MEASURING THE ROLE OF NON-PERFORMING FINANCING IN BOOSTING PROFITABILITY OF ISLAMIC COMMERCIAL BANKS

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Abstract

This study was conducted to analyze the effect of Murabahah financing, Capital Adequacy Ratio, and Financing to Deposit Ratio on Profitability with non-performing financing as moderating variables in Indonesian Sharia Commercial Banks. This research was conducted to prove the influence of the dependent and independent variables. The research method used in this study is quantitative. Data analysis in this study is multiple linear regression analysis. This study uses annual secondary data from islamic commercial banks from 2015 to 2019. The data is using an Eviews9 application. The study results after the classical assumption test showed that the variables of Murabahah financing, CAR, FDR, and non-performing financing passed the test. The test results show that partially Murabahah, CAR, and FDR financing variables have a positive and significant effect on ROA. Non-performing financing can weaken the impact of Murabahah, CAR, and FDR financing on ROA. The implication of this research is the result of this study can be used as an effort to increase and further strengthen their performance to minimize the occurrence of non-performing financing, which affects the profitability of the islamic commercial bank.

Keywords: *Murabahah Financing; Capital Adequacy Ratio (CAR); Financing to Deposit Ratio (FDR); Return on Assets (ROA); Non-Performing Financing (NPF)*

Abstrak

Penelitian ini dilakukan dengan tujuan untuk menganalisis pengaruh pembiayaan murabahah, CAR dan FDR terhadap profitabilitas bank umum syariah di Indonesia dengan pembiayaan bermasalah sebagai variabel moderasi. Penelitian ini menggunakan metode kuantitatif. Pengujian data yang dilakukan dalam penelitian ini yaitu analisis regresi linier berganda. Data penelitian ini menggunakan data sekunder tahunan bank umum syariah dari tahun 2015-2019. Data diolah menggunakan aplikasi Eviews9. Setelah dilakukan berbagai pengujian asumsi klasik, penelitian ini memperlihatkan hasil bahwa variabel pembiayaan murabahah, CAR, FDR, dan pembiayaan bermasalah berhasil diuji dan dinyatakan lolos uji. Variabel pembiayaan murabahah, CAR dan FDR berpengaruh positif dan signifikan terhadap ROA secara

parsial. Pembiayaan bermasalah dapat memperlemah pengaruh pembiayaan murabahah, CAR dan FDR terhadap ROA. Implikasi dari penelitian ini adalah hasil penelitian ini dapat digunakan sebagai upaya untuk meningkatkan dan lebih memperkuat kinerjanya untuk meminimalkan terjadinya pembiayaan bermasalah yang mempengaruhi profitabilitas bank syariah.

Kata kunci: Pembiayaan Murabahah; Capital Adequacy Ratio (CAR); Financing to Deposit Ratio (FDR); Return on Assets (ROA); Non-Performing Financing (NPF)

INTRODUCTION

Banks can be interpreted as business entities with the main task of being a financial institution that becomes financial intermediaries, namely institutions that act as intermediaries between idle fund parties and parties who lack or need deficit funds. The bank serves as a channel for funds from the excess party to the lack of funds within a predetermined and agreed period (Kasmir, 2014). In completing its duties as an intermediary, the basis of the bank in carrying out its business activities is a public trust. The changing condition of the banking sector has become a challenge for this sector (Puspita et al., 2020). That's why banks are also often referred to as public trust institutions.

To improve their performance, islamic commercial banks must comply with and maintain the principles of Sharia law to remain healthy and efficient. The main goal of all banking industries is to achieve maximum profitability. Profitability is the most appropriate indicator for measuring financial performance. Banks can use a profitability ratio, namely Return on Assets (ROA) (Brigham, 2010).

Murabahah financing is a contract or agreement for the sale and purchase of goods using a mutual agreement between the seller and the buyer. The bank states the amount of the acquisition price and the profit (margin). The deal includes the form of natural certainty contracts because the required rate of profit in Murabaha financing can be determined from the beginning how much profit is desired. In its implementation in islamic banking, the party acting as the seller is the bank, while the customer is the buyer (Karim, 2013). Three contracts are commonly used to finance this sale, namely Salam, Istishna, and Murabaha. However, only Murabaha agreements are widely practiced. It is what makes this financing very influential on the profitability of the BUS.

From some of these variables, other factors can affect the performance of a bank by measuring its profitability. Illustrated in the financial performance, the factor that affects profitability is the Capital Adequacy Ratio

(CAR). In general, CAR means the capital adequacy ratio which also includes internal problems of various problems that must be resolved by banks.

Table 1. Performance Indicators of Islamic Commercial Banks from 2015-2019

Periode	2015	2016	2017	2018	2019
ROA	0.49	0.63	0.63	1.28	1.73
CAR	15.02	16.63	17.91	20.25	20.59
FDR	88.03	85.99	79.61	78.53	77.91
NPF	4.84	4.42	4.76	3.26	3.23

Source: Bank Indonesia (2021)

The form of bank support in risk-returning activities is that islamic banks must maintain sufficient capital/risk taking (Kasmir, 2014). Apart from CAR, other ratios that affect ROA include Non-Performing Financing (NPF) and Financing to Deposit Ratio (FDR). Table 1 describes the BUS performance indicators for 2015-2019 with the ratio of ROA, FDR, and NPF. The FDR value serves as a ratio measuring the effectiveness of a bank's performance in carrying out its responsibilities as an intermediary institution. FDR is the ratio of the sum of bank funds allocated through the form of financing to the number of public funds. To measure liquidity, banks can use the FDR ratio. This ratio can show that the bank can use the bank's total assets to meet the demand for credit or loans (Dendawijaya, 2009).

There are several novelties in the model that the author adopted in this study when compared to previous research on the effect of similar variables. Similar research with different research results is what encourages the author to be able to carry out further research to provide evidence of better research results. From the information that the author has searched for, no previous research has raised a regression model that is the same as this study. Apart from the different variables, there are also other differences with previous research, which lies in the object. This study refers to the object of all Islamic Commercial Banks in Indonesia during 2015-2019. The addition of the moderating variable, namely NPF, also affects the correlation between the independent and dependent variables. Objects with the latest data will certainly produce new research results and are expected to be better than previous research.

A large amount of financing is estimated to affect the financial performance of Islamic banks, for that it is necessary to research the effects that arise due to the volume of financing that is channeled when experiencing problematic financing. The existence of non-performing financing can strengthen or even weaken the influence of the total volume of financing products on the performance of Islamic commercial banks (Wahyuni, 2016).

The results of research from Pramuka & Purwati (2019), suggesting that Non-Performing Financing (NPF) does not negatively affect murabahah financing at Islamic Banks and DPK do not moderate the negative influence of NPF on murabahah financing at Islamic Banks. Meanwhile, Wibisono & Wahyuni (2017) state that there is an influence of CAR, NPF, BOPO, FDR, on ROA mediated by NOM. Based on the results of previous studies and the above phenomena, this study aims to determine The Effect of Murabahah Financing, CAR and FDR on Profitability with NPF as Moderating Variables.

LITERATURE REVIEW

Agency theory is an agency relationship within the company where there is a collection of contracts (nexus of contract) between managers as agents who must manage the control and use of resources with owners of economic resources (principals). The application of agency theory to the banking industry is unique because this industry is different from industries in other sectors. In the banking sector, apart from the relationship between the agent and the principal, there is also a relationship between the debtor and the agent, as well as the relationship between the agent and the supervisor (Jensen, Michael C & Meckling, 1976).

In Islamic Fiqh, Murabaha financing is a term that can be interpreted as a form of buying and selling where the seller must first state the cost of acquiring the goods to be sold, such as the cost of goods and the desired level of bank profit margins (Muhammad, 2014). The desired profit or margin level can be in the form of a lump sum or a certain percentage of the acquisition price. Goods that have been purchased can be paid for with the spot system, which is done in cash or paid in the future according to a mutual agreement (Ascarya, 2013). Previous research that may be relevant to the model in this research has been done previously. The results of previously completed research indicate that partially and simultaneously, Murabaha financing has a significant positive effect on ROA (Septiani, 2017; Pertiwi & Suryaningsih, 2018).

The ability of banks to provide capital and ensure that the capital is adequate for business development and to bear the risk of experiencing losses caused by bank operations is called CAR (Lubis, 2019). CAR is an indicator of the strength of a bank when balancing the ups and downs of assets caused by losses experienced by the bank (Muhammad, 2015). This loss can be caused by the existence of bank assets that have a high risk. Bank Indonesia makes a provision related to the systematic assessment of the soundness of a bank. The stipulation states that bank capital is divided into complementary and core capital (Dendawijaya, 2009). Previous research

related to the effect of CAR on ROA showed the results, CAR had a significant positive effect on ROA (Marisya, 2019; Irawan et al., 2019).

The ratio that is used to calculate bank liquidity aims to return the withdrawn depositors' funds is called the FDR ratio. Various types of financing disbursed can be relied upon as a source of bank liquidity, using a third-party fund distribution method with the total financing provided by banks (Rivai & Arifin, 2010). Previous research that is relevant to this study has the results of this research proving that Murabaha financing affects ROA with a significant positive. This research is protected by previous research on the effect of FDR on ROA. One of the studies conducted in 2017 showed the results of his research also showed a significant influence between FDR and ROA (Wibisono & Wahyuni, 2017; Yulyani & Diana, 2021).

NPF is the ratio of the bank's ability to manage non-performing financing from various forms of financing provided by banks (Aisyah, 2014). One of them is Murabaha financing. The credit system for repaying Murabaha financing that has been disbursed can trigger problematic financing (Antonio, 2001). The more non-performing loans will worsen the quality of bank loans which will eventually increase the number of non-performing loans themselves. The loan or credit in question is not a loan disbursed to another bank, but credit to the public/third parties. A bank is said to be healthy if the NPF/NPL is less than 5%. This is regulated by Bank Indonesia in regulation No. 6/10/PBI/2004, 12 April 2004. This regulation mentions the system for assessing the soundness of commercial banks. The higher the NPF, the lower the profit of a bank. The results of previous studies found that NPF had a significant influence in being a moderating variable between the effect of Murabaha financing on ROA. NPF as a moderator does not have a significant effect between CAR and ROA. This research is supported by previous research which also analyzed the NPF as a moderating variable. Meanwhile, other research shows that NPF significantly weakens the influence of FDR on ROA (Widyaningrum & Septiarini., 2015; Pritadyana, 2019; Wahyuni, 2016).

HYPOTHESIS

The Fatwa of the National Sharia Council states that Murabaha is the sale and purchase of an item at a higher price as profit. The profit earned will affect the profitability of a bank. The results of previous research on 6 Islamic banks in Indonesia, showed that buying and selling financing had a positive effect on ROA. Another study on 11 BUS in Indonesia for the 2015-2017 period showed the results of buying and selling financing had a positive but not significant effect on profitability. In addition, the results of other studies also show that there is an influence between Murabaha financing and

ROA (Yulyani & Diana, 2021; D.K.W & P, 2019; Suliati et al., 2017; Septiani, 2017; Wahyuni, 2016).
H1: Murabahah financing has a positive and significant effect on the profitability of Islamic commercial banks in Indonesia.

CAR is a ratio to detect a bank's ability to cover its declining assets because the bank suffers losses caused by the presence of risky assets (Dendawijaya, 2009). This is in line with a study of Choiruddin (2017) is a Debt-to-Equity Ratio (DER), Return on Assets (ROA), Return on Equity (ROE), Net Profit Margin (NPM) significant effect on stock prices. The results of other studies also state that CAR has a positive, significant effect on ROA (Gunawan et al., 2020; Marisya, 2019).
H2: CAR has a positive and significant effect on the profitability of Islamic commercial banks in Indonesia.

FDR reflects the bank's ability to channel funds to parties in need of capital. The higher the banking assets, the higher the FDR, and this results in higher banking income (Kasmir, 2014). FDR has a positive effect, because the higher the FDR value, the higher the ROA. This is reinforced by other studies that show the same results, FDR has a significant positive effect on ROA at Bank Syariah Mandiri and BNI Syariah. Research on 11 BUS in Indonesia in 2015-2017 shows that FDR results have a negative but significant effect on profitability. The results of other studies also show that FDR has a positive effect on ROA (Yulyani & Diana, 2021; D.K.W & P, 2019; Irawan et al., 2019; Marisya, 2019; Pritadyana, 2019; Wibisono & Wahyuni, 2017; Perdanasari, 2018; Syakhrun et al., 2019).
H3: Financing to Deposit Ratio (FDR) has a positive and significant effect on the profitability of Islamic Commercial Banks in Indonesia.

In Murabaha financing activities, it is possible to buy and sell financing with an installment system. With this installment system, it can lead to the possibility of non-performing financing (NPF). This problematic financing will affect the performance of Islamic banks in generating profits. This statement is supported by previous research, the research shows the results that NPF as a moderating variable can strengthen the effect of Murabaha financing on ROA (Wahyuni, 2016; Sari, 2015).
H4: Murabaha financing has a positive and significant effect on the profitability of Islamic commercial banks in Indonesia moderated by non-performing financing (NPF).

In research that discusses the effect of profit-sharing financing and buying and selling financing and CAR on profitability with NPF as a

moderating variable, the study shows that NPF does not moderate the effect of CAR on profitability (Aninda, 2019).

H5: CAR has a positive and significant impact on the profitability of Islamic Commercial Banks in Indonesia moderated by non-performing financing (NPF).
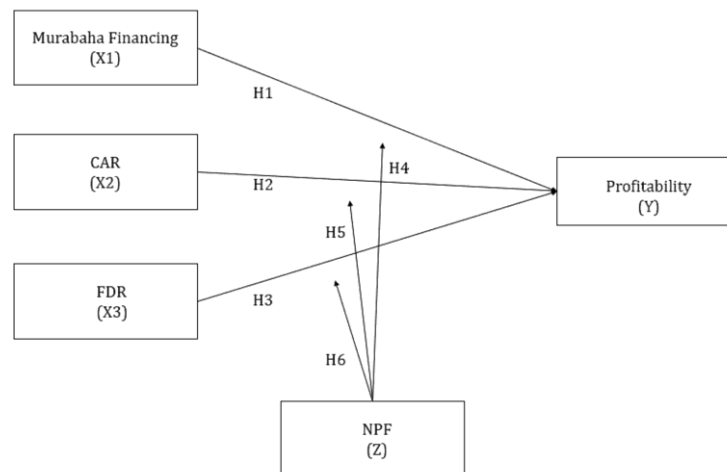

Figure 1. Research Method
Source: Data processed in 2021

NPF is a ratio used to measure the risk of disbursed loans by comparing bad loans with the number of loans disbursed (Figure 1). The larger the NPF, the smaller the change in profit. This is because the income received by the bank will decrease and the cost of allowance for writing off receivables increases which result in a decrease in profit or an increase in loss (Kasmir, 2014). The results of previous research on 9 Islamic Commercial Banks in Indonesia for the 2013-2017 period showed that NPF significantly weakened the influence of the volume of Financing to Deposit Ratio financing on profitability (Pritadyana, 2019).

H6: FDR has a significant effect on the profitability of Islamic commercial banks in Indonesia moderated by non-performing financing (NPF).

METHOD

This research, using the type of quantitative research. This type of research is used because the data appears in the form of numbers. Then the data in the form of numbers are tested and analyzed. In general, quantitative methods are often referred to as traditional methods. This is due to the use of methods that have been carried out since the past, as a positivistic method (Sugiyono, 2009). The data in this research are taken from financial reports published by Islamic Banks registered with the Financial Services Authority for the period 2015 to 2019.

In terms, the sample is a small part of the characteristics of the entire population. If the population is too large and it is not possible to conduct a comprehensive study to study the entire population, a sample is needed. The difficulty of researching the entire population can be due to limited funds, time, and energy which are equally limited, so research is carried out on a sample of that population. The results of the tests that have been carried out in the sample, the conclusions of the results can apply to the entire population (Sugiyono, 2009).

In taking samples used a method called purposive sampling. This method is a technique in sampling data sources using the specified requirements. These considerations were made so that the sample selection was by the sample criteria. Sampling criteria: The banks used as samples are Islamic banks that are registered with Bank Indonesia, and publish their complete financial statements from 2015-2019. Furthermore, Islamic banks that meet the first criteria must have data in the form of complete financial ratios, so the data needed in the study. Finally, the Islamic bank is not foreign-owned. Based on the above criteria, there are several Islamic banks in Indonesia that meet the research requirements, namely Victoria Syariah Bank, BRISyariah Bank, Muamalat Bank, Jabar Banten Syariah Bank, BNI Syariah Bank, Mandiri Syariah Bank, Panin Syariah Bank, Bukopin Syariah Bank, BCA Syariah , Bank Mega Syariah, and BTPN.

The data in this study are secondary. To analyze secondary data, it is necessary to have a stationarity test. If the data used is following the assumption that the variance and average must be constant over time. In addition, the covariance between two consecutively timed data depends on the lag of the two times. In stationary testing, decisions are taken if a data is said to be stationary, the data is stationary, the result value is less than 0.05 (Winarno, 2015). In calculating stationarity, the Unit Root test with Augmented-Dickey-Fuller (ADF) test was used.

Testing on R2 is a test that calculates how much the model used can explain the dependent variable. The value of R2 is between one and zero only. A good model has an R2 value that is getting closer to one. Meanwhile, if the value is closer to zero, it can be said this model cannot explain the independent variable (Ghozali, 2018).

This research uses Moderated Regression Analysis test. The use of the MRA test is appropriate in assessing a regression model in which there is a moderating variable. Moderating variables are independent variables that can have the effect of weakening or strengthening the correlation between other independent variables and the dependent variable (Ghozali, 2018). Test a classic assumption with normality test, multicollinearity test, autocorrelation test, heteroscedasticity test.

RESULT AND DISCUSSION

Regression Test

Multiple linear regression analysis was used to determine and test the relationship between independent variables (Murabahah Financing, CAR, FDR, Murabahah Financing moderated by NPF, CAR moderated by NPF, and FDR moderated by NPF) on the dependent variable, namely profitability. This study uses multiple linear regression with the OLS (Ordinary Least Square) method. The regression results obtained will later be tested for significance which includes t test, f test, and determination test. The estimation results from the regression model are as follows which are presented in Table 2.

T-test

Murabahah financing at 5% alpha coefficient, coefficient value = 0.000227 and prob 0.0014 < 0.05. That is, Murabaha financing has a positive and significant effect on ROA. CAR shows coefficient value = 0.353336 and prob 0.0000 < 0.05. This means that CAR has a positive and significant effect on ROA. FDR shows coefficient value = 0.149398 and prob 0.0489 < 0.05. That is, FDR has a positive and significant effect on ROA.

Murabaha financing is moderated by NPF, has a coefficient value = -0.004524 and prob. 0.0202 < 0.05. Murabahah financing moderated by NPF has a negative and significant effect on ROA. CAR moderated by NPF shows the coefficient value = -3.055375 and prob. 0.0227 < 0.05. That is, CAR moderated by NPF has a negative and significant effect on ROA. FDR moderated by NPF shows the coefficient value = -1.468498 and prob. 0.0074 > 0.05. FDR moderated by NPF has a negative and significant effect on ROA

Table 2. Multiple Linear Regression Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.201616	0.069410	-2.904703	0.0056
X1	0.000227	6.67E-05	3.394730	0.0014
X2	0.353336	0.065168	5.421925	0.0000
X3	0.149398	0.073888	2.021960	0.0489
X1Z	-0.004524	0.001882	-2.404201	0.0202
X2Z	-3.055375	1.296974	-2.355771	0.0227
X3Z	-1.468498	0.524867	-2.797850	0.0074
Z	1.883671	0.632844	2.976519	0.0046

Source: Author's analysis (2021)

F-test

From the table of multiple linear regression test results above, the coefficient value is -0.201616 with prob. (F-statistics) of 0.000005 < 0.05 so that H0 is rejected or H1 is accepted, it can be concluded that the regression model is fit so that simultaneously the level of the ratio of Murabahah Financing, CAR, FDR, and NPF together affects the profitability of Islamic Commercial Banks.

Coefficient of Determination Test (R2)

Based on the results of the analysis presented in the table of multiple linear regression test results above, it is known that the coefficient of determination for the regression model between the independent and dependent variables on the adjusted (R2) is 0.458275. This means that the variation of the independent variable can affect 45.8275% on ROA, while 54.1725% ROA is influenced by variations of other variables that are not included in this model.

Moderated Regression Analysis Test (MRA)

The MRA test is conducted to determine how far the moderating variable can have an influence such as strengthening or even weakening the relationship between the independent variable and the dependent variable. Table 3 are the results of the Moderated Regression Analysis test. It shows the adjusted R2 value of 0.458275, this result is greater than the adjusted R2 value in the previous table, namely Table 3 which is 0.341749. This shows that after there is a moderating variable in the form of non-performing financing, the adjusted R2 value can increase from before. The results of the F test in Table 3 show the coefficient value = 7.525927 and the prob value (F-statistic) = 0.000005 < 0.05. It means that the independent variables (Murabahah Financing, CAR, and FDR) and the moderating variable (NPF) simultaneously affect profitability.

Table 3. Moderated Regression Analysis (MRA)

Root MSE	0.025934	R-squared	0.528498
Mean dependent var	0.009707	Adjusted R-squared	0.458275
S.D. dependent var	0.038116	S.E. of regression	0.028054
Akaike info criterion	-4.175624	Sum squared resid	0.036991
Schwarz criterion	-3.883649	Log-likelihood	122.8297
Hannan-Quinn criteria.	-4.062715	F-statistic	7.525927
Durbin-Watson stat	1.074960	Prob(F-statistic)	0.000005

Source: Author's analysis (2021)

The Effect of Murabaha Financing on ROA

The results of the research show that the Murabaha financing variable has a positive and significant influence on the ROA variable. It can be concluded that H1 is accepted. This is because the higher the level of murabahah financing, the more the company will receive profits. This result is the same as several previous studies. The study states that murabaha financing affects ROA positively and significantly. As previously explained, the increasing level of buying and selling financing will affect the increase in profits received by banks. (Lestari & Anwar, 2021; Yulyani & Diana, 2021; Septiani, 2017; Wahyuni, 2016).

The Effect of CAR on ROA

The CAR variable affects ROA positively and significantly. The higher the CAR, the more capital the bank has, this makes it easier for banks to expand credit and have a great chance of making a profit. The larger capital will later be managed again to generate more profit. So H2 is accepted. The higher the capital adequacy ratio means the bank has a stronger ability to solve problems and also the risk of any risky productive assets such as credit. The results of this research are following previous research which states that CAR has a positive and significant effect on ROA (Irawan et al., 2019; Marisya, 2019; Wibisono & Wahyuni, 2017).

The Effect of FDR on ROA

From the research that has been done, it can be concluded that FDR affects ROA positively and significantly. So H3 is accepted. FDR is a ratio that is used to measure how capable the bank is of returning the financing withdrawals made. It is the same as seeing how able the bank is to balance its obligations in fulfilling the wishes of depositors if they want to withdraw their funds that have been used by the bank while continuing to channel financing to the public (Dendawijaya, 2009). The test results show that the higher the bank's ability to repay the withdrawal of financing, the higher the ROA of the bank. It can be concluded that H3 is a hypothesis which states that FDR has a positive and significant effect on ROA and is acceptable. This research is in line with previous research which states the same thing (Pritadyana, 2019; Marliyah et el., 2021; Marisya, 2019).

The Effect of Murabahah Financing on ROA with NPF as a Moderating Variable

Murabahah financing moderated by NPF has a negative and significant effect on ROA. So, it can be concluded that this study rejects H4 which states that the NPF variable can moderate Murabahah financing on ROA at   Islamic

Commercial Banks in Indonesia. This is very possible because the percentage of NPF at Islamic Commercial Banks in Indonesia is not so large and is still within safe limits following Bank Indonesia regulations, namely the NPF value of not more than 5%.

The Effect of CAR on ROA with NPF as a Moderating Variable

CAR moderated by NPF has a negative but significant effect on ROA. The research results reject H5. This result is following previous research which states that NPF as a moderating variable does not have a significant effect between CAR and ROA. Therefore, it can be concluded that this study rejects H5 which states that the NPF variable can moderate the influence between CAR and ROA on Islamic Commercial Banks in Indonesia (Jamaludin, 2017).

The Effect of FDR on ROA with NPF as a Moderating Variable

FDR moderated by NPF affects ROA negatively but significantly. This result is consistent with previous research which stated that NPF significantly weakened the effect of FDR on ROA. So, the hypothesis which states that NPF moderates the effect of FDR on ROA is rejected because basically, NPF weakens the effect of FDR on ROA. So, it can be concluded that this study rejects H6. Previous research also stated that the NPF variable could not moderate the effect of FDR on ROA in a positive and significant way and weakened its influence (Pritadyana, 2019).

CONCLUSION

Conclusions can be drawn from the results of the analysis and discussion regarding the direct or indirect effect of CAR and FDR Murabaha financing on the profitability of Islamic commercial banks with NPF as a moderating variable in 2015-2018. Murabahah financing has a significant positive effect on ROA. The higher the financing disbursed will make the bank's profitability also increases. CAR has a significant positive effect on ROA. This is because a high capital adequacy ratio will increase the bank's capital in carrying out its operations, and of course will increase its profitability. FDR affects ROA positively and significantly. Because a high level of liquidity indicates the health of a bank. A healthy bank's financial performance reflects that the bank can manage its capital well and will affect its profitability. NPF does not moderate the relationship between Murabaha Financing and ROA. This is because the coefficient value of the test results is negative. The NPF also does not moderate the relationship between CAR and FDR on ROA. This is because the coefficient value is a significant negative. The reason why NPF cannot moderate the relationship between the

dependent variable and the independent variable is that NPF or financing problems weaken the relationship between these variables.

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