

ANALYSIS OF THE EFFECT OF THIRD PARTY FUNDS AND NON PERFORMING FINANCING ON SHARIA BANKING FUND DISTRIBUTION IN INDONESIA

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Abstract: This research was conducted with the aim to determine the effect of third party funds consisting of current accounts, savings, deposits and non-performing financing on the distribution of Islamic banking funds in Indonesia. The theory used is financial management relating to assets in the form of distribution of funds. Liabilities in the form of third party funds and the quality of the distribution of these funds as measured by non-performing financing. The approach used is a survey approach, the type of research is descriptive quantitative and explanatory. The sampling method is the Purposive Sampling Method, from a population of thirty-two banks consisting of five sharia commercial banks and twenty-seven sharia business units registered at Bank Indonesia. Nine banks that have met the criteria for sampling were taken, which provide financial reports from 2016 to 2019 on a regular basis. Hypothesis testing is done by multiple linear regression. The results of the research for hypothesis testing showed the coefficient of termination (R^2) was 91%, using a confidential interval of 95%. Simultaneously third party funds (current accounts, savings, deposits) and non-performing financing have a significant influence on the distribution of Islamic banking funds in Indonesia, while partially current accounts and non-performing financing do not have a significant effect on the distribution of Islamic banking funds in Indonesia.

Key Words: Distribution of Funds, Current Accounts, Savings, Deposits, Non Performing.

1. INTRODUCTION:

Increasing development of the people's economy comes the financing and fund raising services offered by bank and non-bank financial institutions. As one of the financial institutions whose function is to collect and distribute funds to the public, banking activities are one of the aspects regulated in Islamic sharia, namely the muamalah aspect, which is the part that regulates human relations. The emergence of modern Islamic financial institutions began in the 1990s marked by the establishment of Bank Muamalat Indonesia in 1992. Thoughts about the development of Islamic economics had existed long before that time. But after the monetary crisis in 1997 many conventional banks were liquidated due to Negative Spreads except banks that received Recapitulation assistance from the government through (Bank Indonesia Liquidity Assistance) whose numbers were very large reaching Rp. 650 trillion. The crisis brought lessons for the development of sharia banking in Indonesia, where the needs of the community for sharia banking products or financial institutions that use a profit-sharing system experienced a very rapid increase, the growth of sharia banking assets from year to year showed an increase. Total assets of sharia banking as a whole in December 2019 have reached Rp. 49.55 trillion, with a growth of 35.6% and a share of total national banking assets of 2.14%, but in the syariah banking acceleration program it was determined that at the end of 2008 the share of sharia banking assets to total national banking assets was targeted to reach 5 %. Until now, banks that implement sharia principles are increasing and there have been recorded 5 Sharia Commercial Banks, 27 conventional Banks that open Sharia Business Units, and 131 Sharia Rural Credit Banks and there are still many conventional banks that plan to open Sharia Business Unit.

In line with the increase in the network of Islamic bank offices, the development of its business has begun to increase as seen from the growth of Assets, Third Party Funds and financing disbursed. Whereas the activities of distributing Islamic banking funds through various forms of contract experienced a growth of 36.7%, which is the same as the rate of growth of fund distribution throughout 2017 compared to the rate of channeling of funds in 2016 and 2015, respectively by only 34.2% and 32.6%. The financing growth rate was followed by a slightly improved financing performance with NPF of 3.95%, tending to decline compared to 2017 and 2016, while Financing to

Deposit Ratio (FDR), which is the ratio of financing disbursed to DPK in 2019 increased by 103, 6%, an increase compared to previous years, where in 2015 and 2016 each was still 97.8% and 98.9% and in 2017 began to increase to 99.90%. As a comparison in the world of conventional banking, a similar indicator with FDR called the Loan To Deposit Ratio (LDR) for the past 4 years has increased, but not as much as an increase in Islamic banking FDR, this shows that the intermediary function of Islamic banking is better than conventional banking. Nonetheless, the financing provided by Islamic banking is still more on murabahah (Buy and Sell) products which are consumptive in nature compared to financing on mudharabah and musyarakah products for profit sharing.

2. LITERATURE REVIEW:

2.1. Funding: The distribution of Shariah banking funds is known for several principles, the first is that the category of profit (Profit and Loss sharing) can be done on the principle of musharakah, mudharabah. The second category is the sale and purchase process which is performed on the principle of murabahah, greetings and their style. While the third category is Operation lease and financial lease which is implemented on the principle of distribution (Karim, 2006).

2.2. Giro: Deposits in the form of Sharia Giro are conducted based on the principle of Al Wadiah (Depositary). That is, the depositor is willing to save and maintain the safety of the goods entrusted to him, and at any time can be withdrawn using a check or giro.

2.3. Savings: Savings sharia savings that withdrawals can be made according to certain agreed terms, but cannot be withdrawn by check or can be likened to it. Funds received in the form of savings are used on the principle of al-Wadiah or Al Mudharabah or Trust financing / Trust Investment, which is an agreement between the owner of capital (money or goods) and the entrepreneur.

2.4. Deposits: Time deposits, i.e. deposits which withdrawals can only be made at a certain time according to the agreement between the depositor and the bank concerned and receipt of these funds based on the principle of Al Mudharabah. With this principle, to the depositor in return on the basis of profit sharing that has been determined and agreed upon in advance.

2.5. Non Performing Financing: In Islamic banking, problematic financing is often also called Non-Performing Financing and can be measured from its collectivity. Collectibility is an illustration of the principal payment conditions, profit sharing and the likelihood of receipt of funds invested in securities. According to Rivai and Andria (2008) the quality of financing is based on several criteria including smooth financing, special attention, lack of smoothness, doubt and loss.

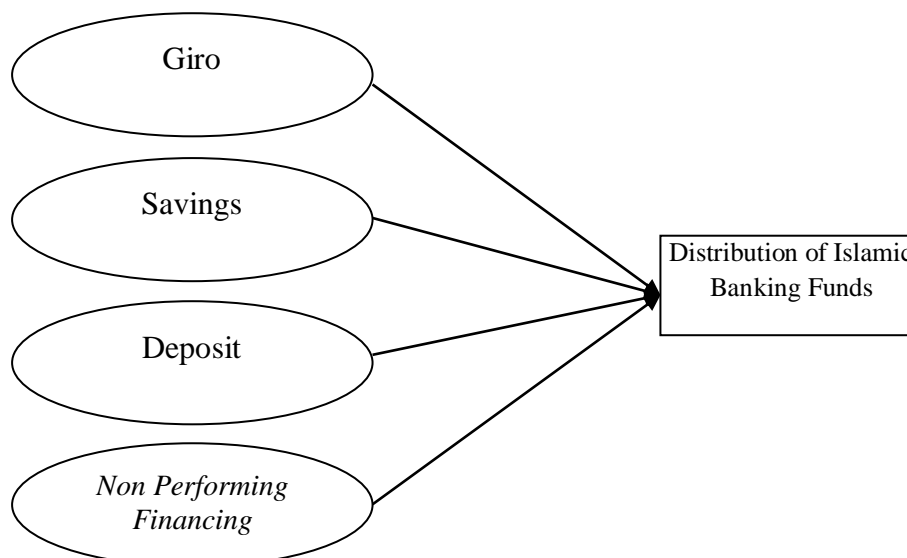


Figure 1. Conceptual Framework

3. Hypothesis:

- Current accounts have a positive and significant effect on the distribution of Islamic banking funds in Indonesia.
- Savings have a positive and significant impact on the distribution of Islamic banking funds in Indonesia.
- Deposits have a positive and significant effect on the distribution of Islamic banking funds in Indonesia.

- Non Performing Financing has a positive and significant effect on the distribution of Islamic banking funds in Indonesia.
- Demand Deposits, Savings, Deposits and Non-Performing Financing together have a positive and significant effect on the distribution of Islamic banking funds in Indonesia.

4. RESEARCH METHODS:

This research uses a survey approach that is by using a sample where according to Singarimbun and Effendi (1985) that the notion of sample surveying is information collected from a portion of the population to represent the entire population. This type of research is quantitative descriptive where according to Nazir (2005) that descriptive Motede is a method of examining the status of a human group, an object, a set of conditions, a system of thought, or a class of events at the present time. Whereas Arikunto (2006) states that quantitative research has a detailed element of clarity from the start, the steps of the study are applied to the population, have hypotheses if necessary, have a clear design with research steps and expected results, require the collection of data that can represent, and There is a data analysis that is done after all data has been collected. The population in this study is Sharia Commercial Banks and Sharia Business Units registered at Bank Indonesia, amounting to 32 (thirty two) banks. 5 (five) Sharia Commercial Banks and 27 (twenty seven) Sharia Business Units. Sampling technique using purposive sampling method so that the number of samples in this study amounted to 9 (nine) banks reporting successive financial statements from 2016-2019. Collecting data in this study through internet search with the website address www.bi.go.id to obtain secondary data and literature studies, namely by collecting data literature relating to research.

5. RESEARCH RESULT:

5.1. Effect of Demand Deposits on the Distribution of Islamic Banking Funds:

In his research the current account variable does not significantly influence lending, while the savings and deposit variables have a significant effect on lending at PT. East Java Development Bank. And this is also in accordance with Law No.10 of 1998 which states that funds raised from the community will be used to finance the real sector through lending and to improve the lives of many people. While the current account variable does not have an influence on the distribution of funds because current accounts are volatile and are funds that are quite cheap when compared to deposits and savings, but banks must provide high liquidity to maintain public confidence in banks. This result is in accordance with Sulistyani's (2002) research. If we look at the data above, the average current account deposit of Rp.890,000.00 in millions of rupiahs with a standard deviation of Rp. 569,922,17301 in millions. So the opportunity to optimize the use of these funds for distribution is very high, because the fluctuations in funds are quite high, so very few of these funds are channeled for financing, at least only for short-term financing, interbank placements, for cash at Bank Indonesia, purchasing Wadiah Bank Indonesia (SWBI), other bank demand deposits, or short-term securities. In general, banks only use these funds to maintain bank liquidity, so the contribution to income is very small. Current accounts in Islamic banking apply the Yad adh Dhamanah and Yad al Amanah contracts.

5.2. Effect of Savings on Sharia Banking Funds Distribution:

Savings variable partially shows a significant effect on the distribution of Islamic banking funds in Indonesia. Savings include stable funds and banks are easier to collect, because the conditions for opening savings are relatively easy and inexpensive, so savings accounts are very popular with the public, especially people from the lower middle class. In Islamic banking there are two savings contracts, namely savings contracts as wadiah following the yad adh dhamanah principle and savings with mudharabah principles in accordance with the literature review above. Savings with the mudharabah principle are preferred by the community, because of the sharing of results between banks and customers.

5.3. Effect of Deposits on Sharia Banking Funds Distribution:

Partially, the deposit variable has more dominant influence than other variables, meaning that the deposit variable is more decisive in increasing the distribution of Islamic banking funds in Indonesia. Deposits are the most stable funds in terms of collecting third party funds, so banks take more funds to be channeled from the postal deposit, because these funds settle in accordance with a predetermined time period, and will have enough time to channel these funds into financing, investment and working capital, because they will not be withdrawn before maturity, in Islamic banking deposits apply the Mudharabah contract. When compared to the two variables, namely between savings and deposit variables significantly influence the distribution of sharia banking funds (Y) in Indonesia, while the giro and NPF variables do not significantly influence sharia banking (Y) funds distribution in Indonesia, this is in accordance with Sulistyani's research results (2002) which examines the influence of third party funds in the form of demand deposits, savings, deposits on lending to the East Java Development Bank.

5.4. The Effect of Non Performing Financing on Sharia Banking Funds Distribution:

Non Performing Financing partially shows a negative relationship but does not significantly influence the distribution of Islamic banking funds in Indonesia, these results are the same as the research of Fransisca and Siregar (2008), where the Non Performing Financing variable cannot predict credit volume. banks that go public in Indonesia, although Non Performing Financing does not have a significant effect partially, banks in channeling funds must not neglect Non Performing Financing because it affects the level of bank liquidity and the reserves that they wish to set aside. High and low Non Performing Financing of a bank is influenced by prudence in analyzing the financing that will be disbursed by the bank. In this case the bank must pay attention and analyze accurately the character of the customer, the quality and stability of the customer's cash flow, participation and capital adequacy, as well as the adequacy of guarantees. Islamic banking in Indonesia has succeeded in collecting deposits (current accounts, savings, deposits) and managing its distribution. proven by the high FDR ratio of Islamic banking but the high FDR is not followed by policy directions to the development of the real sector and long-term investment, it is proven that the percentage of distribution of Islamic banking funds in products that use Murabahah (buying and selling) contracts is still higher compared to the Musyarakah and Mudharabah contracts which are in nature working capital and investment. The distribution of funds to the Murabahah sector does have a smaller risk compared to the distribution of funds to the Murdharabah and Musharaka sectors proven that the Non Performing Financing of the average Islamic banking is still below 5%.

6. CONCLUSIONS:

- Simultaneously Third Party Funds, namely current accounts, savings, deposits and Non Performing Financing, affect the distribution of Islamic banking funds in Indonesia. With a very significant level of influence. In this case, it means that the management of the distribution of Islamic banking funds in Indonesia has succeeded in collecting and distributing Third Party Funds, namely current accounts, savings, deposits and managing Non-Performing Financing in Islamic banking in Indonesia.
- Partially savings and deposit variables have a significant effect on the distribution of Islamic banking funds in Indonesia. Whereas the current account and Non-Performing Financing variables do not significantly influence the distribution of Islamic banking funds in Indonesia.

7. RECOMMENDATIONS

- Islamic banking in Indonesia, in order to be more active in raising funds from third party funds, namely current accounts, savings, deposits and mainly from current accounts, this is to be able to offset the increasingly aggressive financing distribution. The collection of funds in the form of demand deposits can be more considered for example by providing bonuses or higher service fees. In channeling Islamic banking funds, it should further enhance a more careful financing analysis, in accordance with Prudential Banking principles, namely the right people, the right time, the right use and exact returns, so that Non Performing Financing can always be controlled and does not interfere with bank liquidity.
- Further researchers who are interested in conducting research on factors that influence the distribution of Islamic banking funds in Indonesia, in order to include other variables as independent variables, such as Bank Indonesia Wadiah Certificates, interest rates, and other bank external factors, which are not included in the research model this.

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