DOI: 10.7763/IPEDR. 2014. V73. 12

The Effect of Liquidity Risk and Non Performing Financing (NPF) Ratio to Commercial Sharia Bank Profitability in Indonesia

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Abstract. The purpose of this study is to collect, process, and analyze data related to the level of liquidity and profitability of Commercial Sharia Bank in Indonesia. The population in this study is consisted of 11 Commercial Sharia Bank in Indonesia at the period 2010-2012. The method used in this study is descriptive and technical verification of existing data collection and internet. The independent variables consist primarily used (1) the ratio of liquid assets to total assets (LTA), (2) the ratio of liquid assets to deposits (LAD) and (3) of financing to deposits ratio (FDR), while the dependent variable is the return on assets (ROA). The method used in this research, using multiple regressions**.** From the results of this study indicate that the LTA variables, FDR variables and NPF variable has not significant effect whereas LAD variables negatively affect to profitability, but LTA variables LAD, FDR and NPF simultaneously significantly affect to profitability.

Keywords: Risk Liquidity, Non Performing Financing Ratio, Profitability.

1. Introduction

In 1992 the Indonesian banking progress with the advent of sharia-based bank. Islamic banking industry continues to grow each year. As per statistics of Islamic banking financing continued to rise. Financing rose by 50.2% year on year to Rp.163, 046 trillion. This was followed by the increase in investment financing 52.2% to Rp.29, 411 billion and working capital 38.92% to Rp.59, 699 trillion. Total assets of Islamic banks (BUS) and Islamic business units (UUS) grew 44% over the same period last year to Rp.207, 799 billion. Risk financing problems (NPF) showed improved to 1.78%. With the rapid pace of financing Islamic banking liquidity tightened. This is evident from the financing to deposits ratio (FDR), which reached 103.08%. The capital adequacy ratio (CAR) is still high at 14.72%. NPF ratio is also high. Growth financing and the high level of FDR that exceed the conventional banking is a remarkable feat achieved Islamic banking industry. But the high was followed two variables high levels of NPF. This will lead to liquidity risk is high.

Profitability is one measure of a bank's financial performance. If a bank has a good profitability of the bank's survival will be assured, however to benefit the banks have to sacrifice liquidity. Conversely, if a bank wants liquidity, the opportunity for profit is lost. Because of the trade-off between liquidity with profitability based on the argument that investing in short-term funding members opposite effect on the liquidity and profitability (Naser Ali: 2013) Investment in current assets will increase liquidity though, but do not generate as much profit as investment in fixed assets. Funding from current liabilities although cheaper and more promising in terms of profit, but more risky (Riki Antariksa: 2006).

Liquidity in Islamic banking largely depends investment account and the current account is going into sharia-compliant financing such as mudarabah, Musharaka, murabahah, salam, ishtisna and ijarah (Muhammad: 2002)..When the bank expects that the maximum benefit will be at risk at the level of liquidity when liquidity is low or high mean level of profit is not maximize. In liquidity risk measurement, can be used LTA ratio LAD ratio and FDR ratio while to measure asset quality ratios used NPF. Measurement of the amount of liquid assets to total bank assets that indicates the proportion of assets held in the bank's balance sheet liquidity or LTA ratio (ratio of liquid assets to total assets).Liquid assets such as cash and government securities generally have a relatively low return, holding them imposes an opportunity cost on a

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bank. In the absence of regulation, it is reasonable to expect banks will hold liquid assets to the extent they help to maximize the firm’s profitability (Bordeleau: 2010). This ratio has an influence on the level of profitability, because if cash is available in a bank is too big signify inefficient state banks. Thereby this ratio has a negative effect on the level of profitability. Other sizes on is the ratio of liquid assets to deposits

(LAD), which is a gauge of liquidity by comparing the ratio of liquid assets and total deposits (Teguh: 2000).This ratio has a negative relationship to the level of the profitability. Measurement of financing to deposit ratio (FDR) is also a measure of liquidity ratios. Ratio FDR shows the ability of a bank to pay off depositors funds by pulling back credit extended. This ratio has a positive effect on the level of the profitability, because the higher this ratio, the smaller the degree of liquidity. The level of funding / FDR is a positive thing for the banks but a business activity would be faced with the risk and return. Channeling FDR are not careful will cause financing problems non-performing financing / NPF (Adiwarman 2004). Greater the NPF that happened, the greater the reduction in revenue received. If revenues are declining, profitability also declined. This is because banks are not can be expanded to the other financing, therefore can be concluded if the NPF goes up, then down bank profits or NPF negative effect on profitability.

Based on the problem above, the researcher conducted a study that aims to determine how the effect of liquidity risk, NPF (non-performing financing) to the profitability of Islamic banks in Indonesia.

2. Literature Review

2.1. Profitability

Profitability is the basis of the relationship between operational efficiency with quality of services produced by a bank. The Objective of analysis profitability of a bank is to measure the level of business efficiency achieved by the bank concerned (Sondhi, 2008) .Return on Assets (ROA) is a profitability ratio. (Subramanyam: 2008) suggested that ROA is a ratio that provides information on how efficiently a bank in conducting its business activities, because this ratio indicates how much profit can be gained on average against every dollar of its assets. The larger the ROA shows the better performance of the company, because the greater the return.

2.2. Liquidity Risk

There are two risks in liquidity (1) the excess funds in the bank is idle , it will lead to the sacrifice of the high interest rates (2) lack of funds as a result of funds available to meet short - term needs is not sufficient and also will receive a penalty of central banks. Liquidity risk is the potential loss to Islamic banking that arising from their inability either to meet their obligations or to fund increases in assets as they fall due without incurring unacceptable costs or losses(Greuning and Iqbal: 2007).

Based on studies conducted previously in measuring liquidity risk can be used LTA ratio, LAD and FDR. Liquid assets of Islamic banking Consist of cash, placements in Bank Indonesia and other banks and securities. Placements in Bank Indonesia ,Bank Indonesia Sharia consists of the which is issued by a Certificate of Bank Indonesia as evidence of short - term deposits with fund ju'alah principles and Deposit facility Bank Indonesia Sharia (FASBIS) the which is the deposit facility provided by Bank Indonesia in standing facilities with wadiah sharia principles . With this principle as custodian bank must guarantee repayment of the nominal wadiah deposits. These funds can be used by banks to commercial activities and the bank is entitled to income derived from the utilization of assets deposited in commercial activities. In Ju'alah SBIS, Bank Indonesia acting as ja'il (an employer), Islamic Bank as maj'ullah (receiver job) , and object / underlying Ju'alah (Mahall al - ' aqd) is the participation of Islamic Bank to assist in the task of Bank Indonesia monetary control through the absorption of liquidity from society and placed in Bank Indonesia in the amount and specific period. Placements with other banks are Bank funds the planting of other banks that operate- using the principle of Sharia in the form of time deposits and investment Mudaraba. Islamic banking deposits consist of demand deposits and savings deposits and temporary shirkah funds (savings and time deposits futuresmudaraba).

2.3. Financing in Islamic Banking

According to Karim (2011) , the types according to the objective of Islamic finance is divided into working capital financing sharia , sharia finance investment , and consumer finance sharia .Based on Bank Indonesia's statistics , the main patterns that dominate the financing of Islamic banks is the principle of trading and profit-sharing principle. Principle of trading carried out in connection with the transfer of ownership of the goods or objects. The level of bank profits is determined ahead and be the top price of the goods sold. Buying and selling can be distinguished by the form of payment and delivery time. Based on the statistics of Bank Indonesia in September of 2011, the most widely used agreement on the principle of buying and selling is murabaha which is about 54.98 % of the total financing provided Islamic bank in Indonesia. While financing Salam and istishna ' only a small portion is 0.07 % and 0.51 % of the total financing. Karim (2011) states that a murabaha sale and purchase transaction in which the bank said the number of its advantages. The sale price is the purchase price plus the banks of the supplier profit margin. While Salam is buying and selling where goods are bought and sold no. In this transaction, quantity, quality, price, and time of delivery shall be determined with certainty. To contract istishna product resembles Salam, but in istishnapayments can be made by the bank in a few times (terms) payment. Financing through the sale of distributed, Islamic banks will earn income in the form of mark up or profit margins. Financing according to its quality is essentially based on the likelihood of the condition and the risk of financing customers in meeting compliance obligations to pay for results, as well as pay off the financing, so can lead to financing problems. Non-Performing Financing is a ratio used to measure the ability of bank management in managing existing financing problems can be met by assets owned by a bank (Teguh 2000).Ali (2004) states that if the enlarged portion of the financing problems that ultimately also affect the likelihood of a decrease in the amount of profit / income earned bank.

2.4. Formulation of Hypothesis:

The hypotheses formulated for this empirical verification are as below:

Hypothesis 1: Ratio LTA negative effect on the level of profitability

Hypothesis 2: Ratio LAD negative effect on the level of profitability

Hypothesis 3: Ratio FDR positive effect on the level of profitability

Hypothesis 4: Ratio NPF negative effect on the level of profitability

3. Methodology

Population which is the object of this research throughout the Islamic banks in Indonesia .By way of obtaining the data, the type of data in this study are secondary data. The secondary data obtained from the publication by the relevant agencies such as the Bank Indonesia and Islamic banks in the sample is browsing through the website of the agencies (Sugiyono, 2008). Analysis of the data obtained in this study will be using the program SPSS with Regression analysis method.

4. Result

4.1. Descriptive Statistics

The highest ratio of LTA in 2010, 2011 and 2012 with a value of 0.84, 0.63 and 0.47 which occurs at Bank Victoria Syariah this is due to idle funds that have not been fully utilized in the finance sector. Ratio Average LTA smaller than the average ratio of LAD. This shows that the portion of liquid assets to total assets is low. The portion of liquid assets to total assets is low indicates lower liquidity.Thisis due to a lot of cash distributed in the financing. The impact is seen in ratio FDR is high. LAD average ratio in 2010 was 0.47 in 2011 was 0.57 and in 2012 was 0.40. The highest LAD in 2010 occurred at PT Bank Victoria sharia, in 2011 and 2012 occurred in PT MaybankSyariah Indonesia namely 1.88 and 0.93. The average ratio for all commercial banks LAD high sharia banks have indicated that sufficient liquid assets at any time if depositors withdraw their funds. The average ratio for the FDR in 2010 was 72 %, in 2011 was 172 % and in 2012 was 102 %, indicating that financing has increased every year. FDR highest ratio in 2010 was happening in Jabar Banten sharia banks 121 %, in 2011 and 2012 occurred in PT Maybank Syariah Indonesia. Average NPF in 2010, in 2011 and in 2012 it was 0.02,it’s indicated that NPF ratio is low value means better quality of financing. High finance was not followed by an increase in the ratio of NPF. This is evident from the NPF ratio is still below 5 % generally indicates that Islamic banks are still considered healthy. It is based on those of Bank Indonesia Regulation Number 6/10/PBI/2004 dated April 12, 2004 about the Rating System for Commercial Banks, the higher the value of NPF (above 5 %) then the bank is not healthy. Average ROA for Islamic banks in 2010 was 0.01, in 2011 was 0.02, and in 2012 was 0.01. Average ROA is low overall. This shows that Islamic banks have not been able to generate overall profits of the assets owned Islamic banks or in other words the performance of Islamic commercial bank management is not efficient.

LTA ratio relationship with the level of profitability, the greater the amount of assets available to the bank, then the bank will be more liquid. If more liquid banks would result in lower profitability. From the test results obtained that the LTA but no significant effect on the level of profitability but simultaneously significant effect. Portions are smaller than the liquid assets in total assets. This indicates that Islamic banks use the liquid assets by channelling financing to maximize profits (Mamduh: 2007). This condition indicates that Islamic banks have been efficient in managing their funds.

Based on the test results obtained statistics that LAD negative effect on the level of profitability. The results of this study are consistent with research findings Sophi (2008). This means that the amount of liquid assets held by Islamic banks is quite. Liquid assets can reasonably be used by Islamic banks at any time if depositors want to withdraw their deposits. Islamic bank in maintaining its liquidity position and operations have used reserve funds to meet liquidity insistence. As a result, profitability declined.

From the test results obtained statistics that FDR did not significantly affect the level of profitability but simultaneously significant effect. The results of this study are consistent with research findings Dhika (2010) This is due to the financing of Islamic banks in Indonesia is very high but not supported the growth of third-party funds with relatively small. Moreover, because the effect of economic conditions in Indonesia has slowed down it will affect the cash flow of the depositors. In terms of financing, Islamic banks many of its funds to finance productive both for investment and working capital with a share of 55 % of the total financing. The rest is pretty much consumer financing in the form of financing employee. Total Islamic banking assets amounted to Rp.219,2 trillion, grew 40 % in a year , while financing is still high with outstanding grew 48 % in a year to 178.9 % . Problems of financing Islamic bank in Indonesia that have an impact on the ratio of third-party financing to fund the FDR Becomes very high, with high financing does not provide benefits to the Islamic banks.

NPF is a ratio that shows the ability of bank management in managing the problem of financing provided by the bank. The higher the ratio, the worse NPF quality of the bank financing will be. This is due to financing is the largest sector in contributing to bank earnings. From the test results obtained statistics that NPF does not significantly affect the level of profitability but simultaneously significant effect. The results of this study are consistent with the results of the study Wibowo (2012) but not in accordance with the results of the study Aulia (2011). Ratio NPF as a whole Islamic Banks are still below 5 %. This shows that the quality of commercial bank financing in Shariah is good. The quality of a good result in lower financing its allowance for uncollectible accounts (PPAP) Islamic banks. With this PPAP low then the bank will obtain chance to earn income from finance portfolio.

5. Conclusion

Liquidity level of Islamic banks in Indonesia is low, this can be seen from the ratio of liquid assets to total assets, this shows that a small amount of funds channelled to financing. In terms of financing Islamic banks from year to year has increased. Increased funding can be seen from the high ratio of FDR. The ratio of high FDR did not have an impact on financial ratios is problematic (NPF). NPF ratio of 5% was taken that indicated that the general Islamic banks are still considered healthy. This condition will affect the levels of profitability of Islamic banks in Indonesia. Profitability of Islamic banks is still low and Islamic banks have not been able to generate profits from all assets owned by Islamic banks.

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