

Factors Affecting Mudaraba Deposit in Islamic Commercial Bank in Indonesia

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ABSTRACT: The purpose of this study is to investigate the factors that influence mudaraba deposits in Islamic commercial banks in Indonesia. Factors thought to influence mudaraba deposits are liquidity risk as measured by the financing to deposit ratio (FDR), credit risk as measured by non-performing financing (NPF), many branch offices, profit sharing indicator (PSI), and interest rates. The population in this study was 13 Islamic commercial banks operating in Indonesia with a sample of 8 Islamic commercial banks taken by purposive sampling method. To test the hypotheses, multiple regression analysis tools were used at a significance level of 0.05. The results showed that the indicator of profit-sharing did not affect mudaraba deposits, while liquidity risk (FDR), credit risk (NPF), and a number of branch offices had a significant positive effect on mudaraba deposits, while interest rates also had a significant but negative effect on mudaraba deposits.

Keywords: Deposit ratio, nonperforming financing, profit sharing indicator, interest rate.

1 INTRODUCTION

Islamic banking is still an exciting topic to study, because of its very rapid development both in terms of total assets, financing, and public funds. Banking assets mostly come from public funds, because banks function as financial intermediaries that collect funds from the public in the form of deposits and distribute it in the form of financing. According to Sharia Banking Statistics (June 2019), the number of third party funds is dominated by mudaraba deposits with an average of 70%. While wadiah demand deposits, wadiah savings, and mudaraba savings only contribute less than 30%. Thus, mudaraba deposits have a huge role in shoring up financing provided by Islamic banking.

Mudaraba time deposits represent deposits from the public to an Islamic bank whose withdrawals can be made within a specified period according to the agreement. Mudaraba time deposits do not provide interest but provide compensation in the form of profit-sharing to customers. The amount of profit-sharing depends on the profit obtained by the banks and should not be determined at the beginning. Vissier (2014) stated that what is determined at the beginning is the size of the portion or profit-sharing

ratio. Mudaraba deposits are also a mainstay for Islamic banking because these funds can be used for long-term financing because, in general, customers' motives for saving on mudaraba deposits are for profit. Mudaraba deposits are generally long-term withdrawals.

Several factors influence customers to save their funds in mudaraba deposits. The profit-sharing indicator is one of the attractions for customers to save their funds in the Islamic banks. The higher the profit-sharing obtained, the more attractive the customer will deposit funds on mudaraba deposits. The results of research Ali et al. (2015), Arshad & Nurfadilah (2017), and Solarin et al. (2018) found the profit-sharing has a positive effect on the growth of mudaraba deposits. The number of branch offices is also a determining factor for mudaraba deposits, because the number of branch offices will ease customers to deposit their funds in Islamic banks, so Jaber & Manasrah (2019) and Pesa & Muturi (2015) recommended that Islamic banks should be more aggressive in opening branches.

Another factor that influences mudaraba deposits is the amount of financing as measured by financing to deposit ratio (FDR). The higher the financing provided, the more the funds will need to be chan-

neled so as to encourage increasing mudaraba deposits. Yulianto & Solikhah (2016) proposed that FDR will affect mudaraba deposits. In addition, non-performing financing (NPF) can also affect mudaraba deposits, because the higher the NPF will encourage the search for more significant funds to cover losses due to the problematic financing. Arshad & Nurfadilah (2017), who researched Malaysia and Indonesia, also found the influence of non-performing financing (NPF) affecting mudaraba deposits. The high NPF causes the amount of deposits to decrease while Yulianto & Solikhah (2016) found a positive influence between NPF on mudaraba deposits.

Macro factors that are thought to influence the mobilization of mudaraba deposits are interest rates. Islamic banks in its operations are not allowed to use interest instruments because, according to Islamic sharia is usury, but customers in depositing funds are still considering conventional bank interest rates. Kasri & Kassim (2009) and Rachmawati & Syamsulhakim (2009) found that Islamic bank customers in Indonesia are rational Muslims, who will save their funds in Islamic banks if the profit-sharing is high and will transfer to conventional banks if interest rates are high.

The amount of profit-sharing is the primary consideration for customers to save their funds in mudaraba deposits, because this type of savings provides the highest profit sharing. Revenue sharing is not determined at the beginning of the contract but based on profit sharing indicators for the previous period. In fact, the more the customer believes in the expected rate of return of mudaraba deposits, the easier the customer will save their money on the deposit. Ali et al. (2015) and Arshad & Nurfadilah (2017), found a positive effect between the profit sharing of the previous period and mudaraba deposits. Likewise, with Omar & Rohmah (2018) in Malaysia, the growth of mudaraba deposits is influenced by profit-sharing indicators provided by Islamic banks.

H1: Profit-sharing has a positive effect on mudaraba deposits.

The primary source of income from Islamic banks is from the financing provided, both profit margin-based and profit sharing-based. Financing to deposit ratio (FDR) shows the amount of financing provided compared to third party funds. If customers want high financing, then they need additional funds to finance it by adding mudaraba deposits. Yulianto & Solikhah (2016) suspected that the amount of mudaraba deposits is influenced by the need for financing (FDR). Harfiah et al. (2016) found a signifi-

cant and positive influence between FDR and mudaraba deposits.

H2: Financing to deposit ratio has a positive effect on mudaraba deposits.

Non-performing financing (NPF) shows that the quality of financing is not right, where higher NPF will burden the Islamic banks, which will ultimately reduce profitability. The government sets a maximum limit of NPF of 5% so that the management of Islamic banking must be able to manage the financing well so that the quality of its assets is good. If the NPF is high, funds are needed for backing up. According to Hadiyati & Baskoro (2013), NPL will affect mudaraba deposits, while Yulianto and Solikhah (2016) found a positive influence between NPF and mudaraba deposits.

H3: NPF has a positive effect on mudaraba deposits.

Mudaraba time deposits are customer deposits to Islamic banks, which can be made in a specific time period according to the agreement. To mobilize mudaraba deposits, one of the efforts advocated by Omar & Rohmah (2018) and Rachmawati & Syamsulhakim (2009) was to add branch offices. A large number of branch offices will facilitate customers in saving their funds, thereby encouraging deposit growth. Madebo (2004) and Mahmoudi et al. (2013) found a significant and positive effect between the number of branch offices and deposit mobility.

H4: The number of branch offices has a positive effect on mudaraba deposits.

One benchmark in determining the profit-sharing ratio is the interest rates of other banks. The motive of sharia bank customers in depositing their funds in mudaraba deposits, in addition to usury-free, is profit. There are still many customers who consider interest rates as a reference for the size of the results. Even according to the results of Kasri & Kassim's research (2009), customers of Islamic banks in Indonesia will move their funds from Islamic banks to conventional banks if deposit rates are higher. Rachmawati & Syamsulhakim (2009) said that Islamic bank customers in Indonesia are rational Muslims, so interest rates are a reference in depositing funds. Solarin et al. (2018) and Arshad & Nurfadilah (2017) found a negative effect between interest rates and mudaraba deposits, meaning that if interest rates rise, customers will transfer funds to conventional banks.

H5: Interest rates have a negative effect on mudaraba deposits.

2 RESEARCH METHODS

The population in this study was 13 Islamic commercial banks operating in Indonesia. Samples were taken from 8 banks with a purposive sampling method.

The variables in this study consisted of the dependent variable namely mudaraba deposits and the independent variable consisted of profit sharing (PS) indicators, financing to deposit ratio (FDR), non-performing financing (NPF), number of branch offices, and interest rates. The measurements of each variable are as follows:

Table 1: Variable and Measurement

	Variable	Measurement
1	DMU	LN Mudaraba Deposit
2	PSI	Indicator of previous profit sharing
3	FDR	Total financing/Third Party Fund
4	NPF	Bad Debt/Total Financing
5	BRC	Amount of Branch Office
6	INT	Average Bank of Indonesian Rate

Hypothesis testing was performed using multiple regression analysis with a significance level of 0.05. The regression equation is as follows:

$$DMU = \alpha + \beta_1PSI + \beta_2FDR + \beta_3NPF + \beta_4BRC + \beta_5INT \quad (1)$$

3 RESULTS AND DISCUSSIONS

After the data were processed using SPSS version 21.0, the following test results are obtained:

Table 2: Hypothesis Test Results

Variables	Beta	t	Sign
PS	0.099	1.222	0.229
FDR	0.240	2.299	0.027
NPF	0.207	2.411	0.020
BRC	0.917	11.081	0.000
INT	-0.376	-3.876	0.000

Dependent Variable : DMU
Source : Data Processed

Based on the results of the hypothesis test with a significance level of 0.05, it turns out that profit-sharing (PSI) did not affect mudaraba deposits. While FDR, NPF, and branch offices had a significant positive effect on mudaraba deposits. While interest rates (INT) had a significant but negative effect on mudaraba deposits.

Profit-sharing, as measured by profit-sharing indicators for the previous period, did not affect the

increase in deposits. This is possible because, according to Yulianto & Solikhah (2016), sharia bank customers do not focus on profit but rather consider religious belief factors that interest rates are usury and prohibited by Islamic sharia. The results of this study are also confirmed by Mobin & Masih (2014) that customers save their funds on mudaraba deposits because of religious factors not because of profit sharing. Hamza (2016) found that the management of Islamic banks carried out moral hazard on the placement of mudaraba deposits, which are placed on high-risk instruments.

Financing to deposit ratio (FDR) had a significant and positive effect meaning that the higher the FDR will increase the amount of deposit. FDR shows the amount of financing provided to customers compared to public funds. Higher FDR requires greater public funds. Financing is the main source of income for Islamic banks, which in turn will contribute to profits. Harfiah et al. (2016) found a positive effect of FDR on mudaraba deposits. Meanwhile, according to Adem (2015), in conventional banking, loan to deposit ratio (LDR) also encouraged banks to provide more funds, so that LDR influenced the amount of deposits. However, the results of Yulianto & Solikhah's (2016) research found that FDR does not affect the mobilization of mudaraba deposits.

Non-performance financing (NPF) had a positive effect on mudaraba deposits, meaning that with a high NPF, Islamic bank management will provide more funds than mudaraba deposits. Management also needs to be careful in providing financing to reduce NPL risk. These results are consistent with the findings of Yulianto & Solikhah (2016) who found a positive influence of NPL on mudaraba deposits, but contrary to Arshad & Nurfadilah (2017) who found negative NPL effects on mudaraba deposits while Hadiyati & Baskoro (2013) found no significant NPF effect towards mudaraba deposits.

The number of branch offices (BRC) had a positive effect on the mobilization of public funds, which shows that to mobilize funds requires so that customers can easily save their funds. Jaber & Manasrah (2019) and Madebo (2004), Mahmoudi et al. (2013) suggested that the management of sharia banks aggressively open branches because they found the role of the branch office in collecting public funds was very significant. Adem (2015) also found that in conventional banks, the number of branch offices can increase deposit mobilization.

Interest rates had a significant and negative effect, meaning the higher interest rates will reduce the number of mudaraba deposits of Islamic banks. These results indicate that customers in depositing funds in Islamic banks are still considering interest

rates. This is confirmed by the results of research Kasri & Kassim (2009) and Omar & Rohmah (2018), who found that Islamic bank customers in Indonesia are rational Muslims. They will save funds in Islamic banks if the profit-sharing is high and will move to conventional banks if interest rates are higher. The findings are also in accordance with the results of the research of Arshad & Nurfadilah (2017) and Solarin et al. (2018).

4 CONCLUSION

Based on the results of the hypothesis testing and discussion, it can be concluded that the profit-sharing indicator did not affect mudaraba deposits, because customers save their funds in Islamic banks more focused on religious issues, namely avoiding usury. Whereas FDR, NPL, and the number of branch offices had a significant effect on mudaraba deposits. An interesting finding is that interest rates had a significant and negative effect on mudaraba deposits, which indicate that sharia bank customers in Indonesia are still considering interest rates when choosing deposits. This was said by Kasri & Kassim (2009) as rational muslim.

The results of this study are expected to help the management of Islamic banks in making decisions, especially in the context of mobilizing mudaraba deposit funds, taking into account the factors that influence it. For further researchers, they can develop this research by adding variables that are suspected to influence customers in depositing funds on mudaraba deposits.

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