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Non Performing Financing as Mediator of Financing Impact on Profitability of Islamic Banks in Indonesia

Cici Widya Prasetyandari[1*], Nailin Nikmatul Maulidiyah[2], Hayatul Millah[3], Maula Nasrifah[4], Zahida I'tisoma Billah[5], Norhayati[6]

[1] Faculty Of Islamic Economics and Business, Institut Ilmu Keislaman Zainul Hasan, Probolinggo, Indonesia

[2] Faculty Of Islamic Economics and Business, Institut Ilmu Keislaman Zainul Hasan, Probolinggo, Indonesia

[3] Faculty Of Islamic Economics and Business, Institut Ilmu Keislaman Zainul Hasan, Probolinggo, Indonesia

[4] Faculty Of Islamic Economics and Business, Institut Ilmu Keislaman Zainul Hasan, Probolinggo, Indonesia

[5] Faculty Of Islamic Economics and Business, Institut Ilmu Keislaman Zainul Hasan, Probolinggo, Indonesia

[6] Faculty Of Islamic Economics and Business, Institut Ilmu Keislaman Zainul Hasan, Probolinggo, Indonesia

Abstract

This research aims to analyze the role of non-performing financing as a mediator on the effect of murabaha financing on profitability (ROA). The population of this study is all Sharia Commercial Banks in Indonesia in the 2013-2018 period. While the research sample consisted of 11 banks that had been selected using the purposive sampling method. The variables used are murabaha financing, Non Performing Financing and Profitability (ROA). The data analysis method used in this study is path analysis. The results of this research showed that Non Performing Financing did not play a role in the acquisition of financing based on profit sharing against the profitability of Islamic Commercial Banks.

Keywords : Murabahah Financing ; NPF ; ROA

Introduction

Sharia Commercial Bank is a Banking whose business activities provide services in payment traffic based on sharia principles. Islamic commercial banks in Indonesia are developing very rapidly. The growth of Islamic commercial banks in Indonesia can be seen from the total assets and net profits that continue to grow every year. The increase in total assets and net profit in the last three years reflects that the public believes in making transactions at Islamic banks. Statistical data on Islamic banks in Indonesia in 2016-2018 can be seen as follows;

Table 1. Sharia Banking Statistics 2016-2018

Period	Total asset (Billion Rp)	Profit (Billion Rp)
2016	254.184	1.426
2017	288.024	1.697
2018	316.691	3.806

Source: Sharia Banking Statistics 2016-2018

The main income of Islamic banks is obtained from agreed ratios through financing channeled to customers. Funding in Islamic banks is guided by the principles of the Qur'an and hadiths, where the Islamic religion forbids all forms of usury. The financing system in Indonesia has attracted many people, because the majority of Indonesia's population is Muslim. Financing in Islamic banks is divided into 3 principles, namely financing based on the principle of buying and selling, financing based on the principle of leasing, financing based on profit sharing and complemented by a complementary contract (Fahmi, 2015; 38). However, this research will only discuss financing based on the principle of buying and selling. This principle is the financing most often used in Islamic banks.

The development of Islamic banking must be balanced with the performance of banks which must continue to increase in order to maintain public confidence in banking financial institutions. One financial ratio that can be used to measure the performance of a bank is the profitability ratio. This study tries to analyze the profitability of Islamic banks through non-performing loans / non-performing financing with financing that is most attractive in Islamic banking. The most common financing used in Islamic banking is financing based on the sale and purchase principle, especially murabaha financing.

According to Fahmi (2013: 116), profitability is a financial ratio that is used to show the company's success in making profits. Profitability is a picture of a company's ability to generate profits. This means that the higher the profitability ratio, the better the company's performance is assessed. Profit is the main thing that must be considered by companies, both financial and non-financial sectors. The main goal of a company is to obtain maximum profit. In general, companies will carry out various strategies to increase their profits.

Non Performing Financing (NPF) is a ratio used to measure problem financing / bad financing of an Islamic banking. According to Ismail (2011: 123) Non-performing loans (financing) are loans / financing that have been channeled by banks, and customers cannot make payments or make installments in accordance with the agreements signed by both parties. The problematic financing of a bank is something that should receive special attention for the banks, because most of the banking revenue comes from financing provided to customers. If the NPF ratio is high, the banks face a high financing risk. Surely this condition will affect the profitability of banks. Kusnanto (2018) and Syah (2018) stated that NPF has a significant influence on the profitability of ROA in Islamic Commercial Banks. While Afif and Mawardi (2014) show that problem financing does not affect sharia banks' earnings.

Murabahah financing according to Sulhan and Siswanto (2008: 135) is a contract of sale of goods by stating the acquisition price and profit (margin) agreed by the seller and buyer. In this agreement, the bank will buy the goods needed by the customer first, then the bank will declare the purchase price honestly to the customer, then the bank and the customer will agree on the benefits to be received by the bank as a return for their services. Payment of customer obligations to banks can be paid on credit. Therefore, murabaha transactions are also vulnerable to the risk of non-performing financing. Of course, this condition will affect the profitability of banks. Putra (2018), Rahayu (2017) and Lestari (2014) show that murabaha has a significant positive effect on profitability (ROA). Whereas Felani and Setiawiani (2016) stated that murabaha had a significant negative effect on profitability. Afif and Mawardi (2014) state that murabaha does not significantly influence profitability. The influence between murabaha financing and non-performing financing (NPF) researched by Afif and Mawardi (2014) shows the results of research that murabaha financing has a positive effect on problematic financing of Islamic commercial banks. Miradhani and

Erza (2011) stated that murabaha had a significant positive effect on non-performing financing (NPF). While the results of research by Lestari (2014) stated a different matter, namely murabaha had a significant negative effect on non-performing financing (NPF).

Literature Review And Hypotheses

The Effect Of Murabahah Financing On Profitability

Murabaha according to Sari (2015; 171) is a sale and purchase agreement between the customer and the bank, where the bank finances (buys) the investment needs of the customer sold at the base price plus the profit that is known and mutually agreed. The bank acts as a seller who must provide the needs of the buyer (customer), while the benefits to be gained by the customer are based on mutual agreement. The bank will show the price of the goods honestly, then the customer will agree to pay the excess price as compensation for services provided to banks. Payment of murabaha financing is usually done on credit.

Murabaha financing income will affect the profitability of the company. The bank will get various kinds of income from each murabahah financing agreed. The more murabahah financing that has been agreed upon, it gives the opportunity that the bank will get high profits. This condition will affect the profitability of the company and will improve the performance of Islamic banks.

Putra (2018), Rahayu (2017), Lestari (2014) shows that murabaha has a significant positive effect on profitability (ROA). Each bank must pay attention to the level of ROA in the distribution of murabahah financing because the greater the level of profits obtained by the bank will also increase the bank's management efforts in investing these profits. Efforts will be made to increase activities that benefit management, especially by channeling financing, one of which is murabaha financing (Lestari, 2014). Research by Felani and Setiawiani (2016) states that murabaha has a significant effect on profitability.

H1: murabaha financing has a significant effect on profitability.

The Effect of Murabahah Financing on Non Performing Financing

Murabahah financing is a transaction of buying and selling an item at the acquisition price plus the margin agreed by both parties, where the seller informs the buyer in advance of the acquisition price (Muhamad, 2015; 46-47). The murabaha financing payment is usually done on credit in installments within the agreed period. Every financing transaction will certainly affect the NPF ratio at Islamic banks. Likewise with murabaha financing, this contract will be faced with the risk of default or financing risk

The influence between murabaha financing and non-performing financing (NPF) researched by Afif and Mawardi (2014) shows the results of research that murabaha financing has a positive effect on problematic financing of Islamic commercial banks. Miradhani and Erza (2011) stated that murabaha had a significant positive effect on non-performing financing (NPF).

H2: murabaha financing has a significant effect on non-performing financing (NPF).

The Effect of Non Performing Financing (NPF) on Profitability

Dendawijaya (2005: 68) argues that Non-Performing Financing (NPF) is financing that is categorized as included in the criteria for substandard, doubtful and bad financing. The greater the value of the NPF, the greater the risk faced by Islamic banks. This will certainly affect the profitability of the company.

Non-performing loans, which are usually measured by the NPF ratio, are conditions where customers experience problems in fulfilling their obligations to the bank. This unfavorable condition can affect banking profitability. This is because, the biggest revenue is from financing transactions. So, if the NPF ratio shows a high value, the company's revenue will decrease and will have an impact on the profitability ratio.

Empirical studies of NPF ratios and profitability have been conducted by previous studies. The results of Kusnanto's research (2018) and Syah (2018) state that the NPF has a significant influence on the profitability of ROA at Islamic Commercial Banks in Indonesia. Based on the description, the hypothesis in this study is as follows;

H3: Non Performing Financing (NPF) has a significant effect on profitability.

Methodology

Research Design

This study was designed to determine the effect of the relationship between the independent variable and the dependent variable through mediating variables. The independent variable is a variable that affects the dependent variable, the independent variable in this study is murabaha financing the dependent variable is the variable that is influenced by other variables. The intended dependent variable in this study is the profitability variable that will be projected by ROA. Whereas meant by mediating variable is the variable that influences the relationship between the independent variable and the dependent variable. The mediating variable in this study is non-performing financing (NPF).

Population and Sample

The population used in this study were all Sharia Commercial Banks (BUS) in Indonesia in the study period (2013-2018), totaling 13 banks. While the sampling method in this study uses a purposive sampling method. The criteria are as follows;

1. Sharia commercial banks which regularly publish annual financial reports during the observation period, 2013-2018.
2. Sharia commercial banks that present their data in full in accordance with observational needs, namely related to murabaha financing, NPF and ROA.

Data types and sources

The type of data in this study is quantitative data. While the source of the data is secondary data obtained through the official website of each banking and OJK official website, namely ojk.go.id.

Data analysis method

1. Determine the value of research variables

   a. Murabahah (Mur) Financing. The value of the Mur variable can be obtained from the total net murabaha financing account value in the BUS financial position report.

   b. Non Performing Financing (NPF) can be calculated by dividing the total problem financing with the total financing. The formula used to calculate NPF according to Chen (2014; 8) is as follows;

$$NPF = \frac{Total\ non\ performing\ Financing}{Total\ or\ Gross\ Financing}$$

   c. ROA can be calculated by dividing net income by total assets. The formula used to calculate ROA according to cashmere (2015; 202) is

$$ROA = \frac{Earning\ After\ Interest\ and\ Tax}{Total\ Assets}$$

Path Analysis

Path analysis is the development of regression analysis, so that regression analysis can be said as a special form of path analysis (Sugiono, 2014; 297). Path analysis is used to determine the relationship between the independent variables and the dependent variable directly or indirectly. This path analysis technique is used in testing the amount of contribution shown by the path coefficient on each path diagram of the causal relationship between independent variables to the dependent variable and its impact on intervening variables (Riduwan and Kuncoro, 2017; 115). Diagram of the Causal Relationship between Murabaha Financing to NPF and ROA can be seen in Figure 2.

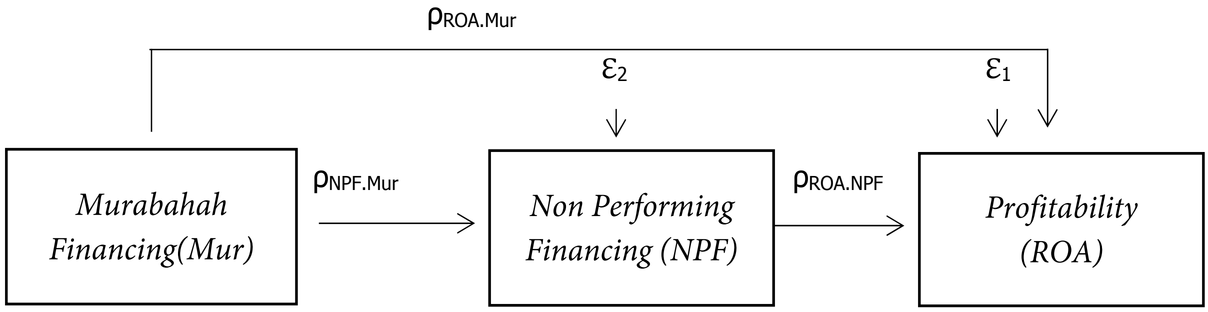

Figure 1. Path Diagram of the Causal Relationship of Mur, Financing, INF to NPF and ROA Financing

Information;

$\rho_{ROA.Mur}$: Murabahah (Mur) financing path coefficient to Profitability (ROA)

$\rho_{NPF.Mur}$: Murabaha financing pathway coefficient (Mur) to Non Performing Financing (NPF)

ρ_{ROA} : Non Performing Financing (NPF) path coefficient to profitability (ROA)

Based on Figure 2, the equation for path analysis is;

ROA $= \rho_{ROA.Mur} + \rho_{ROA.NPF} + \varepsilon_1$

NPF $= \rho_{NPF.Mur} + \varepsilon_2$

Results and Discussion

Result

The population in this study are all Sharia Commercial Banks in Indonesia in the period 2013 - 2018, the population amounted to 13 Sharia Commercial Banks . The sample selection method uses a purposive sampling method, namely the determination of samples using certain criteria. Based on research data collection, several banks were found that did not meet the research data. So this study adopted 11 banks that have complete data in accordance with research needs, 11 banks are; PT. Bank BCA Syariah, PT. Bank Jabar Banten Syariah, PT. BNI Syariah Bank, PT. Bank Muamalat Indonesia, PT. Bank Panin Dubai Syariah, Tbk, PT. Bank Syariah Mandiri, PT. Bank Victoria Syariah, PT. BRI Syariah Bank, PT. Bank Bukopin Syariah, Maybank Syariah and PT. Sharia Mega Bank. The results of testing the influence of murabaha financing, non-performing financing on profitability are presented in Table 2.

Table 2 Test Results of Nuts, NPF to ROA

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	2.013	.356		5.660	.000
1	Murabahah	.002	.005	.026	.345	.731[ts]
	NPF	-.411	.039	-.801	-10.641	.000*

a. Dependent Variable: ROA

Sumber; Output spss

Table 2 shows the path coefficient of murabaha financing to ROA of 0.026 and a significance value of 0.731, so that the hypothesis that murabaha financing has a significant effect on profitability cannot be verified.

The effect of the NPF variable on ROA contained in Table 2 shows that the path coefficient is -0,801 and the significance is 0,000, so the hypothesis stating that NPF has a significant effect on profitability can be verified. The coefficient value of the NPF variable on ROA shows a negative value, meaning that NPF and ROA have a significant and opposite effect. The higher NPF will cause the company's profitability to decrease and the lower NPF will cause the company's profitability to increase.

The results of testing the effect of murabaha financing on non-performing financing are presented in Table 3.

Table 3 Results of Nuts Testing to NPF

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.547	.919		6.037	.000
	Murabahah	-.003	.016	-.024	-.191	.849[ts]

a. Dependent Variable: NPF

Sumber; Output SPSS

The coefficient of murabahah financing pathway to NPF shows the value of -0.024 and a significance of 0.849. This means that murabaha financing does not have a significant effect on NPF, so the hypothesis that murabaha financing has a significant effect on NPF cannot be verified. Based on Tables 2 and 3, the path diagram of the influence of murabaha financing on NPF and profitability is presented in Figure 3.

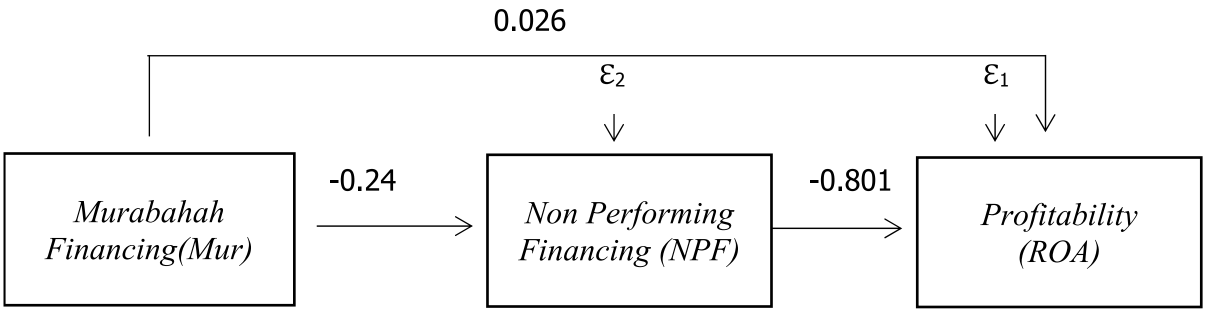

Figure 2. Path Diagram of the Causal Relationship of Mur Financing to NPF and ROA

Discussion

The Role of NPF Mediation in the Murabahah financing relationship and profitability

The analysis shows that murabaha financing has no effect on profitability. Murabaha financing is a sale and purchase agreement between the bank and the customer, where the bank will buy the goods needed by the customer, while the price of the item will be stated honestly by the bank, then the bank and the customer will agree on the amount of profit to be received by the BUS as a return for services. Murabaha financing is the financing that has the largest amount compared to other financing. The high murabahah financing contract in this case is because the sale and purchase agreement is a contract that is in great demand by most people, in this time of high prestige people flock to get the goods they want to meet their satisfaction. However, not many of them can not meet all their needs by purchasing cash. Thus, BUS offers buying and selling services to meet their needs. The number of financing services in Indonesia is actually already a lot, but financing services in the sharia context are still quite rare. Therefore, BUS is one of the service providers that is needed by the community, especially in murabahah financing agreements. The large amount of financing causes BUS to face high risks. This means that the high and low murabaha financing does not affect profitability, because there are still other risks that must be considered in every financing contract that is distributed. The results of this study support research conducted by Afif and Mawardi (2014) which states that murabaha does not significantly influence profitability.

The results of testing the effect of NPF on ROA shows that Non Performing Financing (NPF) has a significant effect on profitability (ROA). That is, the increase and decrease in NPF affects BUS profitability. The more problematic financing will affect BUS performance, especially on ROA. The increasing NPF ratio will have an impact on the ROA arrangement. NPF is the biggest risk often faced by banking sector companies. although this ratio is always monitored by OJK, it is not uncommon for banks to still have a high NPF value. for example NPF at PT. Bank Jabar Banten Syariah in 2017 which shows the highest ratio compared to other BUS. In that year PT. Islamic BJB banks face a very high financing risk. This will certainly affect the profitability of the company. large non-performing financing illustrates the large number of defaulted, substandard, and doubtful financing. This condition will be detrimental to banks and have an impact on the decline in BUS profitability. This research is in line with the research of Kusnanto (2018) and Syah (2018) which states that NPF has a significant effect on ROA. Murabahah financing has no effect on NPF BUS. This is because the customers who will carry out murabaha financing contracts are selected customers who have good characteristics, are financially capable and do not have a bad history of lending and borrowing transactions. Before the bank agrees to buy the goods needed by customers, the BUS will conduct a survey related to banking principles 5C. So, customers who do murabahah financing contracts with BUS are the best customers in accordance with their abilities. After identifying the 5C, the possibility that the bank will experience financing risk is small and the customer will not default on the BUS. This means that the risks and risks of NPF financing are not influenced by murabaha financing. Based on the description, it can be concluded that NPF does not play a role as a mediator in murabaha financing towards profitability.

Conclusion

This study aims to determine the role of Non-Performing Financing as the impact of murabaha financing on the profitability of Islamic commercial banks in Indonesia. The variables used are murabaha financing, non-performing financing and profitability (ROA). The results of the analysis show that murabaha financing has no significant effect on profitability, murabaha financing also has no significant effect on Non-Performing Financing, but Non-Performing Financing has a significant effect on profitability. based on the description, the results of this study are Non Performing Financing does not play a role as a mediator on the effect of murabaha financing on profitability

Research Limitations

The limitation of this study is that the test results show that many research variables have insignificant influence, so it cannot be explained about the role of NPF in financing based on the sale and purchase principle of BUS profitability.

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