The Internal Factors of Indonesian Sharia Banking to Predict The Mudharabah Deposits

by Agung Yulianto

Submission date: 19-Apr-2022 06:20PM (UTC+0700)
Submission ID: 1814414522
File name: Indonesian_Sharia_Banking_to_Predict_The_Mudharabah_Deposits.pdf (281.6K)
Word count: 4090
Character count: 22119

The Internal Factors of Indonesian Sharia Banking to Predict The Mudharabah Deposits

Review of Integrative Business & Economics Research

Agung Yulianto
Accounting Department, Economics Faculty

Badingatus Solikhah*
Accounting Department, Economics Faculty

ABSTRACT

In the recent years, Islamic banking in Indonesia is growing rapidly. The data of Bank Indonesia shows that the number of Islamic banking instruments such as *mudharabah* deposits has increased both in the number and the total value. The objective of this research is to analyze the influence of Financing to Deposit Ratio (FDR) and Non Performing Financing (NPF) on Mudharabah Deposits of Indonesian Islamic Banking in the period from 2010 to 2013. The sample of this study was 11 Islamic Commercial Banks and 23 Islamic Business Units of Conventional Bank in Indonesia. Secondary data was collected from the Islamic Banking Statistics of Bank Indonesia official website. The data analysis technique used in this study was multiple regression analysis. Based on statistical analysis, it is concluded that Non Performing Financing (NPF) effect on Mudharabah Deposits. Meanwhile, Financing to Deposit Ratio (FDR) has no effect on the Mudharabah Deposits. The results indicate that the customers' motivation to save their money in the bank is to invest in Islamic financial instruments in accordance with Islamic principles, so that customers do not pay much attention to factors such as the level of Financing to Deposit Ratio (FDR).

Keywords : *Mudharabah* Deposits, Financing to Deposit Ratio (FDR), Non Performing Financing (NPF), Islamic Banking, Indonesia.

I. INTRODUCTION

The economic crisis in Indonesia in 1997 dragged the national banking system into collapse. Several national private banks was liquidated by the end of 1997. This indicates that the bank's performance was not strong enough, so there is thinking and measures to develop banking activities based on Islamic principles. The idea of establishing Islamic bank had been growing until commercial and formal Islamic banking institutions were really established.

Services provided by the Islamic banking are combination between the moral aspect and the business aspect. Islamic banking always aims to make a profit and is liberated from the gambling element, (intended Speculation, *maisyir*), obscurity / manipulative (*gharar*), and usury (*riba*). Therefore, the transaction of Islamic banks is not totally free, but must be integrated by moral values with economic activities based

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on *sharia*. Money and wealth becomes an integrated tool to achieve the betterment for society and the blessing of Allah (Ghufron 2005).

The Islamic-based banking system is increasingly showing its existence, not only in Islamic countries but also in western countries, which is marked by the increasing number of banks which apply the concept of Islam. The development of Islamic banking or banking with the income-share concept shows that Islamic concept in the management of wealth / money is universally accepted by mankind. This is obviously because the concept of *riba* or interest in Islam is strictly prohibited and contrary to the concept of humanity (Rival 2010: 73).

Juridical basis of Islamic banks in Indonesia is getting stronger with the issuance of Act No. 21 of 2008 concerning on Islamic Banking, which regulates Islamic banks clearly in the aspect of institutional and operational terms. The legalization of this law has opened up huge opportunities for Islamic banks to develop. This positive legal basis is used as a foothold for Indonesian Islamic banks in developing products and operations. Supported by the potential that exists both within the country and abroad, the prospect of growth and development of Islamic banks in Indonesia is expected to show an encouraging development. There is an opportunity for Indonesian banking to open a new branch converting their branches into Islamic branches. This is a step forward in the development of Islamic banking.

Table 1. Islamic Banking Products (Fund Raising)

Product Name	**Finance Scheme**
Giro iB (Rupiah and USD)	Deposit
iB Saving	
iB Saving	Flexible : Deposit / Equity
iB Hajj and Umrah Saving	Flexible : Deposit / Equity
iB Education Saving	Equity
iB Planning Saving	Equity
iB Arisan Saving	Equity
iB Deposito	
iB Deposito (Rupiah and USD)	Equity
Deposito Special Investment iB Deposit	Equity for Specific Project Based on the Willingness of Customer and Investor.

Source: Islamic Banking Product List, Bank Indonesia, 2015.

The principle of profit sharing is a common characteristic and the basis for the overall operations of Islamic banks. In sharia, profit sharing is based on the principle of *al-mudharabah*. Nonetheless, in its development, the fund users of Islamic banks do not only confine themselves to a single contract, *mudharabah* contract only, but also another engagement in accordance with the Islamic sharia. There are five underlying concept of Islamic banking products, there are: stores system (*al-Wadi'ah*), profit sharing (*Syirkah*), profit margins (*at-Tijarah*), rent (*al-Ijarah*), and fee / service (*al-Ajr walumullah*). Generally, the product development of Islamic banks is grouped into three

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groups, namely: allocation product, collection product and services product. Islamic banking products which are collection products are described on Table 1.

The year of 2010 is the momentum for global economic recovery after the financial crisis, so in 2010 is a year full of high optimism in the global and national economy. Besides, the maintained economic stability also encourages the performance of financial institutions. Given Third Party Fund (TPF) has a vital position as a source of bank capital, so the Islamic banks should be able to ensure that the activities of third-party funds go well. There are several factors that influence TPF, there are *Financing to Deposit Ratio* (FDR) and the *Non Performing Financing* (NPF).

Hasbi (2011) explains that the *Financing to Deposit Ratio* (FDR) is a ratio that shows how much the bank's ability to repay withdrawals made by customers and by relying on financing provided as a source of liquidity. The higher this ratio is, the lower the ability of the bank liquidity when customers will pull their funds to be said that the bank is in a troubled state. This will affect the customer's decision to choose where to place their funds.

Non Performing Financing (NPF) is a financial ratio that is associated with the risk of financing. *Non Performing Financing ratio* is a ratio that measures the level of financing problems that must be reserved. *Non Performing Financing ratio* is analogous to the ratio of *Non Performing Loan Ratio* or non-performing loans at conventional banks. Large amounts of nonperforming loans faced by a bank will lower the level of the operating health of the bank. If the decline in credit quality and profitability of the bank concerned is so severe, it will affect their financial liquidity and solvency, and then the trust of funds depositor in the bank will fall. Simultaneously, the funds depositor will withdraw their funds from banks (Sutojo 1997: 24). Thus the smaller this ratio indicates a good performance of the bank. If this ratio increases, there will be a decrease in the people's desire / willingness to put their savings in Islamic banks and ultimately will impact on the amount of savings that can be collected from the customer.

II. THEORETICAL FRAMEWORK AND HYPOTHESIS

2.1. *Shariah Enterprise Theory*

Shariah Enterprise Theory has a great concern on stakeholders. According to *Shariah Enterprise Theory*, stakeholders include God, man, and nature. God is the highest and to be the only goal of human life. By placing God as the highest stakeholder, the aims of sharia accounting to "raise awareness of divinity" will remain guaranteed (Triyuwono, 2007). The second stakeholder of *Shariah Enterprise Theory* is human. Here are divided into two groups, namely direct-stakeholder and indirect-stakeholders. Direct-stakeholders are those who directly contribute to the company, either in the form of financial contributions and non-financial.

2.2. The Effect of Financing to Deposit Ratio (FDR) on Mudharabah Deposits

"Financing to Deposit Ratio is ability to repay the bank of withdrawals by customers with relying on loans as a source of liquidity" (Hasbi, 2011). The higher the Financing to Deposit Ratio (FDR), the higher funds distributed to third party fund (TPF). In other words, FDR is a ratio to measure a bank's liquidity position. Liquidity is the ability of a bank to pay off financial obligations immediately be withdrawn or that is

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due. FDR that is analogous to the conventional banking system LDR describes the ability of banks to repay depositors withdrawals made by relying on loans as a source of liquidity. The higher the FDR, the lower the ability of bank liquidity (Simorangkir 2004: 147).

Standards used by Bank Indonesia (Bank Indonesia Regulation No. 15/15 / PBI / 2013, Article 11 About Statutory Commercial Banks in Rupiah and Foreign Currency for Commercial Bank) for the ratio of *Financing to Deposit Ratio* (FDR) was 78% (limit Under Target LDR) to 92% (the upper limit of the LDR target). If the *Financing to Deposit Ratio* (FDR) of a bank stands at below 78% (eg 60%), it can be concluded that the bank can distribute only 60% of all funds collected. The primary function of banks is as intermediary between the excess funds parties to the cash-strapped, so the Financing to Deposit Ratio (FDR) of 60% means that 40% of all funds raised are not distributed to those in need. Then, bank can be said that its operation does not function properly. If the ratio of Financing to Deposit Ratio (FDR) of banks has reached 110%, it means the total financing given by the bank exceeds the funds raised. If the funds raised from the public is limited, then the bank cannot play its role as intermediary party. The higher the Financing to Deposit Ratio (FDR) showed more risky the bank liquidity is, in contrary, the lower of Financing to Deposit Ratio (FDR) showed a lack of bank effectiveness in extending finance (Suryani 2011: 59).

Financing to Deposit Ratio is the ratio used to measure the bank's ability to repay withdrawals made by customers by relying on financing provided as a source of liquidity. The higher this ratio, the lower the bank's liquidity ability. It can occur if there is customer withdraws his fund, thus possibility of a bank in problematic conditions will be even greater. This condition will affect the customer's decision to choose where to put their savings. Based on these descriptions, the proposed hypothesis is as follows:

Ha1: Financing to Deposit Ratio (FDR) partially negative influence on the amount of deposits mudharabah.

2.3. The Effect of Non-Performing Financing (NPF) on Mudharabah Deposits

Non Performing Financing which measures the level of bad debt that had to be reserved. The smaller this ratio, it means that the better of the performance of the bank "(Hasbi, 2011). Non Performing Financing shows the ability of bank management to manage the in-trouble-financing provided by the bank. The higher this ratio the worse the quality of bank loans that caused the greater number of problem loans. Therefore, the possibility of a bank in the problematic conditions is greater. In this case, credit is loans granted to the third parties excluding loans to other banks.

NPF is the rate of return on the financing granted to the bank depositors. In other words NPF is the level of non-performing loan in a bank. NPF is determined by calculating the Non-Current Financing against Total Financing. The lower NPLs, the bank will increasingly experience the benefits, whereas if the NPL is in the high level, the bank will suffer losses due to the return of bad debts.

If the Non Performing Financing (financing problems) Islamic banking increases, there will be a decrease in the amount of deposits that can be collected from the customer. The increase in the number of financing problems would lead to a decrease in desire / willingness of the people to put their savings in Islamic banks. High NPF will cause customers who deposit funds in Islamic banks will withdraw their funds for fear

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that funds saved cannot be returned by the bank due to an increase in the NPF. Thus the proposed hypothesis is as follows:

Ha2: Non performing Financing (NPF) partially negative influence on the amount of deposits *mudharabah*.

III. RESEARCH METHODS

3.1. Population and Sample

The population in this study was all Islamic banks and Islamic business units (Islamic banking) in Indonesia from January 2010 to December 2013. This study was a population research in which the entire population was observed as research sample. The number of Islamic banks used as samples were 11 banks and 23 banks of Islamic business units. Therefore, the total samples were 34 banks.

3.2. Research Variables

Variables in this study are presented systematically in the following matrix.

Table 3. Research Variable

Variable		**Operational Definition**	**Formula**	**Data Source**
Independent Variable	*Financing to Deposit Ratio* (FDR)	Describe the level of Islamic banks' liquidity in Indonesia	$= \frac{\text{Financing}}{\text{Total third party fund}}$	Indonesa Islamic Banking Statistic
	Non Performing Financing (NPF)	Describing the quality of earning assets of Islamic banking in Indonesia	$= \frac{\text{In} - \text{troble finance}}{\text{Total financing}}$	Indonesa Islamic Banking Statistic
Dependent Variable	Mudharabah Deposit	Fund collected from society through various products offered by Islamic Banking.	Mudharabah deposit with a minimum period of one month.	Indonesa Islamic Banking Statistic

3.3. Data Analysis Methods

Analysis method used in this research is ordinary least squares. The equation can be formulated as follows:

$$\mathbf{DM = b0 + b1FDR + b2NPF + \varepsilon}$$

Where:

DM = Total Mudharabah Deposits
b0 = intercept / constants
FDR = Financing to Deposit Ratio
NPF = Non Performing Financing

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b1, b2 = coefficient of regression
ε = Error

IV. RESULTS AND DISCUSSION

4.1. Individual Parameter Significance test (t Statistical Test)

T statistical test basically shows how far the influence of the independent variables individually in explaining the dependent variable. Based on the results of the test statistic t, partially the influence of Financing to Deposit Ratio (FDR) and the Non Performing Financing (NPF) to Total Deposits Mudharabah shown by the table 4.

Tabel 4. T Statistical Test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	11,568	,815		14,190	,000
	FDR	,012	,007	,142	1,826	,075
	NPF	-,470	,035	-,790	-13,298	,000
a. Dependent Variable: LN_SM						

Source: Output of processing data using IBM SPSS 20, 2015.

Based on the test results, the writer obtained equation models as follow:

$$\mathbf{Ln\_SM = 11.568 + 0.12\ FDR - 0{,}470\ NPF + e}$$

Where:
Ln_SM = the natural logarithm of Mudharabah deposits (in billions rupiahs).
FDR = Financing to Deposit Ratio (in percentage).
NPF = Non Performing Financing (in percentage).

Results of statistical test t will be explained as follows:

1) T test for independent variables Financing to Deposit Ratio (FDR)
   Based on the test results obtained by the t calculate equal to 1.826 and 0.075 significance value, greater than 5%. It can be concluded that the Financing to Deposit Ratio (FDR) has no effect on Total Deposits Mudharabah.
2) T test for independent variables Non Performing Financing (NPF)
   Based on the test results obtained by the t calculate equal to -13.298 and significance value of 0.000, which is smaller than 5%. Regression coefficient for the variables of Non Performing Financing (NPF) is equal to 0,470 and negative. This means that any increase in the case of Non Performing Financing (NPF) by 1%, while variable FDR assumed to remain, there will be a decrease in the amount of 0.470% in Mudharabah Deposits. It can be concluded that the Non Performing Financing (NPF) has a negative effect on Total Deposits Mudharabah.

4.2. The Effect of Financing to Deposit Ratio (FDR) on Mudharabah Deposits

Based on the results of hypothesis test, there is no a significant influence between the variables Financing to Deposit Ratio (FDR) and the amount of Deposits *Mudharabah* of Indonesian Islamic banking in the period of 2010-2013. Based on this

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research, people who invest their money in the bank does not fully take into account the financial ratios of banks for consideration. In accordance with the results of this study and previous studies, that profit sharing affects the amount of deposits *Mudharabah*. It can be said that the factors causing people to save money in Islamic banks is due to the amount of profit sharing will be provided by Islamic banks in the future. If the operational activities of Islamic banks can meet their obligations, and the customer wants to withdraw their money at any time then Islamic banks can pay back to the customer. Thus, the trust will come from the public to Islamic banks. The risk of financing problems are not to worry about because no irregularities by Islamic banks in paying back customers' fund. Thus, high value of FDR did not affect the amount of deposits *Mudharabah* contained in Islamic banking.

Those results are in accordance to the research conducted by Hakimah (2009), where there is no influence of variables FDR with deposits *Mudharabah* of Islamic banking in Indonesia. In addition, research done by Anisah (2013) also showed similar results that FDR did not affect the growth of Islamic banking deposits mudaraba. The reason is that Islamic banks have fully received public trust as it can fulfill its obligations to customers. Similar results were shown by the results of Andriyanti's research (2010), that FDR had no effect on the amount of deposits *Mudharabah* FDR because people do not take into account when choosing a bank that will be a place for investment.

4.3. The Effect of Non-Performing Financing (NPF) on Mudharabah Deposits

These results indicate that Non Performing Financing (NPF) has negative effect and significant on the number of *Mudharabah* saving in Indonesia Islamic banking in 2010-2013. If there is an increase in NPF, then the number of Mudharabah Deposits will decline. The influence of NPF on *Mudharabah* Deposits will have an impact on the withdrawal of customer funds stored in Islamic banks. Customers will feel worried if Islamic banks cannot recover their funds in the event of an increase in NPF or financing problems. This will cause a decrease in the amount of *mudharaba* deposits in Islamic banking. Therefore Islamic banking should be able to continue to maintain the level of NPF below to 5% so that Islamic banking is in stable condition and can enhance the growth of *Mudharabah* deposits. The results of this study are supported by the results of previous studies by Husni (2012) who found the influence of NPL on the level of mudaraba deposits. A study conducted by Hakimah (2009) also obtained the result that the NPF has an influence on Mudharabah deposits in Bank Muamalat Indonesia. Similarly, the results of research conducted by Mardiansyah (2004), which shows that the NPF effect on raising funds of Islamic banks due to the increase in NPF (financing problems) will be giving out a disincentive to the willingness rational people to deposit their funds in Islamic banks.

4.4. The coefficient of determination (R2)

The coefficient of determination or R2 is the contribution of independent variables on the dependent variable. The higher the coefficient, the higher the ability of independent variables in explaining the variation in the dependent variable changes. The results show the magnitude of Adjusted R2 was 0.857 or 85.7%. This means that the variable variation of FDR and NPF may affect variations in the variable of Number of

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Deposits Mudharabah in Islamic Banking in Indonesia as much as 85.7% while the remaining 14.3% is explained by other variables outside the research model. The figures correlation coefficient (R) showed a value of 0.932 which indicates that the relationship between the independent variables and the dependent variable is strong, because it has a value of more than 0.5 (R> 0.5) or 0.932> 0.5.

V. CONCLUSIONS AND RECOMMENDATIONS

The results of this research indicate that the variable Financing to Deposit Ratio (FDR) did not significantly influence the amount of Mudharabah Deposits of Indonesia Islamic banking in the period of 2010-2013. While variable Non Performing Financing (NPF) significantly affects the amount of Mudharabah Deposits of Indonesia Islamic banking in the period of 2010-2013.

Based on the description and conclusions of this study, it may be advisable to do the following suggestions:

1. This study used data in the period of four years. Therefore further research is expected to use the data with a longer period so that the results would be more accurate to describe the actual banking conditions.
2. This study only uses *mudharabah* deposits consisting of a month *Mudharabah* deposits, then for future research may consider another deposit eg. 6 months or 12 months to clearly clarify the motive or orientation of customers in choosing the deposit is to invest and as awareness for future condition.

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