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Factor Of Non-Performing Financing (NPF) At Sharia Banking

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ABSTRACT

Banks have duties as institutions that provide funding and lending. Therefore, banks must pay attention to NPF factors to prevent non-performing financing and maintain bank health. The purpose of this study was to determine the factors that influence the NPF of Islamic banks in the Financial Services Authority (OJK). The research method used is quantitative with multiple linear regression testing. The data used in this study is annual data for the period 2017-2020. The variables used in this study were NPF as the dependent variable, and CAR, FDR, Inflation, SBIS, BOPO as independent variables. The results of the research that have been carried out are that CAR and BOPO have a positive and significant effect on NPF, while FDR, Inflation, and SBIS have a negative and insignificant effect on NPF.

Keywords: Non performing Financing, Sharia Banking

PRELIMINARY

A bank is one type of financial institution in Indonesia. In the world of finance, banks are institutions that guarantee the circulation of people's money intending to help improve the community's economy. Banks based on the system are divided into conventional banks and Islamic banks. Both are institutions that collect funds and provide financing to the public, only Islamic banks use principles that are under Islamic law in their transactions. Banking in Indonesia has developed quite rapidly, not only conventional banks but also Islamic banks. The development of Islamic banking in Indonesia occurs because of the appropriate performance of Islamic banking which is classified as good and increases every year. Islamic banking in Indonesia continues to show positive developments with assets, disbursed financing, and growing third party funds (Www.Ojk.Go.Id)

The increase in financing disbursed by Islamic banks must always be considered to reduce the risk of non-performing financing. Financing risk is a consequence from the failure of the customer or other party to fulfill their obligations by the agreement that has been agreed with a financial institution. One of the things that can cause losses to banks is the amount of NPF. NPF is the ratio of existing and problematic financing for a bank that needs to be observed because of its uncertain nature (Perdani et al. 2019). The higher the NPF ratio in a bank, the greater the level of non-performing financing risk borne by the bank. Therefore, the bank should provide spare funds to reduce the bank's fund capital (Rafsanjani 2018)

NPF influences cost control and financing policies that will be carried out by banks. A large and continuous NPF can reduce the bank's capital so that it can cause the bank to be limited in carrying out its operational activities. A decrease in the number of deposits collected by customers will also occur if the NPF ratio of a bank increases. People's desire to save or trust their funds in Islamic banks will decrease because people are afraid that the funds that have been saved cannot be returned by the bank (Kuswahariani et al. 2020).

The phenomenon of financing risk in a bank can be caused by several factors. These factors must be known by banks as a reference in managing financing risks that occur. Based on this, this study was made to determine the determinants that can affect NPF using the variables CAR, FDR, Inflation, SBIS, and BOPO as a determinant of the factors that cause bad credit financing. And to find out the joint effect of NPF, CAR, FDR, Inflation, SBIS, and BOPO in Commercial Banks. Sharia registered with the Financial Services Authority for the period 2017-2020. This research is also important for the banking sector, Bank Indonesia, and the government to decide the appropriate policy for the development of Islamic banking in Indonesia.

LITERATURE REVIEW

Non-Performing Financing (NPF)

NPF is the total of non-performing loans and has the possibility of being uncollectible (Kasmir 2012). NPF shows the ability of a bank in managing non-performing financing provided by the bank. The greater the NPF value, the worse the bank's performance (Marella et al. 2017). Financing can be declared problematic if the bank is unable to face the risks posed by the financing. Bank Indonesia (BI) has a stipulation in which a bank can be said to have good performance if the bad credit at a bank does not exceed 5%. This figure, which has become a Bank Indonesia (BI) regulation, can be used as a reference for Non-Performing Loans. Because NPF is one of the important indicators in measuring the soundness of a bank, it is necessary to emphasize this NPF figure. Banks can also not expand credit if they are not sure about the party being financed.

Capital Adequacy Ratio (CAR)

CAR aims to assess the health of a bank in terms of the owner's capital. A bank can be said to have good health if it has sufficient capital to run its business. CAR is a ratio that shows capital that contains losses or risks that will be faced by banks (Suhandi 2019). From the crisis period until now, CAR has become the main reference in determining bank health, starting from a minimum of 4% in the initial period of the

crisis, the minimum CAR requirement has been gradually increased and since early 2001, Bank Indonesia has set a CAR of 8% (Ismaulina et al. 2020). The CAR is an indicator of a bank's ability to bear the risks it faces and the level of capital adequacy in financing will more easily reduce the value of NPF.

Financing to Deposit Rasio

FDR is a ratio used to measure the amount of financing provided by total public funds and own capital used (Kasmir 2012). FDR is a ratio that describes the level of ability of Islamic banks or in another sense is the ratio of the amount of credit provided by banks to customers with funds received by banks from customers in other words providing funds from debtors with funds collected by the public (Lukman Dendawijaya 2005). According to (Rosidah 2017) the FDR is one of the measurements that shows time deposits, demand deposits, savings, and others that aim to fulfill customer loan applications. If the FDR is high, the profit of a company will also increase. In banking, the higher FDR indicates that banks are increasingly aggressive in placing their funds on credit. However, if the FDR gets smaller, the bank's profits can also be said to decrease.

Inflation

Inflation affects NPF, namely if inflation is high, the real income of the community will decrease as well as public consumption which will decrease. And when inflation occurs, the price of goods will increase quite high from the previous price, so that a debtor will find it difficult to pay monthly installments of financing to the bank, because the income generated by the debtor is used up to meet his daily needs (Setyawati et al. 2017). Based on the results of previous research, namely "*Non-performing loans and financial development: new evidence*" *(Ozili 2019)* focusing on researching the determinants of NPLs and the influence of financial development on NPLs, especially in the Nigerian central bank, data taken from 2003-2014. The results of this study indicate that financial development has a positive effect on NPL, on the other hand, financial crisis or inflation also has a negative effect on NPL. Another study, namely "*The impact of control quality on the non-performing loans of Tunisian listed banks" (Ben Saada 2018)* aims to explore the extent to which these banks control the

impact of NPLs that integrate guideline No. Circular 2011-06 issued on 20 May 2011 by the Tunisian central bank. Data were obtained from 11 banks that were officially registered in Tunisia during the period 2010-2015. The results of this study indicate that the supervision of non-performing loan financing is more effective than not implementing it because with the supervision of directors who focus on NPL it can reduce non-performing loan financing.

Bank Indonesia Sharia Certificate (SBIS)

Based on Bank Indonesia regulation No:10/11/PBI/2018 concerning SBIS, SBIS are securities based on short-term sharia principles in rupiah currency issued by Bank Indonesia. Another function of the SBIS is as one of the Open Market Operations (OPT) instruments under Islamic law (Khofidlotur 2020). The existence of a SBIS can reduce the level of non-performing risk. This can happen because of the SBIS runs, the banking sector will experience a decrease in financing and the funds that should be used for financing can be invested.

Operating Costs to Operating Income (BOPO)

According to (Dendawijaya 2009) BOPO is a ratio used to measure the level of efficiency and ability of banks to generate profits through their operations. BOPO will affect banking performance because all production factors must be used by banks effectively and efficiently to determine their operational activities (Alfian et al. 2021). Operational costs are costs incurred by banks in carrying out basic business activities, such as interest costs, labor costs, marketing costs, and other operating costs (Khofidlotur 2020). Operating income is the main income for banks, which is obtained from credit financing (Khofidlotur 2020). Banks will still face risks in their operational activities. One of them is the risk of bad credit. It can be concluded that the smaller the BOPO ratio, the more efficient the operational costs that must be incurred by the bank so that non-performing financing that will occur in the bank will be lower.

METHOD

In this study, the data used in the form of annual time series data. The data used is from 2017-2020. The definition of time series data itself is data obtained from the observation of an object from a time sequence, namely in the form of weekly, monthly, and yearly data. Sources of data in this research using secondary data obtained from the annual financial statements of Islamic banking registered with the Financial Services Authority (OJK). There are 6 variables used in this study, where is NPF as the dependent variable, and CAR, FDR, Inflation, SBIS, and BOPO as independent variables. This study uses a population of Islamic Commercial Bank companies registered with the Financial Services Authority (OJK) for the 2017-2020 period. The sample selection used was the purposive sampling method. There are criteria in selecting the population used, including: (1) Sharia Commercial Bank Companies registered with the Financial Services Authority (OJK) during the 2017-2020 period and reporting their finances regularly with easy-to-obtain data. (2) The data used is free from data outliers. The data analysis method used is multiple linear regression analysis with quantitative methods. The data were processed using the SPSS version 26 application. Before testing multiple linear regression, it is necessary to test the classical assumptions first, the tests carried out are normality, multicollinearity, heteroscedasticity, and autocorrelation tests. The purpose of testing this classical assumption is to provide certainty that the regression equation obtained has accuracy (Ayuwardani et al. 2018). The multiple linear regression model can be seen as follows:

$$Y = \alpha + \beta 1CAR + \beta 2FDR + \beta 3Inflasi + \beta 4BOPO + e$$

Description :

Y	= Non-Performing Financing
CAR	= Capital Adequacy Rasio
FDR	= Financing to Deposit Ratio
BOPO	= Operational Cost to Operating Income
β1 β2 β3 β4	= Partial Regression Coefficient
e	= error

RESULTS AND DISCUSSION

Classical Assumption Test

1. Normality Test

Table 1.

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		17
Normal Parameters[a,b]	Mean	,0000000
	Std. Deviation	,72106518
Most Extreme Differences	Absolute	,093
	Positive	,086
	Negative	-,093
Test Statistic		,093
Asymp. Sig. (2-tailed)		,200[c,d]

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

d. This is a lower bound of the true significance.

Based on the table of the One-Sample Kolmogorov test, it shows that the data in this study are normally distributed. This is evidenced by a significance value of 0.12 which means greater than 0.05. Therefore, the data used in this study contributed normally and could be used for another testing.

2. Multicollinearity Test

Table 2.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	1,120	9,220		,121	,906		
	CAR	,094	,042	,647	2,263	,045	,213	4,686
	FDR	-,072	,054	-,403	-1,345	,206	,194	5,144

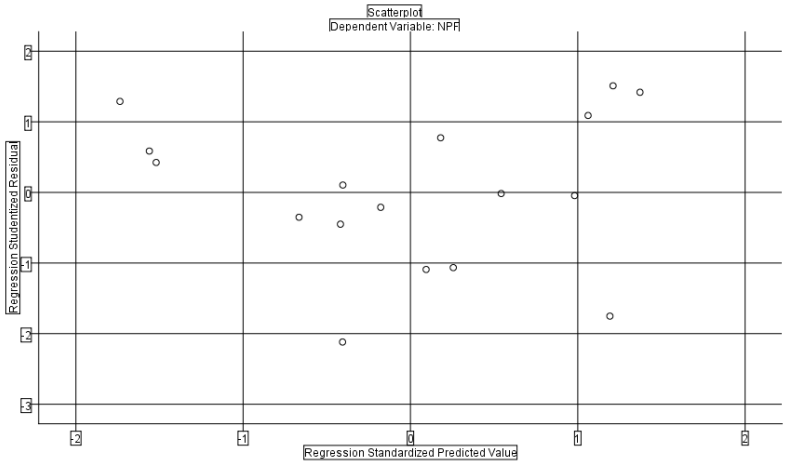
	INFLATION	-,032	,668	-,007	-,048	,963	,851	1,175
	SBIS	-,271	,247	-,203	-1,095	,297	,508	1,967
	BOPO	,118	,031	,931	3,764	,003	,285	3,504

a. Dependent Variable: NPF

Based on the multicollinearity test results, it was found that the Tolerance values for the independent variables. From these results, it can be seen that the Tolerance value is more than 0.10 and the VIF value is less than 10.00. So it can be concluded that the data in this study are free from multicollinearity problems.

3. Heteroscedasticity Test

Figure 1.



From the heteroscedasticity test results by looking at the scatterplot graph based on Figure 3 above, the dots spread randomly and spread above or below the number 0, and the resulting dots do not form a pattern. This means that in this study there are no symptoms of heteroscedasticity.

4. Autocorrelation Test

Table 3.

Runs Test

	Unstandardized Residual
Test Value[a]	-,01014
Cases < Test Value	8
Cases >= Test Value	9
Total Cases	17
Number of Runs	12
Z	1,020
Asymp. Sig. (2-tailed)	,308

a. Median

We can see the value of Asymp. Sig. (2-tailed) of 0.308 which means more than 0.05. So it can be concluded that there is no autocorrelation symptom with the run test method so that the linear regression analysis can be continued.

Multiple Linear Regression

This analysis is used to determine the effect of variable X on variable Y. The results of multiple regression model testing on NPF factors in Islamic banks can be shown in the following table:

Table 4.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	1,120	9,220		,121	,906
	CAR	,094	,042	,647	2,263	,045
	FDR	-,072	,054	-,403	-1,345	,206
	INFLASI	-,032	,668	-,007	-,048	,963
	SBIS	-,271	,247	-,203	-1,095	,297
	BOPO	,118	,031	,931	3,764	,003

a. Dependent Variable: NPF

From the regression model and the results of multiple linear regression, the equation for the NPF factors in Islamic banks is obtained as follows:

NPF = 0,647 CAR – 0,403 FDR – 0,007 Inflasi – 0,203 SBIS + 0,931 BOPO

Coefficient of Determination Test (R^2)

The coefficient of determination test has a function to find out what percentage of the influence given by variable X simultaneously on variable Y. The value of the coefficient of determination is between zero and one (Ghozali 2011). The result coefficient of determination test can be shown in the following table :

Table 5.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,899[a]	,808	,721	,86964

a. Predictors: (Constant), BOPO, INFLASI, SBIS, CAR, FDR

The above table shows that the magnitude of R2 is 0.721. This means that it can be concluded that 72.1% of the NPF variable can be explained by the independent

variables, namely CAR, FDR, Inflation, SBIS, and BOPO. While the remaining 27.9% is explained by other factors.

F-Test

Table 6.

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	34,994	5	6,999	9,254	,001[b]
	Residual	8,319	11	,756		
	Total	43,313	16			

a. Dependent Variable: NPF

b. Predictors: (Constant), BOPO, INFLASI, SBIS, CAR, FDR

The F test aims to test the significance of the effect of variable X on variable Y simultaneously. The table above shows that the calculated F value is 9.254 with a significance value of 0.001. The significance value shows that it is smaller than 0.05 so that the regression model can be used to predict Non-Performing Financing (NPF) or it can be concluded that all independent variables jointly affect the dependent variable, namely Non-Performing Financing (NPF).

T-Test

The results of the t-statistical test in the study can be seen in table 6 previously. Following are the conclusions for each hypothesis:

Table 7.
Interpretation of T-Test

Variable	Test Result	Hypothesis
CAR	Significant Positive	Hypothesis Accepted
FDR	Not Significat	Hypothesis Rejected
Inflasi	Not Significat	Hypothesis Rejected
SBIS	Not Significat	Hypothesis Rejected
BOPO	Significant Positive	Hypothesis Accepted

The Influence of CAR on NPF. Based on the results of the analysis, it can be seen that the CAR variable has a regression coefficient of 0.647 with a significance level of 0.045,

meaning that CAR has a positive and significant effect on NPF. This shows that the lower the CAR will affect the increase in the NPF of Sharia banking.

The Influence of FDR on NPF. The FDR variable in the t-test table shows a number of -0.403 with a significance level of 0.206. This figure is greater than the supposed significance figure of 0.05. So it can be said that FDR has negative influence and has no significant effect on NPF.

The Influence of Inflation on NPF. Based on the test results, it can be seen that the inflation variable has a regression coefficient of -0.007 with a significance level of 0.963, meaning that inflation has negative influence and has no significant effect on NPF.

The Influence of SBIS on NPF. The effect of SBIS on NPF, the SBIS variable has a significant number of 0.297 and a regression coefficient of -0.203. Because the significance is greater than 0.05, it can be concluded that SBIS has a negative and has no significant effect on NPF. This means that if the SBIS increases, there will be a decrease in the risk of non-performing financing. Conversely, if the level of financing increases, the risks faced will also increase.

The Influence of BOPO on NPF. Based on the results of the analysis, it can be seen that the BOPO variable has a regression coefficient of 0.931 and a significance level of 0.003, meaning that BOPO has a significant positive effect on NPF. This shows that the greater the BOPO will affect increasing the NPF of Syariah banks. The high income of Islamic banks with low operating costs can reduce the BOPO ratio so that Islamic banks are in a healthy position, which means that the tendency of non-performing financing will also be low.

CONCLUSION

From the explanation above, it can be concluded that credit is an asset owned by Islamic banks. Therefore, banks must keep to a minimum the occurrence of non-performing financing which results in banking losses. The results of this study are as follows; (1) CAR has a positive and significant effect on NPF, so H1 is accepted. (2) The FDR variable has a negative and insignificant effect, thus H2 is rejected. (3) Inflation has a negative and insignificant effect, so H3 is rejected. (4) The SBIS variable has a negative and insignificant effect, thus H4 is rejected. (5) BOPO has a positive and significant effect on NPF, thus H5 is accepted. As a suggestion, this research can still be further developed, namely by analyzing the Non-Performing Financing factor with the latest data and adding variables that have not been used by previous research.

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