

# Analysis of Internal Factors Affecting Non-Performing Financing at Sharia Commercial Banks Registered With Bank Indonesia and the Financial Services Authority (OJK) in 2014 – 2018

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**Abstract:-** This study aims to provide clarity on the magnitude of the influence of internal bank factors consisting of finance to deposit ratio, capital adequacy ratio, operating expenses to operating income, and return on assets on non performing financing in Islamic commercial banks for the period 2014 - 2018. This study using quantitative data collected by purposive sampling technique so sample that the resulting is as many as 12 Islamic commercial banks. The analysis method used is panel data with data processing using Eviews. The results showed that the finance to deposit ratio and operating expenses on operating income had a positive effect on non-performing financing. Meanwhile, the capital adequacy ratio and return on assets have a negative effect on non-performing financing.

**Keywords:-** Finance To Deposit Ratio, Capital Adequacy Ratio, Operating Expenses To Operating Income, Return On Assets, Non Performing Financing.

## I. INTRODUCTION

Sharia banking is growing and developed as an alternative to conventional banking practices. The growth of Islamic banking soared when the inauguration of Law No.10 of 1998 as a legal basis and also provided a wide opportunity for investors to establish new Sharia banks as well as for conventional banks to open sharia business units.

The rapid development of Sharia banks in Indonesia, raises some obstacles that must be faced. One of the constraints of particular concern is non-performing financing, which in sharia banks the level of non-performing financing (NPF) can be shown. Problematic financing is also experienced by conventional banks with another term, namely Non Performing Loan (NPL). The calculation of NPF and NPL ratio is the same as calculating the comparison between financing or non-performing loans with the total amount of financing or credit disbursed by banks.



Figure.1. Movement of NPF and NPL Year 2014 – 2018  
Source: OJK 2014 – 2018

Figure 1 shows that during the period of 2014 to 2018 there were fluctuations in NPF and NPL levels. The highest point of NPF was in 2014 with a value of 4.92%, while for NPL it occurred in 2016 with a value of 2.86%. Credit risk gradually improved, as reflected by the decrease in NPF and NPL in 2018, but the NPF level of Sharia Commercial Banks is still much greater than that of conventional commercial banks. This indicates that the health condition of sharia commercial banks should be more considered, which will ultimately affect profit earnings.

According to Mahmoeddin (2010), NPF is basically caused by internal and external factors. Both factors are inevitable given the interconnected interests in the bank's business activities. Internal factors affecting NPF include RR, ROA, CAR and BOPO (Effendi et al, 2017). Internally, islamic banking NPF can be analyzed based on financial performance through its financial ratio. Here are some financial ratios that will be used in the research, namely:

Ratio	2014	2015	2016	2017	2018
FDR (%)	86.66	88.03	85.99	79.65	78.53
CAR (%)	15.74	15.02	16.63	17.91	21.39
BOPO (%)	96.67	97.01	96.22	94.41	89.18
ROA (%)	0.41	0.49	0.63	0.63	1.28

Table 1 Financial Ratio in Sharia Commercial Banks

Source : OJK 2014-2018

The amount of financing is indicated by the percentage of financing deposit to ratio (FDR), where the higher the FDR of a bank, the greater the risk of financing or NPF. However phenomenon that occurred is NPF in 2015 decreased when FDR in 2015 increased. Irregularities also occurred in 2017 when NPF rose but FDR values declined. The results of Vanni and Rokhman's research (2016) FDR had a negative and significant effect on non-performing financing (NPF), while Rosidah research (2017) stated that financing deposit to ratio (FDR) has a positive effect insignificantly on non performing financing (NPF).

The development of CAR Bank Syariah from 2014 to 2018 fluctuates even tends to increase, with the highest car value in 2018 at 21.39%. But there was a discrepancy in 2015 where when CAR fell, there was also a decrease in NPF levels in the same year. Lidyah's research (2016) stated that Capital Adequacy Ratio (CAR) negatively affects Non performing Financing (NPF). On the contrary, the results of Destiana's research (2018) stated that capital measured by CAR has a positive effect on NPF.

BOPO value reflects how efficient the bank is in carrying out its operations. The more efficient a bank is, the greater the profit so that it can reserve more funds to reduce the level of problematic financing. The phenomenon that occurred was when BOPO rose in 2015, the value of NPF in the same year decreased and in 2017 when bopo value fell, the value of NPF in 2017 increased. Purnamasari and Musdholifah (2016) said bopo did not have a positive effect on NPF, while the results of the study were different from Nugrohawati and Bimo (2019) where BOPO had a positive effect on NPF.

According to (Dendawijaya, 2009) the return on assets is a comparison between the amount of profit obtained by the bank during a certain period and the amount of assets the bank owns. The greater the ROA value, indicating the better the company's performance, because the return on investment is greater. The results of the appropriate research are the research of Purnamasari and Musdholifah (2016) where ROA negatively affects NPF. Another study with different results, Hazrati Havidz and Setiawan (2015) stated that ROA has no effect on NPF.

## II. THEORY

### A. Banking Efficiency

According to (Berger and Mester 1997) the efficiency of the banking industry can be reviewed from a micro and macro point of view. From a micro perspective, with increasingly tight competition conditions, a bank in order to survive and develop must be efficient in its operations. From a macro perspective, efficient banking will affect the cost of financial intermediation and financial system stability. This is due to the very important strategic role of the banking industry as an intermediary and producer of financial services. With a higher level of efficiency, the bank's performance will be better in allocating financial resources, which can ultimately increase investment activities and economic growth.

### B. Sharia Commercial Banks

According to Law No. 21 of 2008 sharia banking in conducting its business activities are based on sharia principles, economic democracy, and the principle of prudence. Sharia banking aims to support the implementation of national development in order to improve justice, togetherness, and equality of people's welfare.

### C. The Health Level

Sharia Commercial Banks are obliged to conduct an individualized assessment of bank health level with the scope of assessment of the following factors: risk profile; Good Corporate Governance; rentability (earnings); and capital. Assessment of risk profile factors is an assessment of inherent risk and quality of risk management implementation in the Bank's operations conducted against 10 (ten) risks, namely: credit risk, market risk, liquidity risk, operational risk, legal risk, strategic risk, compliance risk, reputation risk, yield risk, and investment risk.

### D. Non Performing Financing

According to (Siamat, 2005) Non Performing Finance is a loan that has difficulty paying off due to internal factors, namely intentional and external factors that are events beyond the creditor's control. According to (Dendawijaya, 2009) Non Performing Financing is a financing whose collectability category is included in the criteria of less smooth financing, doubtful financing and bad financing.

### E. Financing Deposite to Ratio

According to (Dendawijaya, 2009), Financing Deposite to Ratio states how far the bank's ability to repay depositors' withdrawals by relying on credit provided as a source of liquidity. Financing to Deposit Ratio (FDR) is the ratio between the given financing and the total funds of third parties. FDR measures the ability of Sharia banks to meet all their short-term obligations at maturity.

**F. Capital Adequacy Ratio**

According to Bank Indonesia Number 9/13/PBI/2007, the Capital Adequacy Ratio is the provision of minimum capital for banks based on broad asset risk, both assets listed in the balance sheet and administrative assets as reflected in liabilities that are still contingency and/or commitments provided by banks for third parties as well as market risks.

**G. Operational Efficiency Ratio**

According to Bank Indonesia Circular Letter No. 15/29/DKBU dated July 31, 2013 operational efficiency ratio is a ratio that measures the comparison of Operating Expenses to Operating Income to determine the level of efficiency and ability of the Bank in carrying out its operations by dividing between total operating expenses and total operating income calculated per position (not annually).

**H. Return On Asset**

Return on assets is a ratio that shows the return on the amount of assets used in the company on a measure of management activities (Kasmir, 2014). According to Bank Indonesia Circular Letter No. 6/10/PBI/2004, a good ROA standard is >1.5%. The greater the ROA of a bank, the greater the level of profit achieved by the bank and the better the bank's position in terms of asset use (Dendawijaya, 2009).

**III. THINKING FRAMEWORK**

This research framework is based on research questions and represents several theories and estimates the effect of the independent variable on the dependent. The framework can be explained as follows:

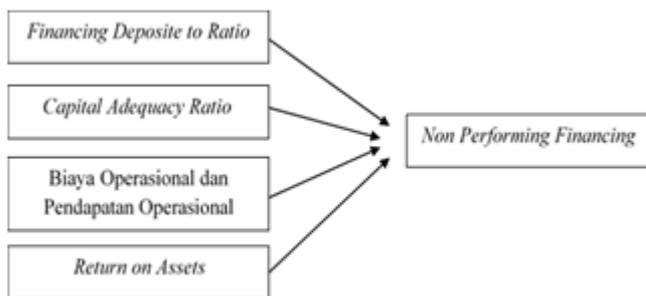


Figure 2 Thinking Framework

**IV. RESEARCH METHODS**

The type of research that will be used in this research is an associative method with quantitative approach using secondary data. According to (Sugiyono, 2014) secondary data is a source of research data obtained by researchers indirectly through intermediary media (obtained and recorded by other parties). The population in the study was Sharia Commercial Banks in Indonesia, and in 2018 there were 14 Sharia Commercial Banks. From these populations, researchers used purposive sampling techniques in determining research samples. where according to Sugiyono (2014) purposive sampling is a sampling technique of data sources with certain considerations. Based on the criteria of sampling as determined, there are 12 banks :

No	Nama Bank	No	Nama Bank
1	Bank Muamalat Indonesia	7	Bank Bukopin Syariah
2	Bank Rakyat Indonesia Syariah	8	Bank Panin Syariah
3	Bank Negara Indonesia Syariah	9	Bank Maybank Syariah Indonesia
4	Bank Syariah Mandiri	10	Bank Jabar Banten Syariah
5	Bank Mega Syariah	11	Bank Tabungan Pensiun Nasional
6	Bank Central Asia Syariah	12	Bank Victoria Syariah

Table 2: Research samples

**V. RESULT AND DISCUSSION**

Data analysis method in this research is using quantitative data analysis method. Quantitative data analysis techniques usually use 2 statistical ways, namely descriptive statistics and inferential statistics. This research uses panel data regression analysis technique, according to (Basuki, 2017) panel data regression is a regression technique that combines time series data with cross section data.

**A. Result**

➤ Model Regresi Data Panel

There are three tests to choose the best panel data model for research data, namely: Chow Test, Hausman Test, Langrange Multiplier Test.

- Chow test

Redundant Fixed Effects Tests  
Equation: Untitled  
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	0.847056	(11,44)	0.5958
Cross-section Chi-square	11.524635	11	0.4004

Table 3: Chow Test Result

Based on the results of Table 3 above it can be known that the value of Prob. is 0.5958 where the value is greater than the  $\alpha$  of 0.05. From these results it can be concluded that the right model for panel data regression is the Common Effect Model. In accordance with the theory that has been submitted in chapter III, if the Common Effect Model resulting from chow test results then the panel data regression test can be done. But to be sure, researchers continue to conduct Hausman Test and Langrange Multiplier Test.

• Hausman Test

Correlated Random Effects - Hausman Test  
Equation: Untitled  
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	7.638996	4	0.1057

Table 4: Hausman Test Result

Based on the results of Table 4 above it can be known that the value of Prob. is 0.1057 where the value is greater than the  $\alpha$  of 0.05. From these results it can be concluded that the right model for panel data regression is the Random Effect Model.

• Langrange Multiplier Test

Lagrange multiplier (LM) test for panel data			
Sample: 2014 2018			
Total panel observations: 60			
Probability in ()			
	Cross-section	Period	Both
Null (no rand. effect)	One-sided	One-sided	
Alternative	One-sided	One-sided	
Breusch-Pagan	0.430594 (0.5117)	0.246939 (0.6192)	0.677533 (0.4104)

Table 5: Langrange Test Result

In Table 5 in the Brusch-Pagan Probability section it appears that the probability value is 0.4104. The value is greater than 0.05 then  $H_1$  is rejected, and  $H_0$  is accepted so it can be concluded that the Common Effect model is more appropriate compared to the Random Effect Model.

➤ Classic Assumption Test

• Multicollinierity Test

Variance Inflation Factors  
Date: 12/10/20 Time: 12:51  
Sample: 1 60  
Included observations: 60

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
FDR	0.060161	2.52469	1.671178
CAR	0.066711	8.62979	4.049572
BOPO	0.008573	10.93367	5.773620
ROA	0.009155	11.81029	6.283469
C	6.434303	2.011319	NA

Table 6: Multicollinierity Test Result

Based on table 6 above can be seen that the value of Centered VIF variable FDR ( $X_1$ ) CAR ( $X_2$ ), BOPO ( $X_3$ ), and ROA ( $X_4$ ) is less than 10, so it can be concluded in this study there are no symptoms of multicollinearity.

• Heteroscticity Test

Heteroskedasticity Test: Breusch-Pagan-Godfrey				
F-statistic	0.97954	Prob. F(4,55)	0.4546	
Obs*R-squared	0.18453	Prob. Chi-Square(4)	0.4421	
Scaled explained SS	45.35919	Prob. Chi-Square(4)	0.3477	
Test Equation:				
Dependent Variable: RESID^2				
Method: Least Squares				
Sample: 1 60				
Included observations: 60				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-19.93321	68.44161	-0.291244	0.7720
FDR	5.941634	6.618025	0.897796	0.3732
CAR	0.126245	6.968949	0.018115	0.9856
BOPO	-3.735051	2.498264	-1.495059	0.1406
ROA	1.989617	2.581683	0.770667	0.4442
R-squared	0.303076	Mean dependent var	175.9475	
Adjusted R-squared	0.252390	S.D. dependent var	432.3325	
S.E. of regression	373.8138	Akaike info criterion	14.76505	
Sum squared resid	7685522.	Schwarz criterion	14.93958	
Log likelihood	-437.9514	Hannan-Quinn criter.	14.83332	
F-statistic	5.979544	Durbin-Watson stat	1.956979	
Prob(F-statistic)	0.000455			

Table 7: Heteroscticity Test Result

The results of heteroscticity test conducted with Breusch-Pagan-Godfrey Test in table 7 showed the probability value of F-statistic 0.4546 > from  $\alpha$  (0.05) so it can be concluded that there is no heteroscticity problem in the research data.

➤ Hypothetical Test Results

• Panel Data Regression Equation

Periods included: 5				
Cross-sections included: 12				
Total panel (balanced) observations: 60				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
FDR	0.0437	0.0201	2.1767	0.0338
CAR	-0.1518	0.0225	-6.7568	0.0000
BOPO	0.1242	0.0422	2.9450	0.0047
ROA	-0.0804	0.0393	-2.0428	0.0459
C	-0.1965	0.0194	-10.1317	0.0000
R-squared	0.7035	Mean dependent var	-	
Adjusted R-squared	0.6820	S.D. dependent var	0.1948	
F-statistic	32.6317	Durbin-Watson stat	0.2661	
Prob(F-statistic)	0.0000		1.5830	

Table 8: Panel Data Regression Equation Result

Based on the table above, the panel data regression equation is obtained as follows:

$$Y = -0.1965 + 0.0437x_1 - 0.1518x_2 + 0.1242x_3 - 0.0804x_4$$

The constant coefficient value of -0.1965 indicates that if the value of all independent variables is constant (0), then the dependent variable value is -0.1965 or decreases by 0.1965.

The positive value of the FDR variable regression coefficient ( $X_1$ ) is 0.0437 meaning that each increase in FDR by one unit, NPF will increase by 0.0437 units, assuming other variables remain.

The negative value of the car variable regression coefficient ( $X_2$ ) is -0.1518 meaning that each car increase by one unit, NPF will decrease by 0.1518 units, assuming the other variables remain.

The regression coefficient value of the BOPO variable ( $X_3$ ) is positive at 0.1242 meaning that each increase in BOPO by one unit, the NPF will increase by 0.1242 units, assuming the other variables remain.

The negative ROA variable regression coefficient value ( $X_4$ ) of -0.0804 means that each ROA increase by one unit, NPF will decrease by 0.0804 units, assuming other variables remain.

- F Test

Based on table 4.8 above, known for NPF as dependent variable has F-statistic value = 32.6317 and Prob value. = 0.0000. In addition to the value F table with  $df = n - k - 1 = 55$ , and  $k = 4$  obtained the value  $F = 2.54$ , where the value F-statistic = 32.631 > value F table = 2.54. Thus  $H_0$  is rejected, which means that the variables FDR, CAR, BOPO and ROA together (simultaneously) have a significant effect on NPF.

- Coefficient of Determination Value

Based on Table 4.8 above, adjusted R-Squared value = 0.682. This means that FDR, CAR, BOPO, and ROA contributed to explaining NPF by 68.20% while the remaining 31.8% was influenced by other factors that were not studied or not included in this research model.

- t Test

Based on the test results in Table 4.8, it can be explained the influence between variables as follows:  
The probability value of variable  $X_1$  is  $0.0338 < \text{from } 0.05$  ( $\alpha = 5\%$ ), meaning that FDR has an influence on NPF;  
The probability value of the  $X_2$  variable is  $0.0000 < \text{from } 0.05$  ( $\alpha = 5\%$ ), meaning CAR has an influence on NPF;  
The probability value of the  $X_3$  variable is  $0.0047 < \text{from } 0.05$  ( $\alpha = 5\%$ ), meaning that BOPO has an influence on NPF;  
The probability value of the  $X_4$  variable is  $0.0000 < \text{than } 0.05$  ( $\alpha = 5\%$ ), meaning that ROA has an influence on NPF.

### B. Discussion

Based on Table 4.8 it appears that the value is Prob. = 0.0338 so that this variable is in the rejection area of  $H_0$  and coefficient value of 0.0437 which means Financing Deposite to Ratio has a significant positive effect on Non Performing Financing of sharia commercial banks registered with Bank Indonesia and OJK in the period 2014-2018. The results of this study are in line with the research of Solihatun (2014), Haifa & Wibowo (2015), Agustini (2017), Destiana (2018) which stated that Financing Deposite to Ratio has a significant positive effect on Non Performing Financing.

Based on Table 4.8 it appears that the value is Prob. = 0.000 less than 0.05 and coefficient negative value of -0.1518 which means that Capital Adequacy Ratio negatively affects the level of Non Performing Financing of sharia commercial banks registered with Bank Indonesia and OJK in the period 2014-2018. The results of this study are in line with the research of Poetry & Sanrego (2011), Asnaini (2014), Auliani & Syaichu (2016), Aryani, Anggraeni & Wiliasih (2016), Indrajaya (2019) which stated that the Capital Adequacy Ratio has a significant negative effect on Non Performing Financing.

Based on Table 4.8 it appears that the value is Prob. = 0.0047 is less than 0.05 so that this variable is in the  $H_0$  rejection area and the coefficient value is positive which is 0.1242 which means the Operating Expenses of Operating Income ( $X_3$ ) have a significant positive effect on non performing financing of sharia commercial banks registered with Bank Indonesia and OJK for the period 2014-2018. The results of this study are in line with the research of Auliani & Syaichu (2016), Lidyah (2016), Isnaini Nugrohowati & Bimo (2019) which stated that Operating Income Operating Expenses have a significant positive effect on Non Performing Financing.

Based on Table 4.8 it appears that the value is Prob. = 0.0459 and the coefficient value is negative at -0.0804 which means that Return on Asset has a significant negative effect with Non Performing Financing of sharia commercial banks registered with Bank Indonesia and OJK in the period 2014-2018. The results of this study are in line with the research of Mehmood, Younas & Ahmed (2013), Warue (2013), Solihatun (2014), Purnamasari & Musdholifah (2016), Kjosevski, Petkovski & Naumovska (2019) which stated that Return on Asset ( $X_4$ ) has a significant negative effect with Non Performing Financing.

## VI. CONCLUSIONS & SUGGESTION

### A. Conclusions

Based on the results of the research that has been done, it can be concluded as follows:

- Financing Deposite to Ratio (FDR) has a positive effect on Non Performing Financing (NPF) of sharia commercial banks in 2014 – 2018.
- Capital Adequacy Ratio (CAR) is negative to the level of Non Performing Financing (NPF) of sharia commercial banks in 2014 – 2018.
- Operating Expenses to Operating Income (BOPO) positively affected Non Performing Financing (NPF) of sharia commercial banks in 2014 – 2018.
- Return On Asset (ROA) negatively affected Non Performing Financing (NPF) of sharia commercial banks in 2014 – 2018.

### B. Suggestion

Based on the results of the discussion and conclusions on variables including Financing Deposite to Ratio, Capital Adequacy Ratio, Operating Expenses to Operating Income, and Return On Assets to Non Performing Financing, the author tries to convey some suggestions as considerations including the following:

- For investors who will invest in banking companies, especially sharia commercial banks, from the results of research conducted the most dominant variable in influencing NPF is CAR, so it is advisable to choose a company with a good level of capital adequacy that serves to accommodate the risk of problematic financing. Furthermore, investors need to pay attention to companies that consistently make efficiencies to control cost growth so as to generate a greater level of profit. Thus, the company can manage the quality of financing in order to avoid problematic financing that can reduce banking performance.
- Sharia commercial banks should maintain a lower NPF level than set by Bank Indonesia and the Financial Services Authority by applying prudential principles in financing, managing capital adequacy, implementing operational efficiency of banks, thereby creating profit and risking problematic financing.
- Furthermore, researchers are expected to add other variables both macro and micro that may affect the level of problematic financing in sharia commercial banks. In addition, it can also add samples used and the duration of the research period in order to get more valid results.

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