THEORETICAL STUDY THE ROLE OF NPF MODERATION ON THE RELATION OF FINANCING AND PROFITABILITY IN ISLAMIC BANKS

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Abstract

The main activity of Islamic banking is to collect funds from the community and then distribute them in the form of financing. The type of this study is to analyze the role of NPF on the effect of mudharabah financing and musyarakah financing on profitability. The results of this study showed that Non Performing Financing acts as a mediator in the relationship of Mudharabah financing and Musyarakah financing to profitability.

Keyword: Mudharabah financing, Musharakah financing, NPF, Profitability.

1.INTRODUCTION

Banking is a financial institution that acts as an intermediary institution, namely an intermediary from an excess of funds and a party that lacks funds. The bank collects funds in the form of savings, current accounts and deposits, then distributes these funds in the form of loans / financing. Islamic banking is a financial institution whose operational activities are based on the principles of Islamic law. The mission and principle of islamic banking is to implement the concept of sharia economics, namely by putting Islamic values as a principle in economic activity to realize inner and outer social welfare (Sari, 2015; 158).

The main income of sharia banks is obtained from the agreed ratio through financing channeled to customers. Financing in Islamic banks is guided by the principles of Alquran and hadith, where Islam forbids all forms of usury. The financing system in Indonesia is in great demand by the public, because the majority of the population of Indonesia is Muslim. In fact, Islamic banking is a necessity for most of the people of Indonesia. The specialty of the financing system in Islamic banks is that it does not force its customers to pay the principal installments and profit sharing in a certain amount. However, installment payments and profits will be received by the bank based on the agreement of both parties voluntarily. This convenience is what attracts the interest of the public to transact in Islamic banking. 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 the principle of profit sharing and equipped with a supplementary contract (Fahmi, 2015; 38). However, this study will only discuss financing based on profit sharing principles because this principle is the most frequently used financing 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 trust in banking financial institutions. One of the financial ratios that can be used to measure a bank's performance is the profitability ratio. This study tries to analyze the profitability of Islamic banks through non-performing Financing (NPF) with financing based on the principle of profit sharing. Financing based on profit sharing principles consists of mudharabah financing and musyarakah financing. The financing relationship and profitability with NPF mediation can be seen in Figure 1

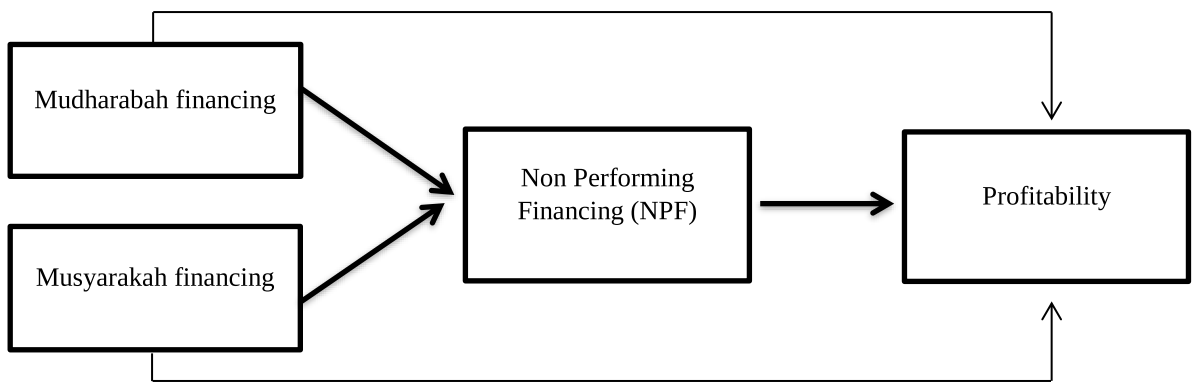

Figure 1. The relationship between mudharabah financing and musyarakah financing on profitability by mediating NPF

Figure 1. Explain how the influence of mudharabah financing and musyarakah financing on profitability through non-performing financing and without going through non-performing financing. Financing is a form of channeling funds to the community and payments are made in installments. The division of profits is profit sharing according to an agreement between the bank and the customer. The higher the financing, the bank has the opportunity to get high profits. Non-performing financing is non-performing financing in Islamic banking, this problematic cost includes financing with substandard status, doubtful and loss. The higher ratio of non-performing financing will certainly affect financing and inflation on profitability.

Mudharabah financing is a financing channeled by Islamic banks to finance a particular business, while musyarakah financing is an agreement between banks and customers to manage a business. The amount of profit to be received by Islamic banks will be determined at the beginning of the contract, in accordance with the mutual agreement. Financing is the main source of income for Islamic banks, the higher the funding channeled, the banks will get high profits, but the channeled financing must also face a variety of risks, one of which is financing risk or NPF. This study aims to analyze the role of NPF as a mediator between financing and profitability. The role of NPF on financing and profitability will be analyzed using the literature review method, where in this article there are discussions supported by relevant research.

2.DISCUSSION

2.1. The Effect of Mudharabah Financing on Profitability

Mudharabah financing is profit sharing financing between banks as capital owners (Shahib al-mall) and customers as managers (mudrarib) of capital, then between banks and customers will share the results of the customer's income in managing their business with a agreed ratio (Sari, 2015; 172-173). Mudharabah financing is a fund distribution transaction to the people who will conduct a business, but do not have enough funds to manage the business. The profit sharing ratio applied is according to a mutual agreement between the bank and the customer. If the business experiences a loss, the bank will bear all the losses as long as the loss is not an element of intent or negligence of the customer.

According to Kasmir (2015; 114), Profitability is a ratio to assess a company's ability to seek profits or profits in a certain period. Profitability is considered to have an influence on mudharabah financing, this is because the size and magnitude of mudharabah financing will affect the level of profit in a bank. The greater the value of mudharabah financing, means that it provides an opportunity that the bank will receive more income from the profit sharing ratio agreed upon at each mudharabah financing. Of course, this will affect the level of bank profitability. This is in line with the research conducted by Rizqi, Askandar and Afifudin (2017), Pratama, Martika, Rahmawati (2017) stating that there is a significant positive effect between mudharabah financing on the level of profitability of Islamic banks in

Indonesia. Wibowo and Sunarto (2016) stated that mudharabah had a positive effect on profitability (ROE).

2.2. The Effect of Musyarakah Financing on Profitability

Musyarakah financing is a partnership agreement between two or more parties to establish a certain business in which each party contributes funds with an agreement that the benefits and risks will be borne together in accordance with the agreement (Naf'an, 2014; 95). This financing is a form of profit sharing when the bank as the owner of funds / capital participates, as a business partner, to finance the business investments of other parties (Ascarya and Yumanita, 2005; 21). So, in musyarakah financing, banks can provide continuous contributions of funds as long as the business is still running. The bank here acts as a working partner who contributes to owning the business.

The success of the business partners of banks will affect the level of income of Islamic banks. Businesses that are growing rapidly will certainly increase the income of Islamic banks. Conversely, businesses that grow slowly or cannot even develop will affect the income of Islamic banks. The Islamic bank income system is a profit sharing system, so the size of the income is influenced by the success of the business of each financing run by the customer. Islamic banking businesses to get high profits can be done by channeling as much funds as possible, the more partners are based on musharaka financing, the greater the chance of banks to obtain profits. This condition certainly also affects the company's profitability ratio. this is supported by research by Felani and Setiawiani (2016), Wibowo and Sunarto (2016) Pratama, Martika, Rahmawati (2017) which show that musharaka partially has a significant effect on ROA.

2.3. The Effect of Mudharabah Financing on NPF

Banking is a financial institution whose main activities are collecting funds from the community and then channeling it back in order to gain profits. However, in terms of the distribution of funds, sometimes banks must face various risks, one of which is the financing risk which is usually measured by NPF which is usually caused by customers who fail to pay. This condition can be pure because customers experience business failure due to negligence or other factors.

Risk of problematic financing / financing is a risk that causes large losses if not handled properly, therefore, this risk must receive special attention to save the survival of the company. Financing risk can have a negative impact on the internal and external parties of the bank. The internal impact of this risk is financial difficulties if these conditions continue to be ignored. While the external risk of the banking sector is the reduced confidence of investors and the public who will invest in Islamic banks. Thus, financing risk is a major problem in each bank.

Mudharabah financing is one component that can cause the size of the risk of financing. Muhammad (2015; 43) explained that the financing risk in mudharabah financing is caused by default or default customers. The more mudharabah financing customers who experience default, this will further increase the risk of financing a bank. This is in accordance with the opinion of Wirman (2017) which shows the results of his research that NPF has a significant effect on mudharabah profit-based financing in Islamic Banks.

2.4. The Effect of Musyarakah Financing on NPF

NPF is a reflection of the company's performance in terms of financing. The greater the NPF value then indicates that the bank is in an unhealthy condition. According to Bank Indonesia circular letter No. 17/19 / DPUM / 2015 concerning "Provision of Credit or Financing by Commercial Banks and Technical Assistance in the context of Micro, Small and Medium Enterprises Development" explained that the standard set by Bank Indonesia for NPF ratio is less than 5%. That is, if the NPF ratio shows a value below 5%, the bank is in good condition or the financing risk experienced by the bank is small. Conversely, if the NPF ratio shows a number above 5%, this indicates that the bank is in a high risk of financing. in the circular letter it was explained that the bank would get an award if the bank had an NPF ratio of less than 5%.

Musyarakah financing is a collaboration between entrepreneurs and banks with a capital of 50%; 50%. In this case, banks only finance part of the capital needed by business managers. Although banks only finance 50%. But this financing also has a high financing risk. The business failure that causes default will have an impact on the NPF ratio of Islamic banks. The bank must continuously monitor any developments that occur in the business by using musyarakah financing. 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 non-performing financing. Customers who experience losses, will automatically experience financial difficulties that will have an impact on the default installment payments to the bank. This opinion was supported by Wirman (2017) who stated that NPF had a significant effect on the musyarakah in islamic banks.

2.5. The Effect of NPF on Profitability

Dendawijaya (2005; 68) argues that Non Performing Financing (NPF) is financing that the collectability category is included in the criteria of substandard financing, doubtful and bad financing. The greater the NPF value, the greater the risk that will be faced by Islamic banks. This of course will affect the profitability of the company.

The more problematic financing will affect banking performance, especially on profitability. The increasing NPF ratio will have an impact on the growth of profitability. NPF is the biggest risk that is often faced by banking sector companies. although this ratio is always monitored by the OJK, but not infrequently banks still have a fairly high NPF value. This of course will affect the profitability of the company. large problematic financing illustrates the amount of financing that fails to pay, is substandard, and has doubtful status. This will certainly harm the banks and have an impact on bank 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.

2.6. The Role of NPF on the Effect of Financing on Profitability

Non Performing Financing (NPF) is the ratio used to measure non-performing financing / non-performing financing in a bank. According to Ismail (2011: 123) Problematic credit (financing) is credit / financing that has been channeled by the bank, and the customer cannot make payments or make installments in accordance with the agreement signed by both parties. The problematic financing of a bank is something that must receive special attention for the banking sector, because a large portion of this banking income comes from the financing provided to customers. If the NPF ratio is high, then banks experience a high financing risk. Of course this condition will affect the profitability of the bank. Figure 2 explains the relationship of financing to profitability through NPF.

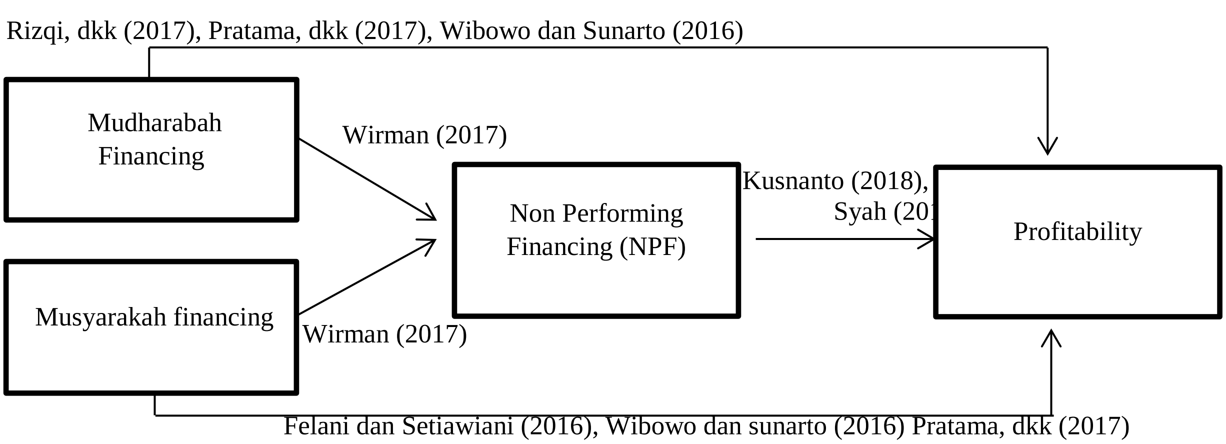

Figure 2. Relationship between mudharabah financing and musyarakah financing on profitability by mediating NPF

Based on figure 2. It can be explained that the NPF plays a role in the effect of mudharabah financing and musyarakah financing on profitability. Mudharabah financing is a financing channeled by Islamic banks to finance a particular business where the bank acts as a provider of capital, and customers as business actors. The profit sharing is in accordance with the collective agreement, and the loss will be borne by the Islamic bank as long as the loss is not an element of intent.

Based on previous studies, mudharabah financing has an effect on profitability. that is, the rise and fall of mudharabah financing will affect the profitability of the bank, but mudharabah financing is a financing that has a high risk, one of which is the risk of problematic financing / NPF. The higher the mudharabah financing channeled by the customer, the higher the risk faced by Islamic banks. This identifies that NPF plays a role in mudharabah financing on profitability.

Musyarakah Financing is an agreement of cooperation between two parties or more for a particular business where each party contributes funds with an agreement that the benefits and risks will be borne together in accordance with the agreement in the beginning (Sulhan and Siswanto, 2008; 133-134). Cooperation between several parties meant here is cooperation between banks and customers. In musyarakah financing, the bank funds a portion of venture capital. The bank's participation in the funding requires the bank to always monitor the progress of the business being run by the customer. The bank will also bear the loss if the business does not go well. Therefore, the bank will always monitor the development of business and customer behavior so as not to deviate from the agreed agreement. All conditions in musyarakah financing will have an impact on NPF and bank profitability. The high total musyarakah financing provides an opportunity that the bank will obtain high profits, but the greater the musyarakah financing channeled, the greater the risks faced by banks.

Mudharabah financing and musharaka financing affect the NPF, this opinion is supported by Wirman (2017). That is, the increase and decrease in mudharabah financing and musharaka financing affect the risk of NPF financing. The higher financing channeled identifies that Islamic banks also face a high risk of bad debts. Even though before channeling bank financing analyze customers based on 5C principles (Character, Capacity, Capital, Collateral and Condition), but the risks that occur cannot be avoided. Kusnanto's (2018) and Syah's (2018) research shows that the NPF has an effect on profitability. that is, the rise and fall of the NPF has an effect on bank profitability. the higher the NPF, the profitability of the company will decrease. The high NPF reflects poor banking performance, this means that many customers cannot pay their obligations to banks.
Based on the description, it can be concluded that the higher the financing it will affect the high NPF and have an impact on decreasing bank profitability. The more funding channeled will certainly provide high profits for banks, but it must be noted that the NPF will also provide a high risk in each distribution of funds to customers. This is in accordance with the economic principle, namely the greater the profit we will get the greater the risk we will face.

3.CONCLUSION

The purpose of this study is to determine the role of Non Performing Financing as an impact of financing based on profit sharing on the profitability of Islamic commercial banks in Indonesia. The variables used are mudharabah financing, musyarakah financing, non-performing financing and profitability. The results of the analysis show that mudharabah financing and musyarakah financing affect profitability. NPF has an effect on profitability. Mudharabah financing and musyarakah financing affect profitability. Based on the description, it can be concluded that Non Performing Financing acts as a mediator in the relationship of Mudharabah and Musyarakah financing to profitability.

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