THE INFLUENCE OF CAPITAL ADEQUACY RATIO (CAR), NON PERFORMING FINANCING (NPF), AND PROFIT SHARING RATIO TO PROFIT SHARING FINANCING SHARIA BANK
(Case Study: Sharia Bank in Indonesia 2010-2014)

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Abstract

At this time, Islamic banks are growing and developing. The difference between Islamic banks and Conventional banks make some people switch to using Islamic banks's service. Non-riba system that used at Islamic banks have undertaken to carry out economic activities accordance to Islamic principles. According to Islamic principles, profit sharing system is the difference service that given by Islamic banks. However, the profit sharing system is less attractive to public. This study aimed to analyze the influence of Capital Adequacy Ratio (CAR), Non Performing Financing (NPF), and profit sharing ratio to profit sharing financing, simultaneously and partially. Population in this study are Islamic banks in Indonesia. Sampling technique that used in this study is purposive sampling and obtained seven Islamic banks with five years study period. Data analysis method in this study is panel data regression. The result showed that Capital Adequacy Ratio (CAR), Non Performing Financing (NPF), and profit sharing ratio simultaneously has significant effect to profit sharing financing. While partially, Capital Adequacy Ratio (CAR) has negative significant effect to profit sharing financing, Non Performing Financing (NPF) and profit sharing ratio has no significant effect to profit sharing financing.

Keywords: Capital Adequacy Ratio (CAR), Non Performing Financing (NPF), Profit Sharing Ratio, Profit Sharing Financing

1. Introduction

According to UU No. 21/2008[13] Islamic banking is anything that involves about Sharia Bank and Sharia Business Unit, covering institutional, business activities, as well as the manner and process of carrying out its business activities. According to data from Otoritas Jasa Keuangan, there are currently 12 Sharia Banks and 22 Sharia Business Unit operating in Indonesia.

At this time the Islamic banks are growing and developing in the community. According to data from Otoritas Jasa Keuangan's statistics that show an increase in the number of branches of Sharia Banks, Sharia Business Unit, and Sharia Financing Bank from year to year. Its differences with conventional banks that make some people switch to using the services of sharia banks. Non-usury system that is used by sharia banks have undertaken to carry out economic activities in accordance with Islamic principles. In accordance with Islamic principles, then what distinguishes Islamic banks with that conventional bank's profit-sharing system carried out by Islamic banks. However, in reality the sharing system is less attractive to the public. Based on data obtained from Otoritas Jasa Keuangan, murabaha financing for buying and selling system more desirable than the profit and loss sharing financing for profit sharing system. Therefore, the factors that affect the financing need to be identified. In this study the variables to be studied, namely Capital Adequacy Ratio (CAR), Non Performing Financing (NPF), and profit sharing ratio to profit sharing financing. Based on data from Otoritas Jasa Keuangan, the ratio of Capital Adequacy Ratio (CAR) and Non Performing Financing (NPF) tends to fluctuate during 2010-2014. Profit sharing ratio for 2010-2014 also tend to fluctuate, while profit sharing financing for the results during 2010-2014 continues to increase.

The purpose of this research is to determine the Capital Adequacy Ratio (CAR), Non Performing Financing (NPF), the profit sharing ratio and profit sharing financing in Sharia banks during 2010-2014, to determine the effect of the Capital Adequacy Ratio (CAR), Non Performing Financing (NPF), and profit sharing ratio to profit sharing financing in Sharia Banks during 2010-2014, simultaneously and partially.

2. Literature Review

2.1. Profit Sharing Financing

According to Ismail[4] (2011: 167) profit sharing financing is one of the products that difference with conventional banks. In profit sharing financing, Sharia banks do not give interest to clients, but to participate in the investment. Investment returns will be accepted in the form of a share of the business carried on by the customer. There are two types of financing profit sharing financing, that is mudharabah and musyarakah contract.

2.2 Capital Adequacy Ratio (CAR)

According to Umam[12] (2013: 250) Capital Adequacy Ratio (CAR) is an important factor for banks in order to accommodate the business development and the risk of loss. Bank of Indonesia set the minimum capital adequacy ratio requirement which must always be maintained by each bank as a certain proportion of total Risk Weighted Assets (RWA), or mathematically:

$$\boxed{\text{CAR} = \frac{Equity}{RWA} \; x \; 100\%}$$

Risk Weighted Assets (RWA) is the total value of each bank's assets after being multiplied by the risk weight of each of the assets. Assets are less at risk are given a weighting of 0% and assets most at risk are given a weighting of 100%. Thus, the RWA shows the value of risky assets that require anticipation of capital in sufficient quantity (Umam, 2013: 251)[12].

2.3 Non Performing Financing (NPF)

According to Darmawi[2] (2011: 126) Non Performing Financing (NPF) include loans where the borrower is not able to implement the requirements of the loan agreement has been signed, which is caused by many things that need to be reviewed or amendment. Thus, there is a possibility of credit risk could grow taller. Non-performing financing can also be expressed in percentage is calculated using the following formula:

$$\boxed{\textit{Non performing financing} = \frac{Total\ Non\ Performing\ Financing}{Total\ Financing} \text{ x } 100\%}$$

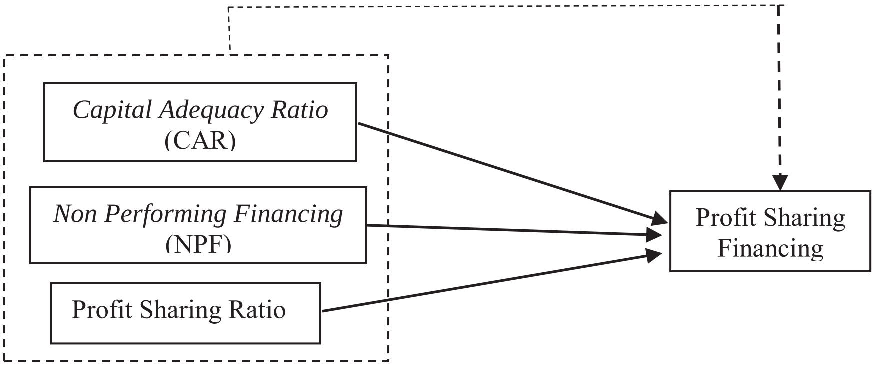
Based on Bank Indonesia Regulation No. 8/21 / PBI / 2006[9], the quality of financing is set to be 5 (five) categories, there are current, special mention, substandard, doubtful and loss. Financing by category collectability substandard, doubtful, and loss can be termed as non performing financing.

2.4 Profit Sharing Ratio

According to Antonio[1] (2001: 140) one of the characteristics of profit sharing financing is a profit sharing ratio should be determined and approved at the beginning of the agreement. Ratio between one bank and another bank can be different. Ratio can also differ between one account and another account in accordance with the size of the fund and maturity. According to Karim[5] (2009: 286) Sharia banks apply the profit sharing ratio of the financing products based on Natural Uncertainty Contracts (NUC), the contract business that does not provide certainty of income (return), both in terms of quantity (amount) or time (timing), such as profit and loss sharing.

2.5 Rational Framework

Below is the rational framework of this research



Description:

: simultan

: partial

Fig 1. Rational Framework

The Effect of Capital Adequacy Ratio (CAR) to Profit Shating Financing

According to Umam[12] (2013: 250) Capital Adequacy Ratio (CAR) is an important factor for banks in order to accommodate the business development and the risk of loss. Bank of Indonesia set the minimum capital adequacy ratio requirement which must always be maintained by each bank as a certain proportion of total Risk Weighted Assets (RWA). Based on Bank Indonesia Regulation No. 3/21 / PBI / 2001[8] banks are required to provide a minimum CAR at 8%. The higher CAR is the better, because it means the adequacy of bank's capital to withstand the risks are large, so CAR has a positive effect to profit sharing financing.

The Effect of Non Performing Financing (NPF) to Profit Sharing Financing

According to Darmawi[2] (2011: 126) Non Performing Financing (NPF) include loans where the borrower is not able to implement the requirements of the loan agreement has been signed, which is caused by many things that need to be reviewed or amendment. Financing by category collectability substandard, doubtful, and loss can be termed as non performing financing. The higher NPF is the worse, because it means the higher amount of non performing financing, so NPF has a negative effect to profit sharing financing.

The Effect of Profit Sharing Ratio to Profit Sharing Financing

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2.5 Research Hypotesis

Based on the theory and framework described previously, the research hypothesis can be formulated as follows:

1. Capital Adequacy Ratio (CAR), Non Performing Financing (NPF), and profit sharing ratio simultaneously has significant effect to profit sharing financing Sharia Banks during 2010-2014.
2. Capital Adequacy Ratio (CAR) has positive significant effect to profit sharing financing Sharia Banks during 2010-2014.
3. Non Performing Financing (NPF) has negative significant effect to profit sharing financing Sharia Banks during 2010-2014.

4. Profit sharing ratio has positive significant effect to profit sharing financing Sharia Banks during 2010-2014.

3. Research Methodology

Population in this study are 12 Sharia banks in Indonesia. Sampling technique that used in this study is purposive sampling and obtained seven Islamic banks with five years study period during 2010-2014. Data analysis method in this study is panel data regression. Fixed effect model in this study are:

$$\boxed{\ln Y_{it} = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + e_{it}}$$

Description:

Y : Profit Sharing Financing
X_1 : Capital Adequacy Ratio (CAR)
X_2 : Non Performing Financing (NPF)
X_3 : Profit Sharing Ratio
i : Sharia Bank
t : Time
e : error

4. Result

Table 1 The Results of Fixed Effect Model

Dependent Variable: LnPBH
Method: Pooled Least Squares
Sample: 2010 2014
Included observations: 5
Cross-sections included: 7
Total pool (balanced) observations: 35

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	28.40490	0.546616	51.96501	0.0000
CAR	-4.536555	0.824954	-5.499158	0.0000
NPF	-2.800984	3.707814	-0.755427	0.4571
TBH	4.590455	3.293044	1.393986	0.1756

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.952907	Mean dependent var	27.94386
Adjusted R-squared	0.935954	S.D. dependent var	1.889772
S.E. of regression	0.478252	Akaike info criterion	1.597600
Sum squared resid	5.718132	Schwarz criterion	2.041985
Log likelihood	-17.95800	Hannan-Quinn criter.	1.751001
F-statistic	56.20718	Durbin-Watson stat	1.260181
Prob(F-statistic)	0.000000		

Sumber: Output Eviews 8

Based on table 1, the panel data regression model explaining the effect of Capital Adequacy Ratio (CAR), Non Performing Financing (NPF), and profit sharing ratio to profit sharing financing Sharia Banks during 2010-2014, are:

$$\boxed{LnPBH = 28{,}40490 + 4{,}590455\ TBH - 4{,}536555\ CAR - 2{,}800984\ NPF +}$$

4.1 F-Test

In this research F Test is used to determine the simultaneously effect of the Capital Adequacy Ratio (CAR), Non Performing Financing (NPF), and profit sharing ratio to profit sharing financing in Sharia Banks during 2010-2014, with probability value that is used by 0,05. According to the table 1 can be seen the value of Prob (F-Statistics) generated by 0.0000 < 0.05. Based on these results we can conclude that H_0 rejected and H_a accepted, which means Capital Adequacy Ratio (CAR), Non Performing Financing (NPF), and profit sharing ratio simultaneously has significant effect to profit sharing financing.

4.2 t-Test

In this research t-Test is used to determine the effect of the Capital Adequacy Ratio (CAR), Non Performing Financing (NPF), and profit sharing ratio as an independent variable to profit sharing financing as dependent variable. Based on the results at table 1 can be described as follows:

a. Variable Capital Adequacy Ratio (CAR) has probability 0,0000 < 0,05. Based on these results we can conclude that Capital Adequacy Ratio (CAR) partially has significant effect to profit sharing financing.
b. Variable Non Performing Financing (NPF) has probability 0,4571 < 0,05. Based on these results we can conclude that Non Performing Financing (NPF) partially has no significant effect to profit sharing financing.
c. Variable profit sharing ratio has probability 0,1756 < 0,05. Based on these results we can conclude that profit sharing financing partially has no significant effect to profit sharing financing.

4.3 Coefficient of Determination (R^2)

The coefficient of determination describes the proportion of dependent variable explained by the independent variables. Based on the results at table 1, adjusted R-Squared value of 0.935954 or 93.60%. From these results can be obtained information that the independent variables can explain the dependent variable amounted to 93.60%, while the remaining 6.40% is explained by other factors.

5. Conclusion

Based on panel data regression, the results showed that Capital Adequacy Ratio (CAR), Non Performing Financing (NPF), and profit sharing ratio simultaneously has significant effect to profit sharing financing. While partially, Capital Adequacy Ratio (CAR) has negative significant effect to profit sharing financing, Non Performing Financing (NPF) and profit sharing ratio has no significant effect to profit sharing financing.

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