a bank may face (Simanjuntak, 2017). The higher the CAR, the better the bank's ability to bear the risk of each risky credit/productive asset (Syakhrun et al., 2019). The Capital Adequacy Ratio (CAR) serves as a standard for measuring a bank's ability to meet its capital needs (Anwar & Miqdad, 2017). Can this capital cover potential losses when running a business? This is especially true when it comes to providing credit, as the buying and selling of securities often carry risks. The Capital Adequacy Ratio (CAR) serves to mitigate the potential risk of loss and maintain company stability. The higher the CAR, the better the bank's security and ability to meet its obligations (Utami & Muslikhati, 2019). Capital Adequacy Ratio (CAR) can be calculated using the following formula:

$$CAR = \frac{Capital}{Risk - Weighted\ Assets}\ X\ 100\%$$

Non-Performing Financing (NPF)

Every financing provided to a customer has the potential to be problematic or default. Financing risk refers to the possibility of losses that may arise if the disbursed funds cannot be recovered. One of the risks faced by Islamic banks is financing risk, which is reflected in the size of the non-performing financing ratio, also known as Non-Performing Financing (NPF). Non-Performing Financing (NPF) is one benchmark for a bank's health, assessed by the smooth repayment of disbursed financing or investments (Haifa & Wibowo, 2015). Non-performing Financing is the comparison between total non-performing financing and total financing provided to debtors, used to indicate the bank's collectability in collecting disbursed financing (Akbar, 2016). The higher this ratio, the worse the quality of a bank's credit or financing, which causes the number of problematic financing to increase, so the possibility of a bank being in a problematic condition is higher (Wahyuni et al., 2020). Non-performing Financing Net can be calculated using the following formula:

$$NPF = \frac{Total\ NPF}{Total\ Credits}\ X\ 100\%$$

***Return on Assets*(ROA)**

Return on Assets (ROA) is a profitability ratio. In financial statement analysis, this ratio is often highlighted because it indicates a company's ability to generate profits (Katuuk et al., 2018). ROA can measure a company's ability to generate profits in the past and then project them into the future (Panjaitan, 2018). Assets refer to the total assets of a company, whether acquired from equity or foreign capital, that the company has converted into assets used for its continued existence. Return on Assets (ROA) is a company's performance in generating profits. Return on Assets (ROA) is the profit generated from an issuer's assets and is used to fund the issuer's operations. The higher the ROA, the better the issuer's profits (Harun, 2016). Here is how to calculate Return on Assets (ROA):

$$ROA = \frac{Net\ Income}{Total\ Aset}\ X\ 100\%$$

Islamic Commercial Bank Market Share Ratio

Market share is the percentage of the total market for a product or service category that is controlled by one or more specific products or services issued by a company in the same category. Simply put, market share is the percentage of the total market that a company can control. Market share in business practice serves as a benchmark because companies with a better market share will enjoy higher profits and better product sales than their competitors. The market share of Islamic banking refers to the percentage of the total market area that can be controlled by Islamic banking within the national banking industry's total market. Thus, the market share of Islamic banking in Indonesia can be calculated as follows:

$$Market\ Share = \frac{Total\ Islamic\ Banking}{Total\ National\ Banking\ Asset}\ X\ 100\%$$

The Effect of Capital Adequacy Ratio on Islamic Commercial Bank Market Share Ratio

Capital Adequacy Ratio(CAR) has a positive relationship with the Islamic Commercial Bank Market Share Ratio, because CAR reflects the level of adequacy of bank capital in absorbing the risk of losses that may arise from financing and investment activities (El-Ansary & Yousery, 2019). The higher the CAR, the stronger the bank's capital position, thus increasing its capacity to expand financing, open new service networks, and develop competitive products. This condition enables the bank to increase market penetration and expand its market share. In the context of Islamic banking, an adequate CAR also signals confidence to customers and investors that the bank is in a healthy financial condition and capable of optimally performing its intermediary function.(Nasution et al., 2024). Several previous studies conducted by Mwasanguti et al. (2017) and Rukmanasari et al. (2024) have shown that high CAR positively impacts the growth of the Islamic banking market share in Southeast Asia because it increases public trust and financing capacity.

H1: Capital Adequacy Ratio positively affects the Islamic Commercial Bank Market Share Ratio.

The Effect of Non-Performing Financing on the Islamic Commercial Bank Market Share Ratio

Non-Performing Financing (NPF) has a negative relationship with the Islamic Commercial Bank Market Share Ratio because a high NPF reflects an increased risk of default on financing disbursed by the bank (Effendi et al., 2017). This condition reduces the bank's ability to channel new financing, slows expansion, and reduces competitiveness in the market. From the perspective of Financial Intermediation Theory, a high NPF disrupts the bank's intermediary function as an intermediary between fund owners and those who need funds, thereby reducing the efficiency of fund distribution and hampering market share growth. Furthermore, a high NPF reduces customer and investor confidence in the bank's financial health, which can ultimately lead to a shift in funds to competing banks perceived as more stable (Ashraf et al., 2016). This finding is consistent with research by Fathoni & Rizal (2019) and Suhartono et al. (2021). This study demonstrates that increasing NPF has a significant negative impact on the market share of Islamic banking in Indonesia, as it reduces banks' ability to develop portfolios and maintain customer loyalty. Therefore, NPF control is crucial to preserving and improving the Islamic Commercial Bank Market Share Ratio.

H2: Net Non-Performing Financing (NPF Net) has a negative and significant effect on the market share of Islamic Commercial Banks in Indonesia

The Influence of Return on Assets on the Islamic Commercial Bank Market Share Ratio

Return on Assets has a positive relationship with the Islamic Commercial Bank Market Share Ratio because ROA reflects a bank's ability to generate profits from all its assets. The higher the ROA, the more efficient the bank is in managing its assets to generate profits, which indicates healthy and competitive financial performance (Rustan & Andi, 2024). From the perspective of Financial Intermediation Theory, good profitability performance strengthens the bank's intermediation function because the profits generated can be used to expand service networks, increase financing capacity, and develop more innovative products, thereby attracting more customers (Mishkin, 2007). A high ROA is also a positive signal for customers and investors, increasing public trust in banks and encouraging increased market share (Doan et al., 2020). This finding aligns with research by Maulana et al. (2021) and Melina et al. (2022), which concluded that banks with high profitability tend to have better market share growth, particularly in the

increasingly competitive Islamic banking industry. Therefore, maintaining optimal ROA is a crucial strategy for increasing the Islamic Commercial Bank Market Share Ratio.

H3 : Return on Assets (ROA) has a positive effect on the market share of Islamic Commercial Banks in Indonesia

H4: CAR, NPF Net, and ROA simultaneously have a significant effect on the market share of Islamic Commercial Banks in Indonesia.

RESEARCH METHODS

This study adopts a quantitative associative research design to examine the effect of independent variables on a dependent variable. The independent variables consist of the Capital Adequacy Ratio (CAR), Net Non-Performing Financing (NPF Net), and Return on Assets (ROA), while the dependent variable is the market share of Islamic Commercial Banks (MSR), measured as the ratio of BUS total assets to total national banking assets. The study uses secondary aggregate data of BUS covering the period Q1 2010 to Q4 2024, resulting in 60 quarterly observations. Data were sourced from the Islamic Banking Statistics published by the Financial Services Authority. The analysis was conducted using multiple linear regression with the Ordinary Least Squares (OLS) method.

Prior to regression analysis, classical assumption tests were performed, including normality (Kolmogorov-Smirnov), multicollinearity (VIF and tolerance), heteroskedasticity (Glejser test), and autocorrelation (Durbin-Watson). To ensure validity for time series data, stationarity was also examined using the Augmented Dickey-Fuller (ADF) test. The research model is formulated as follows:

$$MSR = \alpha + \beta 1CAR + \beta 2NPFNet + \beta 3ROA + \varepsilon$$

where :
MSR denotes market share at time
β are regression coefficients and
ε is the error term

RESULT AND DISCUSSION

This paper will examine and analyze the Islamic commercial bank market share ratio in Indonesia through the capital adequacy ratio, non-performing financing net, and return on assets from 2010 to 2024, both partially and simultaneously.

Descriptive Statistics

Descriptive statistics were used to describe research data, including the total number of data points, the minimum value, the maximum value, the mean, and the standard deviation. These results were obtained through statistical calculations using SPSS. The results are as follows:

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	
	Statistics	Statistics	Statistics	Statistics	Std. Error
CAR	60	14.09	26.28	19.1145	4.12750
NPF	60	.64	4.76	2.4188	1.10322
ROA	60	.08	17.91	1.7985	2.20281
MS	60	2.40	7.72	5.5133	1.43732

Source: Data Prossed, 2025

The results of descriptive statistics show that the minimum CAR value is 14.09 and the maximum value is 26.28, with a mean of 19.1145. Then, for NPF, it has a minimum value of 0.64, a

maximum of 4.76, and a mean of 2.4188. The ROA variable has a minimum value of 0.08, a maximum of 17.91, and a mean value of 1.7985. Finally, the valueIslamic commercial bank market share ratio has a minimum value of2.40maximum of7.72and has a mean value of of5,5133.

Classical Assumptions

The classical assumption tests in this study consist of the Normality Test, Multicollinearity Test, and Heteroscedasticity Test. The following are the calculation results and their interpretation:

Normality Test

The normality test is a classic assumption test used to determine whether research data is normally distributed. This test is calculated using the one-sample Kolmogorov-Smirnov test, the Normal P-Plot, and the Histogram. The following are the results of the first test.

Table 2. One Sample Kolmogorov Smirnov Test for Normality

		Unstandardized Residual
N		60
Normal Parametersa,b	Mean	.0000000
	Standard Deviation	.78203002
Most Extreme Differences	Absolute	.154
	Positive	.072
	Negative	-.154
Test Statistics		.154
Asymp. Sig. (2-tailed)		.201c

Source: Data Prossed, 2025

Referring to the table above, the results obtained are CAR, Net NPF, ROA and the Islamic Commercial Bank Market Share Ratio are normally distributed. This result implies that regression analysis can be carried out.

Multicollinearity Test

A multicollinearity test was conducted to determine whether there was a relationship between the independent variables in the study, specifically CAR, Net NPF, and ROA. A good regression model does not allow for a relationship between independent variables, as this would introduce bias and suboptimal results. The following are the results of the multicollinearity test, with a decision-making process using a Tolerance > 0.1 and a VIF < 10.

Table 3. Multicollinearity Test

Coefficientsa		
	Collinearity Statistics	
Model	Tolerance	VIF
(Constant)		
CAR	.380	2,632
NPF	.373	2,682
ROA	.875	1,142

Source: Data Prossed, 2025

Based on the calculation results from SPSS, the results show no symptoms of multicollinearity between the CAR, Net NPF and ROA variables because the value is less than 10 and the tolerance value is more than 0.01.

Heteroscedasticity Test

The image above shows that the variables in this study are CAR, Net NPF, and ROA toward the Islamic commercial bank market share ratio, free from heteroscedasticity symptoms. This result can be seen from the distribution of points, which do not form a uniform pattern but are well spread out. Thus, further testing can be carried out

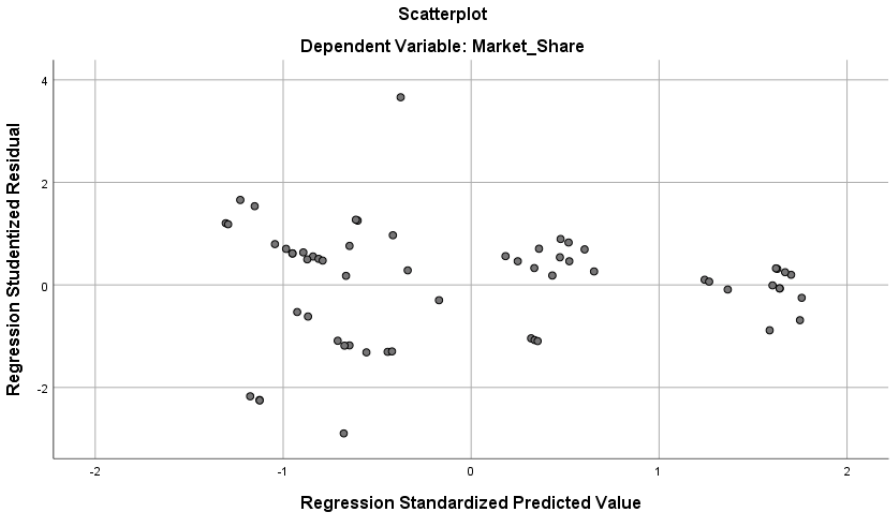

Figure 3. Scatterplot Heteroscedasticity Test

Source: SPSS for Windows version 26.0

Multiple Linear Regression Test

Table 4: Results of Multiple Linear Regression Test

Coefficientsa						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	3,001	1,082		2,775	.007
	CAR	.185	.041	.532	4,511	.000
	NPF	-.465	.155	-.357	-3,000	.004
	ROA	.053	.051	.082	1,053	.297

Source: Data Prossed, 2025

From the test results above using the SPSS tool, the following equation model was obtained:

Market Share Ratio =3,001 + 1,185 CAR – 0.465 NPF Net + 0.053 ROA

Based on the regression equation, it can be explained that if the CAR value is zero, then the Islamic commercial bank market share value is 3.001. Meanwhile, if the CAR changes by 1 unit, it impacts increasing the Islamic commercial bank market share by 0.185. If the NPF value is zero, the Islamic commercial bank market share value is 3.001. Meanwhile, if the NPF changes by 1 unit, it decreases the Islamic commercial bank market share by -0.465. If the ROA value is zero, the Islamic commercial bank market share value is 3.001. Meanwhile, if the ROA changes by 1 unit, it impacts increasing the Islamic commercial bank market share by 0.053.

Correlation Test and Determination Test

Table 5: Results of Multiple Correlation Test

Model Summary				
Model	R	R Square	Adjusted R Square	Standard Error of the Estimate
1	.839a	.704	.688	.80270

Based on the SPSS calculations above, the magnitude of the relationship can be seen.CAR, Net NPF, and ROA against the Islamic commercial banks market share ratio is 0,839, which is in the range of 0.800 – 1.00, which is included in the very strong criteria. Meanwhile, the coefficient of determination has a value of 0.839, which means there is an 83.9% relationship between CAR, Net NPF, and ROA on the Islamic commercial bank market share ratio, while 16.1% is influenced by other variables not examined in this study.

Hypothesis Test

Table 6 Partial Test Results

Coefficientsa						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	3,001	1,082		2,775	.007
	CAR	.185	.041	.532	4,511	.000
	NPF	-.465	.155	-.357	-3,000	.004
	ROA	.053	.051	.082	1,053	.297

Source: Data Prossed, 2025

The impact of CAR on the Islamic Commercial Bank Market Share Ratio can be seen from the t-test results, where the above criteria have no effect because 4,511>2.003 with a significance level of 0.000 < 0.05. Thus, the researcher obtained the final result that CAR significantly influences the Islamic Commercial Bank Market Share Ratio. The impact of Net NPF on the Islamic Commercial Bank Market Share Ratio can be seen from the t-test results, where the above criteria have no effect because 3,000>2.003 with a significance level of 0.004 < 0.05. Thus, the researcher obtained the final result that Net NPF significantly influences the Islamic Commercial Bank Market Share Ratio. The impact of ROA on the Islamic Commercial Bank Market Share Ratio can be seen from the t-test results, where the above criteria have no effect because 1,053 <2.003 with a significance level of 0.083 > 0.05. Thus, the researcher obtained the final result that ROA does not significantly influence the Islamic Commercial Bank Market Share Ratio.

Table 7 Simultaneous Test Results

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	85,805	3	28,602	44,390	.000b
	Residual	36,083	56	.644		
	Total	121,888	59			

Source: Data Prossed, 2025

The table above shows the results of simultaneous hypothesis testing, with an F-value of 44.390 with a significance level of 0.000. This is considered significant, as 9.482 > 3.150 and 0.000 > 0.05. Therefore, it can be concluded that simultaneously, the CAR, Net NPF, and ROA variables significantly influence the Islamic Commercial Bank Market Share Ratio.

Discussion

The Influence of Capital Adequacy Ratio on Islamic Commercial Bank Market Share Ratio

The impact of CAR on the Islamic Commercial Bank Market Share Ratio can be seen from the t-test results, where the above criteria have no effect because 4,511>2.003 with a significance level of 0.000 < 0.05. Thus, the researcher obtained the final result that CAR significantly influences the Islamic Commercial Bank Market Share Ratio. The results align with research conducted by Mwasanguti. This finding strengthens the Financial Intermediation Theory, which explains that banks with substantial capital have a greater capacity to distribute financing, expand the reach of services, and increase customer trust. (Mishkin, 2007)Adequate capital allows banks to manage risks, innovate products, and develop their networks, which can directly increase their market share.(Fasnacht, 2018). From the perspective of market structure-performance theory, high capital provides banks with a better competitive position to regulate pricing strategies, service quality, and market penetration (Kovalenko et al., 2019). This finding also aligns with the theory of bank efficiency, where banks with a strong capital structure tend to operate activities more efficiently, so they can offer services at lower costs or higher added value to customers (Berger & Mester, 1997).The higher the level of capital adequacy held by Islamic banks, the greater their ability to expand their market share (Alnajjar & Othman, 2021). A strong CAR reflects the bank's ability to bear risks, increase its financing portfolio, and improve its financial intermediation capacity (Shin, 2010).

Contextually, regulatory developments from Bank Indonesia (BI) and the Financial Services Authority (OJK) also encourage strengthening CAR through prudential banking policies. For example, the minimum CAR requirement for Islamic commercial banks encourages banks to maintain a healthy capital ratio, thus enabling sustainable growth. The presence of Bank Syariah Indonesia (BSI) since 2021 has also been a significant catalyst in transforming the industry landscape, where the consolidation of three central Islamic banks has increased economies of scale, strengthened capitalisation, and significantly boosted the national Islamic banking market share. With a strong CAR, BSI, and other Islamic banks can expand their financing segments, including into strategic sectors such as MSMEs, halal infrastructure, and the digital economy, ultimately strengthening the competitiveness of Islamic banking in the market.

The Effect of Non-Performing Financing on Islamic Commercial Bank Market Share Ratio

The impact of Net NPF on the Islamic Commercial Bank Market Share Ratio can be seen from the t-test results, where the above criteria have no effect because 3,000>2.003 with a significance level of 0.004 < 0.05. Thus, the researcher obtained the final result that Net NPF significantly influences the Islamic Commercial Bank Market Share Ratio. This finding indicates that the higher the level of non-performing financing, the lower the bank's market share. This can be explained because a high NPF reflects the low quality of the bank's financing portfolio, thus reducing customer and investor trust. This decline in trust implies a reduced public interest in using bank products and services, which ultimately reduces market share. These results are in line with research by Fathoni & Rizal (2019), which found that increasing NPF had a significant negative impact on the market share of Islamic banking in Indonesia, because high levels of non-performing financing hampered the expansion of new funding and reduced banks' competitiveness in the

market. also supports this finding, stating that high NPFs erode public trust and weaken banks' competitive position in the Islamic banking industry. Therefore, NPF management is a key strategy for maintaining and increasing the Islamic banking market share amidst increasingly fierce industry competition.

This phenomenon can be explained through the Theory of Financial Intermediation, which emphasises that banks act as intermediaries between parties with excess funds (surplus spending units) and parties needing funds (deficit spending units) (Mishkin, 2007). In this context, a high NPF reflects an increased risk of borrower default, thus reducing the bank's ability to disburse new financing. When the intermediation function is disrupted, banks lose the opportunity to expand their financing portfolios and reach more customers. Consequently, market share growth is hampered. A high NPF also reduces public confidence in bank performance, potentially leading customers to shift their funds and financing to other banks perceived as healthier (Hussein, 2010). This aligns with the viewpoint of Financial Intermediation Theory, which states that low asset quality will reduce intermediation efficiency and ultimately undermine the bank's competitive position in the market. Therefore, effective NPF management is key to maintaining and increasing the market share of Islamic banking.

The Influence of Return on Assets (ROA) on Islamic Commercial Bank Market Share Ratio

The impact of ROA on the Islamic Commercial Bank Market Share Ratio can be seen from the t-test results, where the above criteria have no effect because 1,053 <2.003 with a significance level of 0.083 > 0.05. Thus, the researcher obtained the final result that ROA does not significantly influence the Islamic Commercial Bank Market Share Ratio. *Return on Assets* (ROA) does not substantially affect the Islamic Commercial Bank Market Share Ratio in Islamic Commercial Banks because both reflect different dimensions of bank performance. ROA is a profitability indicator that measures how efficiently a bank uses its assets to generate profits. At the same time, Islamic *Commercial Bank Market Share Ratios show* the bank's market share in the industry, which is more related to how much total assets, financing, or third-party funds the bank has managed to collect compared to the total in the industry (Yusuf, 2017).

Based on the perspectives of Financial Intermediation Theory and Bank Efficiency Theory, ROA reflects a bank's ability to generate profits from its total assets. It should therefore be an essential indicator of operational efficiency and the success of its intermediation function (Buchory, 2015). In financial intermediation theory, banks that are efficient in managing assets to gain profits are considered capable of carrying out the role of financial intermediaries optimally, so that they will attract more customers and expand their market share (Mishkin, 2007).

Similarly, in Bank Efficiency Theory, profitability levels such as ROA result from internal efficiency, cost management, and the bank's ability to utilise existing resources (Berger & Mester, 1997). However, in practice, the finding that ROA does not affect market share indicates that profitability is not yet a primary attraction for Islamic bank customers, or a primary determinant of market share growth in the Islamic banking industry. Other factors such as network strength, digital service innovation, Sharia image, and large Islamic banks such as BSI appear more dominant in shaping market share. Therefore, although ROA is theoretically important as an indicator of intermediation efficiency and effectiveness, its influence on market share in the context of Islamic banks in Indonesia remains weak and is likely mitigated by more strategic and structural external factors.

Although ROA reflects the efficiency of asset management, it is not directly related to the bank's ability to attract new customers or increase the total amount of assets that determine*Islamic*

Commercial Bank Market Share Ratio (Lestari & Sari, 2015). Market share is more influenced by marketing strategy, product innovation, distribution network, and customer satisfaction, which are not always dependent on the bank's profitability level. A bank with a low ROA can still have a significant market share if its growth strategy is aggressive, such as offering competitive products or focusing on asset expansion without prioritising short-term profits (Mutua & Kori, 2022). In addition, customers typically don't use ROA as a primary indicator when choosing a bank. They tend to pay attention to trust, reputation, or ease of service access (Iqbal et al., 2018). Therefore, although ROA is an essential measure for internal management and investors, its influence on the Islamic Commercial Bank Market Share Ratio tends to be insignificant because market share is more determined by product attractiveness and bank expansion strategies.

The Influence of Capital Adequacy Ratio, Net Non-Performing Financing, and Return on Assets on Islamic Commercial Bank Market Share Ratio

Capital Adequacy Ratio (CAR), Net Non-Performing Financing (NPF), and Return on Assets (ROA) influence the Islamic Commercial Bank Market Share Ratio (MSR) because these three indicators better reflect the bank's internal performance and financial stability than factors that directly affect market share. CAR is a measure of capital adequacy used to cover the risk of asset losses (Adawiyah & Suprihhadi, 2017). Simultaneously, the Capital Adequacy Ratio (CAR), Net Non-Performing Financing (NPF), and Return on Assets (ROA) significantly influence the market share of Islamic commercial banks in Indonesia. This aligns with the theory of bank efficiency, which states that capital stability, asset quality, and profitability are key indicators of a bank's operational efficiency, ultimately determining a financial institution's competitiveness and market position (Berger & Mester, 1997). A high CAR indicates the bank has strong capital resilience to absorb risks, increase investor and customer confidence, and strengthen business expansion (Olawale, 2024). Meanwhile, a low Net NPF reflects good financing quality, strengthens liquidity, and reduces the burden of loss provisions, which also contributes to cost efficiency (Gobat et al., 2014). On the other hand, ROA shows the effectiveness of the bank in managing assets to generate profits. Banks that are efficient in managing funds will be able to create more value for shareholders and expand market penetration (Duho et al., 2020).

This context also needs to be linked to the national Islamic banking industry dynamics. Since 2021, Bank Syariah Indonesia has emerged as a merger entity of three state-owned Islamic banks, directly changing the market structure and increasing industry consolidation. Bank Syariah Indonesia has aggressively expanded its network, digitised services, and driven operational efficiency, which have become catalysts for improving the overall market share of the Islamic industry. Furthermore, regulations and supervision from Bank Indonesia and the Financial Services Authority have encouraged strengthening capital and risk management in Islamic banks through provisions such as Bank Indonesia Regulation No. 11/25/PBI/2009 and Financial Services Authority Regulation (POJK) No. 12/POJK.03/2021. These policies further emphasise the importance of integrating capital resilience, financing quality, and profitability in enhancing the competitiveness of the Islamic banking industry. Therefore, the simultaneous relationship between CAR, NPF, and ROA on market share is quantitative and reflects a strategic and structural shift in the national Islamic banking ecosystem toward greater efficiency and competitiveness.

CONCLUSION

The findings indicate that, partially, the Capital Adequacy Ratio (CAR) has a positive and significant effect on the market share of Islamic Commercial Banks in Indonesia, while Net Non-Performing Financing (NPF Net) has a negative and significant effect. Meanwhile, Return on Assets

(ROA) does not have a significant effect on market share. Simultaneously, all three independent variables significantly influence market share, with a contribution of 70.4%.

These results emphasize the importance of maintaining strong capital adequacy and controlling financing quality as key strategies to strengthen the market share of BUS. Although profitability (ROA) remains an essential measure of internal performance, it does not directly drive market share expansion. Implications: regulators and BUS management should prioritize capital strengthening and risk management in financing portfolios to improve competitiveness. Limitations: this study focuses only on internal financial ratios and has not incorporated external factors such as digitalization, financial literacy, or macroeconomic conditions. Future research should include external determinants and employ dynamic models (e.g., ARDL or VAR) for a more comprehensive understanding..

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