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FINANCING DISTRIBUTION AND ITS EFFECT ON NON-PERFORMING FINANCING OF ISLAMIC BANKS

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ABSTRACT

Non-performing financing manifested in the Non-Performing Financing (NPF) ratio is a threat to the sustainability of Islamic banks. This research seeks to reveal how much financing distribution carried out by Islamic banks can have an impact on NPF through hypothesis testing. This study examines the variables of profit-sharing financing and murabahah financing to the NPF ratio of Islamic banks. Timeseries data from each of these variables is obtained from the Quarterly Financial Statements of Bank Syariah Indonesia for the period 2015 – 2022. The data were tested using multiple linear regression to test profit-sharing-based financing and murabahah financing on NPF. The results of the study found that profit-sharing-based financing turned out to be profit-sharing-based financing able to suppress the occurrence of NPF and murabahah financing had no influence on increasing NPF.
Keywords: Islamic Bank, Financing, NPF.

ABSTRAK

Pembiayaan bermasalah yang diwujudkan dalam rasio Non Performing Financing (NPF) menjadi ancaman bagi keberlangsungan bank syariah. Penelitian ini berupaya mengungkapkan seberapa besar penyaluran pembiayaan yang dilakukan oleh bank syariah dapat memberi dampak terhadap NPF melalui uji hipotesis. Kajian saat ini mengeksplorasi beberapa jenis pembiayaan bagi hasil dan pembiayaan murah relatif terhadap suku bunga NPF bank syariah. Data timeseries untuk masing-masing variabel tersebut diambil dari Laporan Keuangan Triwulan Bank Syariah Indonesia tahun 2015–2022. Data diproses menggunakan regresi linier berganda untuk menguji pengaruh pembiayaan bagi hasil dan pembiayaan murabahah terhadap NPF. Hasil menunjukkan bahwa pembiayaan bagi hasil dapat mendeteksi terjadinya NPF dan pembiayaan murabahah tidak ada kaitannya dengan tingkat pertumbuhan NPF.
Kata Kunci: Bank Syariah, Pembiayaan, NPF.

INTRODUCTION

The world recognizes that Islamic banks are one of the fastest growing financial institutions (M. Anwar et al., 2020). Banking companies are required to be more dynamic in various ways (Sumarlin et al., 2019). Indonesia is no exception, the progress and development of Islamic banks quantitatively is very encouraging, this can be evidenced by the number of Islamic banks established which consist of several Sharia Commercial Banks (BUS), Sharia Business Units (UUS), and the number of Sharia People's Credit Banks (BPRS). This development will certainly increase for the foreseeable future. Of course, this development of a quantity nature must be balanced with the development of quality. The performance of Islamic banks is known to greatly affect their quality, which will then also affect the sustainability of Islamic banks.

A healthy financing quality can make Islamic banks continue to maintain their performance and sustainability. This is in line with the main function of Islamic banks, namely as an intermediation institution. Islamic banks must be able to raise funds from surplus communities to then distribute funds to deficit communities.

In implementing financing, Islamic banks must meet sharia aspects and economic aspects. The sharia aspect means that in every realization of financing in Islamic banks, it must remain guided by Islamic law (among others, it does not contain elements of maysir, gharar, and usury, and the business field must be halal). In addition, economic aspects are also considered, such as profit generation for Islamic banks and for their customers (Turmudi, 2016).

If Islamic banks are unable to disburse their financing, while the funds raised from shahibul maal (third-party funds) continue to grow, there will be many idle funds, which can affect income from margins or profit sharing. This will certainly lead to a decrease in third-party funds in Islamic banks. Therefore, Islamic banks should channel more financing to the public (business units), but still based on the principle of prudence (Prasastinah et al., 2016).

Financing distribution activities have an important role for banking activities, because financing is the main source of income for Islamic banks. Financing with Murabahah, Musyarakah and Mudharabah contracts is an agreement used by customers in taking financing from Islamic banks, these contracts have a big risk of problematic financing if not managed properly (Fauzukhaq, 2021). However, the distribution of financing must go through a financing analysis process. If the provision of financing without going through the analysis process first, it will be very dangerous for Islamic banks because it can cause problematic financing. Non-performing financing in Islamic banks is manifested in the Non-Performing Financing (NPF) ratio (Effendi et al., 2017).

A high NPF will pose a danger to a bank. Banks should provide greater reserves because non-performing financing is included in risky assets. Assets have an important role for banking capital (Ardhana Putra et al., 2020). Reserves are made using bank capital, then in a sooner or later the bank's capital will continue to decrease. Even though Islamic banks with large capital have a great opportunity to expand financing. NPF is a problem that must be resolved because it makes it difficult for Islamic banks to channel financing (Effendi et al., 2017). In fact, financing is the main activity of banks in obtaining profits. If the financing distribution is disrupted, the profits obtained by Islamic banks will decrease. Handling problematic financing by reducing the NPF ratio can be done with two events, namely by disbursing more financing and conducting a financing restructuring program (Saputri et al., 2020). This can be proven quantitatively, it is known that NPF is obtained from non-performing financing divided by the total financing channeled by Islamic banks. The process of reducing NPF can be achieved by means of Islamic banks continuing to increase the financing disbursed, assuming the total amount of non-performing financing is fixed, then the NPF ratio can decrease. In addition, the restructuring process can reduce the amount of non-performing financing, assuming the total financing amount is fixed, that way, the NPF ratio can also decrease.

The large NPF has a bad impact on the sustainability of Islamic banks, especially in obtaining profits and expanding financing. Islamic banks, especially Bank Syariah Indonesia (BSI), are trying to continue to reduce the NPF ratio. This effort continues to be carried out because until now the NPF of BSI continues to decline. The NPF safe limit ratio set by Bank Indonesia (BI) of NPF of 5%, means that if Islamic banks have NPF above 5%, it is indicated to be unhealthy. BSI's NPF was seen to have been above 5% once, and several times it was at the safe threshold. NPF BSI is taken from the site https://www.bankbsi.co.id/ can be seen in Figure 1.

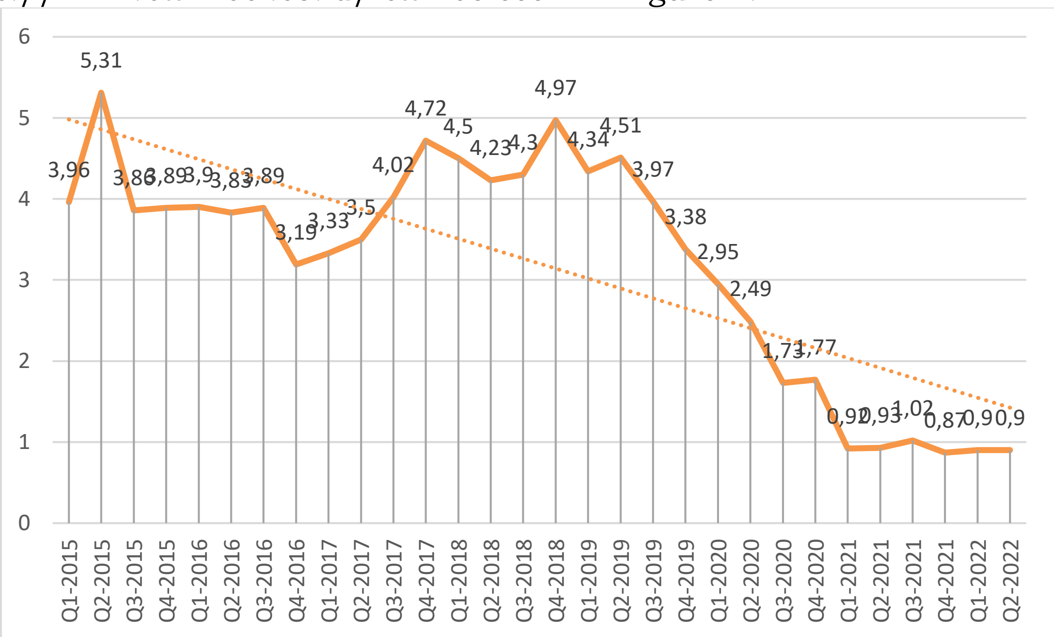

Figure 1. NPF of Bank Syariah Indonesia for the period 2015 – 2022 (Source: Quarterly Financial Report of Bank Syariah Indonesia for the Period 2015 – 2022)

Based on Figure 1. Bank Syariah Indonesia's NPF for the 2015-2022 period experienced fluctuations with a downward trend. This is indicated that Bank Syariah Indonesia is able to suppress and handle emerging financing risks. However, the role of distributing Islamic bank financing products also cannot be ignored in its influence on NPF.

This study aims to analyze the effect of profit-sharing financing such as mudharabah and musyarkah financing, and murabahah financing margin financing on the NPF of Islamic banks. It is hoped that research can contribute both theoretically for academics to add study materials related to NPF, as well as in practice that can be used by Islamic banking practitioners to try to suppress NPF.

LITERATURE REVIEW

A. Non Performing Financing (NPF)

NPF is the ratio of financing that has been disbursed but is sub-standard, doubtful, and lost (Hernawati & Puspasari, 2018). Non-performing financing can be defined as financing where the customer breaks a promise and cannot fulfill what was agreed upon at the beginning of the contract. Several things such as financing arrears, debtor companies experiencing losses, and various other risks cause high non-performing financing (Rivai & Veithzal, 2008).

NPF is a ratio of non-performing financing that occurs in Islamic banking. The impact that occurs due to NPF is the loss of income from the financing channeled.

B. Profit Sharing Financing and NPF

Profit-sharing-based financing in Islamic banks consists of mudharabah financing and musyarakah financing or commonly known as partnership financing. Mudharabah financing focuses on sharing the profits generated from a business run by a fund manager commonly referred to as mudharib, which involves capital from shahibul maal. In this case, islamic banks as shahibul maal and customers as mudharib. The advantages and disadvantages that occur during the financing of mudharabah are clearly stated when the contract is at the beginning (Indrawati, 2021). Musyarakah financing in its application is slightly different from mudharabah financing, although these two financings are profit-sharing-based financing. Musyarakah prioritizes the principle of cooperation between Islamic banks and customers. If there is a profit or loss, it will be borne by both parties according to the portion of capital they have (Warninda et al., 2019).

Islamic banks have a low probability value, that financing carried out by customers with banks will reduce the risk of inability to share profits by customers, because customers are able to process their business properly. And the possibility of the risk of NPF will be less, with this indicating that in choosing Islamic bank customers selectively according to the target or target in disbursing working capital financing in accordance with the principles of financing analysis.

H_1: Profit sharing financing has a negative and significant effect on NPF.

C. Murabahah Financing and NPF

Murabahah financing is a margin-based financing product that can be found in Islamic banks. From the beginning of the contract, Islamic banks and customers can mutually agree on the clauses written in the contract, especially with regard to the amount of margin that the customer must pay each period along with the main debt (Ismaulina et al., 2021). Where the bank's selling price, if done in installments, is derived from the supplier's buy price in addition to the bank's profit and the payment method and time period agreed upon mutually.

Murabahah financing has a negative and significant correlation to NPF, meaning that if murabahah increases the amount of financing allocated, NPF will decrease or vice versa. Because unsuccessful murabahah financing will be the responsibility of the customer.

H_2: Murabahah financing has a negative and significant effect on NPF.

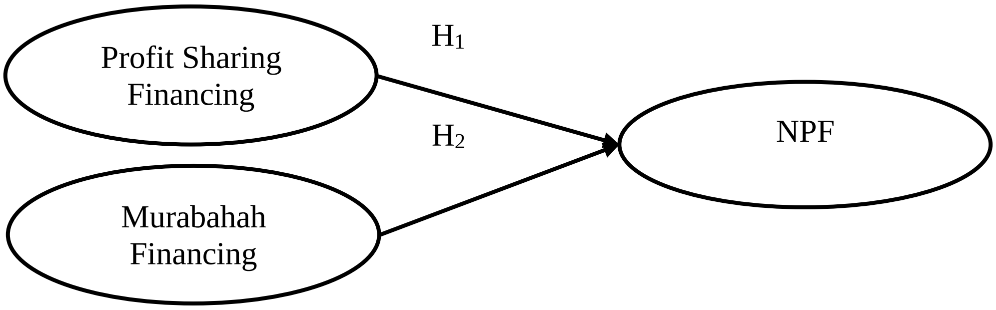

Figure 2. Research Framework

RESEARCH METHOD

This research is a social research that aims to provide a definition or explanation of the effect of Profit Sharing Financing and Murabahah Financing that has gone through hypothesis testing. This is the quantitative research. The analysis unit of this study is Bank Syariah Indonesia (BSI). The type of data used is a timeseries taken from the BSI quarterly report 2015 – 2022 for Islamic bank data. The NPF indicator is the accumulation of less current, doubtful, stuck financing. The operational definition of profit sharing financing and murabahah financing is by calculating each of the total mudharabah financing, musyarakah financing, and murabahah financing then the total of each financing is divided by the total financing that has been successfully disbursed by Islamic banks.

Multiple linear regression analysis is the methodology used for data analysis. With this regression analysis, we hope to partially and concurrently provide a complete picture of the relationship between the independent and dependent variables. The strategy necessitates completing classical assumption tests prior to multiple linear testing in order to get the best outcomes (Ghozali, 2011). It is intended that this classical assumption be met in order to prevent bias in the free variable's estimation of the bound variable.

$$\mathbf{NPF = a + b_1PSF + b_2MRF + e}$$

Information:
NPF = Non Performing Financing
PSF = Profit Sharing Financing
MRF = Murabahah Financing

The steps that are completed are descriptive statistical tests, classical assumption tests made up of normality tests, multicolonierity tests, heterochedasticity tests, and autocorrelation tests, followed by multiple linear regression analysis tests made up of simultaneous tests (F test), partial tests (t tests), and coefficient of determination tests (R^2).

DISCUSSION

Bank Syariah Indonesia (BSI) is the first Islamic bank that was successfully born from the merger of three Islamic banks with the largest assets in Indonesia, they are PT Bank BNI Syariah, PT Bank Syariah Mandiri, and PT Bank BRI Syariah. The Indonesian government has an extraordinary desire for the establishment of BSI, it is hoped that Indonesia can become one of the centers of Islamic finance in the world. Since its establishment, BSI has officially obtained an operating permit from the Financial Services Authority (OJK).

BSI has assets of IDR 245.7 trillion and core capital of IDR 20.4 trillion. Seeing this very large number, BSI is the largest Islamic bank in Indonesia. BSI is prepared to become a global player in Islamic banking in the next few years. It is hoped that BSI will be able to reach the market share of Islamic banks in the world and penetrate the top 10 Islamic banks in the world.

Table 1. Descriptive Statistics

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
NPF	30	.87	5.31	3.2027	1.40214
PBH	30	561888	61670980	18231975.13	20519500.632
PMR	30	18746	109657642	33005440.80	34538396.352
Valid N (listwise)	30				

Source: Data Processed, 2022

Based on Table 1. The number of data in this study is 30 timeseries data. The minimum and maximum value of NPF, profit sharing financing, and murabahah financing during the research period have a considerable gap, this proves the occurrence of fluctuations during the research period. It can be seen in the average value of profit-sharing financing and murabahah financing, although the maximum value reaches hundreds of millions, the average value only ranges from a dozen to tens of millions. This also proves the existence of a gap phenomenon that deserves to be revealed during the research period.

Table 2. Simultaneous Test (F test)

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	45.827	2	22.914	55.303	.000[b]
	Residual	11.187	27	.414		
	Total	57.014	29			

a. Dependent Variable: NPF
b. Predictors: (Constant), PMR, PBH

Source: Data Processed, 2022

Based on Table 2. known significance value of the simultaneous test (F test) is 0.000 or less than 0.05. This means that profit-sharing financing and murabahah financing together affect NPF.

Table 3. Coefficient of Determination (R2)

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.897[a]	.804	.789	.64368

a. Predictors: (Constant), PMR, PBH
b. Dependent Variable: NPF

Source: Data Processed, 2022

The coefficient of determination test is used to measure the magnitude of the contribution of variable X (Profit Sharing Financing and Murabahah Financing) to the variance (ups and downs) of variable Y (NPF). The greater the value of R2, the stronger the relationship between the bound variable and the free variable. Based on Table 3. known R2 value is 0.804 or 80.4%. This means that the research model built by researchers by including the variables of profit-sharing financing and non-performing financing was able to affect NPF by 80.4%, while 19.6% was influenced by other variables that were not included in the model.

The t test is used to test hypotheses formulated using tools, namely SPSS 22.0, this test is carried out to determine the effect of profit sharing financing and murabahah financing on NPF at Bank Syariah Indonesia for the period 2015 - 2022.
Based on Table 4. The regression equation can be written into the formula:

NPF = 4,137 – 1,725PSF + 6,698MRF + e

Table 4. Partial Test (t test)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.137	.181		22.832	.000
	PBH	-1.725E-7	.000	-2.524	-2.868	.008
	PMR	6.698E-8	.000	1.650	1.875	.072

a. Dependent Variable: NPF

Source: Data Processed, 2022

A. Effect of profit-sharing financing on NPF

Hypothesis 1 states Profit-sharing financing has a negative and significant effect on NPF. Based on Table 4, it is seen that revenue sharing financing has a coefficient value of 1.725 marked negative (-) with a significance level of 0.008 less than 0.05. This means Hypothesis 1 is accepted.

The tests that have been carried out have resulted in a probability value smaller than its significance, indicating that the NPF of Islamic banking is influenced by the size of the profit-sharing financing. Profit-sharing financing has a negative influence on NPF, meaning that there is less risk of not being able to share profits by customers because their customers are able to manage their business well, until the NPF risk is low. The higher the level of financing disbursed, the lower the risk of non-performing financing in Islamic banks. This is not in accordance with the research of Mutamimah and Saputri (2022) which states that there is no effect of profit sharing financing on the decline of NPF (Mutamimah & Saputri, 2022).

At the time of disbursement of profit-sharing financing, banks must constantly monitor any developments that occur in the business. This is because the bank will also bear the loss if the business experiences a bad thing. This condition will certainly affect the bank's problematic financing. Customers who experience losses will automatically experience financial difficulties which will have an impact on defaulting on installment payments to banks (Prasetyandari et al., 2019). Thus, the existence of financing analysis, monitoring, and evaluation of financing is what causes the more profit-sharing financing that is distributed, the less often there is financing with a bad category. This opinion is supported by Wirman (2017) who states that NPF has a significant effect on deliberations in Islamic banks (Wirman, 2017).

B. Effect of Murabahah financing on NPF

Hypothesis 2 states Murabahah financing has a negative and significant effect on NPF. Based on Table 4, it can be seen that murabahah financing has a coefficient of 6.698 positively marked (+) with a significance level of 0.072 more than 0.05. This means that hypothesis 2 is rejected.

Although murabahah financing has an impact on NPF, the impact provided is not the only cause of the increase or decrease in non-performing financing (NPF). Murabahah financing is only a supporting factor causing the rise or fall of non-performing financing (NPF). In maintaining bank health, banks will try to reduce the risk of non-performing financing as small as possible by applying the prudential principle by complying with applicable banking regulations. In an effort to maintain bad debts, banks do not provide financing beyond the provisions issued by Bank Indonesia as a banking supervisor. In supervising problematic financing, it is necessary to pay attention to financing carried out in a bank, one of which is murabahah financing, financing that distributes services/products provided by a financing institution to customers in need and orders a certain item by applying 5C (character, capacity, capital, collateral, condition). 5C as a financing analysis can be the first step to screen customers who have the potential to default. Islamic banks cannot be arbitrary in disbursing financing. Thus, customers who will receive financing are customers who are considered to meet the 5C criteria. Islamic banks see customers who have strong character, capacity to repay loans, have valuable guarantees, a lot of capital, and have safe economic conditions. Ideal customers like this are considered not to increase NPF for Islamic banks in the future.

Moreover, murabahah financing has a very large portion related to funds channeled for consumptive financing, because this is the increase in NPF goes in the same direction as the increase in murabahah financing (Zaelina & Nastiti, 2021).

CONCLUSION

Based on the results of this study, it is known that the findings in this study correspond to the hypothesis. Profit sharing financing is negatively marked which means that the higher the financing with a profit-sharing contract, the lower the risk of non-performing financing. The presentation of profit and loss sharing is negatively marked with NPF, meaning that the greater the return received by consumers, the safer consumers will feel safer and thus reduce non-performing financing. Moreover, the existence of productive financing based on profit sharing makes Islamic banks more stringent in financing distribution. The opposite is true of murabahah financing which apparently has no effect on the decline in NPF.

The results showed that Bank Syariah Indonesia must provide a larger proportion of financing with profit-sharing financing agreements because it is known to be able to suppress the increase in NPF. Supervision and regulation must be tightened to reduce the risks of incomplete information, adverse selection and moral hazard. In other words, Islamic banks need strict regulation in order to provide a better and more precise assessment of the business.

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