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Impact of Third-Party Funds and Capital Adequacy Ratio on Profit Sharing Financing

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Abstract

Financing is defined as funding provided by a party to another party to support planned investments, either by themselves or by institutions. The more amount of Third-Party Funds (DPK) and *Capital Adequacy Ratio* (CAR), the more amount of financing issued by the bank. However, in the 2016-2020, when Shariah Business Units in Indonesia increase in the amount of Third-Party Funds (DPK) and the Capital Adequacy Ratio (CAR) but this was inversely proportional to the declining amount of profit-sharing financing. This study aims to determine how the influence of Third-Party Funds (DPK) and Capital Adequacy Ratio (CAR) on Profit Sharing Financing in Sharia Business Units. Using quantitative methods and the type of data used was secondary data, researchers use the Annual Report. By eleven sharia business units as samples of this study, the results show that TPF variable has a negative and significant effect on profit sharing financing and the CAR variable has no and no significant effect on profit sharing financing. Meanwhile, based on the f test, TPF and CAR variables simultaneously have a positive and significant effect on profit sharing financing in sharia business unit.
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INTRODUCTION

The recent development of conventional banks, apart from being able to carry out conventional business activities, can also carry out business activities according to sharia, namely by first establishing a sharia business unit. This is based on Law Number 10 of 1998 concerning Amendments to Act Number 7 of 1992 concerning Banking which essentially emphasizes that Commercial Banks are banks that carry out business activities conventionally and/or based on Sharia Principles in their activities of providing services in traffic payment.

The establishment of UUS is a condition for Conventional Commercial Banks to be able to provide sharia services. UUS itself is defined as a work unit from the head office of a Conventional Commercial Bank that functions as the main office of an office or unit that carries out business activities based on Sharia Principles. UUS can also be a work unit of a branch office of a bank domiciled abroad that carries out conventional business activities that function as the main office of the sharia sub-branch office and the sharia unit.

The existence of UUS as part of a work unit or division of Conventional Commercial Banks is still recognized in the law that specifically regulates Islamic banking, namely Law 21/2008. However, UUS based on this law is temporary in nature, as emphasized in Article 68 paragraph 1, namely that in the case of a Conventional Commercial Bank owning a UUS whose asset value has reached at least 50% of the total value of the parent bank's assets or 15 years since the enactment of the Law. 21/2008, the said Conventional Commercial Bank is required to separate UUS into a Sharia Commercial Bank. It can be seen from the editorial of the article, the separation of UUS is mandatory after fulfilling one of the specified requirements, as well as confirming the statement that the existence of UUS is temporary from the start.

Table 1 Development of BUS, UUS, and BPRS Offices 2016-2020

Indicator	2016	2017	2018	2019	2020
BUS	1896	1825	1875	1919	1922
UUS	332	344	354	381	386
BPRS	453	441	495	617	618

Source**:** OJK, Sharia Banking Statistics, December 2020

Based on table 1, the development of Islamic banking from 20016-2020 is increasing. It means that the Indonesian people have high confidence in Islamic banking as a financial institution that helps the community in their economic problems.

Financing in Islamic banking has a very significant development. The report on the development of Islamic finance states that the distribution of funds or financing is still the main choice for placement of Islamic banking funds compared to other placements such as placements with other banks or securities. In Islamic banks, profit sharing is a form of alternative financing scheme, which has very different characteristics than interest. This scheme is a distribution of business results financed by credit/financing. Sharia financing products based on the principle of profit sharing consist of musharaka and mudharabah (Karim, 2009: 357-359).

Financing is a fund provided by one party to another to support investments, either by themselves or by institutions. Financing can also be interpreted as funds that have been planned. The purpose of financing consists of two parts, that is micro and macro: macro consists of 1) improving the people's economy, 2) availability of funds for business improvement, 3) increasing productivity, 4) opening new jobs, and 5) income distribution. On a micro basis, it consists of: 1) efforts to optimize profits, 2) efforts to minimize risk, 3) utilization of economic resources, and 4) distribution of excess funds (Rivai, 2010: 67).

Mudharabah financing is a business cooperation contract between both parties. First party acting as the owner of the funds and the second party as the fund manager to carry out a business activity, with profit sharing on the basis of the profit-sharing ratio that has been agreed at the beginning of the contract by both parties. the loss is borne by the owner of the fund, unless the loss is caused by the negligence and intentionality of the fund manager (Wasilah, 2009: 1-8). Musyarakah financing is a cooperation agreement between two or more parties that jointly contribute in providing capital to assess or develop a business with a profit-sharing ratio that has been agreed at the beginning of the contract by the parties concerned, whereas if there is a loss, it is borne by all owners of capital based on share of each party's capital (Wasilah, 2009: 1-8).

However, the application of the principle of profit sharing in Islamic banks is still not optimal. This is because sale and purchase financing (murabahah) still dominate the financing contract compared to profit-sharing financing (mudharabah and musyarakah). This of course is still contrary to the principle of financing that should be prioritized in Islamic banking. Although Islamic banks in carrying out fund distribution activities consist of the principles of buying and selling, profit sharing and ujroh, the financing carried out by Islamic banking should be dominated by financing with the profit-sharing principle consisting of mudharabah and musyarakah, but this ideal financing concept until now it is still difficult to implement because it is full of risks and uncertainties (Faizal and Prabawa, 2010: 65).

Literature

Third Party Funds (DPK) are funds originating from the public, which are the largest source of funds most relied upon by banks. The bank's activity after collecting funds from the wider community is to redistribute these funds to people who need them, in the form of loans or better known as financing. The provision of financing is the most important bank activity in generating profits (Dendawijaya, 2005). Capital is an important factor so that a company can operate, including also for banks, in channeling financing to customers People also need capital. Bank capital must also be used to guard against possible risks, including risks arising from the financing itself. To overcome the possible risks that occur, a bank must provide a minimum capital provision (Dendawijaya, 2005).

Capital Adequacy Ratio (CAR) is a ratio that shows how far all bank assets that contain risks (financing, investments, securities, claims on other banks) are also financed from the bank's own capital funds in addition to obtaining funds from sources outside the bank, such as public funds. loans, and so on. The higher the CAR value indicates that the bank has sufficient capital to support its needs and bears the risks posed, including financing risk (Dendawijaya, 2005). Financing is the main indicator to measure the development/growth of Islamic banking. The amount of financing that has been successfully disbursed by Islamic banks is strongly influenced by several factors, both external factors and internal factors of Islamic banks themselves (Arianti, 2011:20). Therefore, to find a solution to the problem of the low amount of profit-sharing financing distributed by Islamic banking, it is necessary to study what factors can affect the amount of profit-sharing financing. Thus, the factors that influence the amount of profit-sharing financing can be optimized by Islamic banks to encourage an increase in profit-sharing financing.

Funds are an important element in every activity. The more funds that are obtained, the greater the funds that will be spent. The main activity of Islamic banks is the collection and distribution of funds. The collection of funds obtained from the community is used for financing Islamic banks, one of which is profit sharing financing. The research of Destiana (2016) stated that TPF is one of the factors that have a significant influence on the distribution of Islamic bank funds. The flow of deposits collected by Islamic banks from the community is one of the factors that can increase the volume of profit-sharing financing. *Capital Adequacy Ratio* (CAR) is a ratio that shows how far all bank assets contain risk. The higher the CAR, the higher the bank will disburse its financing. Likewise, the lower the CAR, the lower the financing disbursed by the bank.

METHOD

This research uses quantitative research. The definition of quantitative research is the activity of collecting, processing, analyzing, and presenting data based on the amount or number that is carried out objectively to solve a problem or test a hypothesis to develop general principles. And this research uses panel data. Panel data is a combined data between Cross Section and Time Series data. The data in this study is said to be panel data because it conducted research in various sharia business units in Indonesia for a certain period of time. This study observes six sharia business units over a 5-year period. Sources of data used in this study is secondary data. Secondary data is data collected or obtained by researchers from various existing sources. The secondary data in this research is obtained from the financial statements of the annual reports of sharia business units listed on the websites of each related bank.

The population is a generalization area consisting of objects or subjects that have certain characteristics and quantities determined by the researcher to be studied and then conclusions are drawn. The population of this research is all financial statements of sharia business units in Indonesia for the 2016-2020 period, namely 20 sharia business units recorded at the Financial Services Authority from January 2016 to December 2020. The sample is part of the population that will be taken for research with certain techniques and methods. The sampling technique used purposive sampling technique. Purposive sampling is a sampling method where not all elements of the population can be used as samples, because the selected sample must meet certain criteria.

Based on the sample selection criteria above that meet these criteria, the researcher took 11 sharia business units to be investigated according to these criteria, namely: PT Bank Danamon, PT Bank Maybank, PT Bank Tabungan Negara, PT Bank CIMB Niaga, PT Bank Pembangunan Daerah Sumatera Selatan and Bangka Belitung, PT Regional Development Bank of East Java, PT Regional Development Bank Special Region of Yogyakarta, PT Regional Development Bank of South Kalimantan, PT Regional Development Bank of West Kalimantan, PT Regional Development Bank of East Kalimantan, and PT Bank Regional Development of West Sumatra. In this study, the sample is the annual financial statements of the sharia business units from the 11 banks as many as 55 financial reports in the 2016-2020 period.

RESULTS AND DISCUSSION

The equation of the results of the multiple regression analysis is obtained as follows: profit sharing financing = 36.111 - 1.074 x1 + 0.031 x2 + e, shows that Third Party Funds (TPF) are influential and CAR on profit sharing financing, this is based on the probability value of DPK variable itself of -1.074 and CAR is 0.031

Hypothesis test

The t test (partial) was used to determine how the influence of each independent variable individually on the dependent variable in the study. The following are the results of the t test (partial).

Table 2. T. Test Results

Coefficientsa						
Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	T	Sig.
1	(Constant)	36,111	3,495		10,333	,000
	LN_DPK	-1.074	,156	-,697	-6,891	,000
	CAR	,031	,074	.042	,419	,677

a. Dependent Variable: LN_PBH

Simultaneous Test Results (F Test)

The F (simultaneous) test is a test tool used to determine the effect of the independent variables(TPF, and CAR) on the dependent variable (profit sharing financing). The results of the F test calculations are as follows:

Table 3 F Test Results

ANOVAa						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	90,322	2	45,161	26,268	,000b
	Residual	89,400	52	1,719		
	Total	179,723	54			
a. Dependent Variable: LN_PBH						
b. Predictors: (Constant), CAR, LN_DPK						

Data source: Processed SPSS 2021

Based on the table 2, it can be seen that the TPF variable has a negative and significant effect on profit sharing financing, while CAR has no and no significant effect on profit sharing financing. The results of the t-test calculations on each of the variables in the hypothesis below:

Third-party funds

The test results of DPK (6.891 > 1.675) and a significant value (0.000 < 0.05), it can be concluded that the hypothesis states that the results of DPK (X1) have a positive and significant effect on profit sharing financing.

Capital Adequacy Ratio

The results of testing CAR (0.419 < 1.675) and a significant value (0.677 > 0.05), it can be concluded that the hypothesis states that the results of CAR have no effect and are not significant for-profit sharing financing.

From the results of the output table 3 obtained the value of $F_{count}$of 26,268. For Ftable with a significance level (α = 5%) and df with the formula df1 = k-1, df2 = nk, so that df1 = 2-1 = 1 and df2 = 55-1 = 54, obtained Ftable of 4.023. Then Fcount > Ftable so that it accepts Ho for a significance value of 0.000 < 0.05The conclusion is that the TPF and CAR variables together (simultaneously) have a positive and significant effect on the profit-sharing financing variable.

Coefficient of Determination

The coefficient of determination in multiple linear regression is used to determine how much influence the independent variable (DPK, CAR) has on the dependent variable of profit-sharing financing. The percentage of the dependent variable is explained by the independent variable with a value of R square (R2). The results of the coefficient of determination analysis are as follows:

Table 4 Coefficient of Determination Results

Model Summary					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,709a	,503	,483	1.31120	,698

a. Predictors: (Constant), CAR, LN_DPK

b. Dependent Variable: LN_PBH

Source: SPSS 2020 processed data

Based on table 4. shows R and R Square. Obtained an R value of 0.709 or 70.9%. This value indicates how big the relationship between the independent variable and the dependent variable. In this study, there is a direct relationship between the TPF and CAR variables with the profit-sharing financing variable, which is 70.9%. For the rest, which is 29.1%, it is owned by other variables or factors outside the research model.

The Effect of Third-Party Funds (TPF) on Profit Sharing Financing for Sharia Business Units in Indonesia

Based on the T-test of the hypothesis, it shows that DPK (X1) have a significant negative effect on profit sharing financing, where t count > t table (-6.891 > 1.675) with a significance value of (0.000 < 0.05). Therefore, the first hypothesis (H1) is accepted. Negative results indicate a negative relationship between TPF and profit-sharing financing. If the third-party funds increase, the profit-sharing financing will decrease. Vice versa, if TPF decreases, Profit Sharing Financing will increase. The results of this study are in line with research conducted by Anisa and Tripuspitoroni (2019) that DPK have a negative and significant effect on profit sharing financing on mudharabah financing at islamic commercial banks. In this study, obtained a significant value of 0.003 and a t value of -3.242.

The results showed that DPK had a significant negative effect on murabahah financing. This is because the bank is the intermediary party that applies the precautionary principle in carrying out its function as a distributor of funds for murabahah financing. The more deposits collected by Islamic banks from the public, it is not necessarily able to increase the share of profit-sharing financing. This is because TPF is short-term in nature while the profit-sharing financing that is distributed is long-term. Therefore, it cannot be used for long-term profit-sharing financing activities, causing the share of profit-sharing financing to be lower than non-profit sharing financing. The results of this study are supported by research conducted by Nur'aeni, Setiawan (2020) that DPK are influential and Significant to mudharabah financing. This is indicated by a coefficient value of 0.63 and a p-value of 0.000 for the effect of TPF on mudharabah financing.

According to Muhammad, after the third-party funds have been collected by the bank, then according to its intermediary function, the bank is obliged to channel the funds for financing. By channeling funds to certain instruments, it can be said that the bank earns profits with low risk. At certain times, the bank will not distribute all the funds collected to maintain liquidity so that the bank at any time if the customer takes or withdraws his funds, the bank will not experience liquidity problems, so that the bank's health and performance is always maintained. This is because banks have a goal, one of which is to make a profit so that the bank will not let the funds that have been collected just like that. Banks will prefer to channel their funds as much as possible to get the maximum profit as well. The higher the supply of funds collected, the higher the financing provided by the bank. Research conducted by Dita Andreany in the Journal of Economics, Syah Kuala University, Banda Aceh, which states that there is a significant influence between TPF on profit-sharing financing. The influence of third-party funds on profit-sharing financing means that the higher the third-party funds, the higher the distribution of profit-sharing financing.

Islamic banks rely on third party funds collected from the public as the bank's largest source of funds for bank operations. The Bank distributes profit-sharing financing to the public from third-party funds obtained. When the third-party funds raised increase and the bank maximizes the funds for financing, the bank's profits will increase.

The Effect of Capital Adequacy Ratio (CAR) on Profit Sharing Financing in Sharia Business Units in Indonesia

Based on the results of the t-test, the hypothesis shows that the findings of *CAR*(X2) have no effect and is not significant towards Profit Sharing Financing. Based on t count < t table (0.419 < 1.675) with a significant value (0.677 > 0.05). Therefore, the second hypothesis (H2) is rejected. The rejection of the second hypothesis test in this study shows that the size of CAR does not affect the size of the profit-sharing financing channeled by the bank because according to Affif (1996) the ability of credit distribution is influenced by internal and external factors of the bank.

The lack of CAR shows that the management of Islamic banking in Indonesia is generally very careful in managing the risks posed by assets. Although the CAR results have no effect on financing, it does not make the bank to ignore CAR in financing distribution, because excessive financing distribution results in disruption of bank capital. Under these conditions, it is natural for banks not to disburse financing, because the higher the financing disbursed, the riskier assets the bank requires to add capital to meet the CAR requirements. The results of this study are supported by previous research, namely research conducted by Annisa and Fernanda (2017) which showed CAR does not have a significant effect on mudharabah and musyarakah financing.

One of the things that causes the decline in profit-sharing financing is that in profit-sharing financing there are many risks that occur, such as if a business financed by a bank goes bankrupt, the bank will lose its capital because the customer does not pay the installments, so the bank minimizes these risks. by shifting to murabaha financing, the profit-sharing financing decreases. The results of this study are supported by research conducted by Winarsih and Winda Asoka (2019) that CAR has no effect on the profit-sharing financing.

The Effect of Third-Party Funds and Capital Adequacy Ratio (CAR) on Profit Sharing Financing for Sharia Business Units in Indonesia

The results of the tests that have been carried out state that Third Party Funds and the Capital Adequacy Ratio have an effect on profit sharing financing. From the results of the output table 4.8, the Fcount value is 26,268. For Ftable with a significance level ($\alpha = 5\%$) and df with the formula df1 = k-1, df2 = nk, so that df1 = 2-1 = 1 and df2 = 55-1 = 54, obtained Ftable of 4.023. Then Fcount > Ftable so that it accepts Ho for a significance value of $0.000 < 0.05$. Then the third hypothesis (H3) is accepted. The conclusion means that the TPF, and CAR variables together (simultaneously) have a positive and significant effect on the profit-sharing financing variable.

CONCLUSION

Based on the analysis and interpretation of the data that has been done, the following conclusions can be drawn:

1. DPK has a negative and significant effect on profit sharing financing in sharia business units. The results of this study indicate that it is negative because the bank is an intermediary party that applies the precautionary principle in carrying out its function as a distributor of funds in profit sharing financing. DPK that are short-term in nature while profit-sharing financing that is distributed is long-term. Therefore, it cannot be used for long-term profit-sharing financing activities, causing the share of profit-sharing financing to be lower than non-profit sharing financing.
2. CAR has no effect and is not significant on profit sharing financing in sharia business units. The results of this study have no effect because the capital adequacy ratio does not describe a company's profits, so investors cannot see or predict whether the company can provide benefits to investors in the future. So that investors cannot use CAR as the basis for their considerations and this makes this ratio have no effect on financing.
3. DPK and CAR simultaneously or jointly have a positive and significant effect on profit sharing financing in sharia business units.

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