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The Influence of Third Party Funds and NPF on Profitability with Liquidity as an Intervening Variable

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Abstract: ***This paper investigates the effect of the "Third Party Funds and Non Performing Financing on Profitability with Liquidity as an Intervening Variables in Indonesian Banking Syariah Business Units listed in The Indonesian Financial Services Authority (OJK). The method used in determining the sampling is using a purposive sampling method with 10 companies as the sample size during the period of 2017-2022. While the analysis method data that is used in this research is Path Analysis with data processing software Smart PLS 3.0. The results of this research indicate that partially the third- party funds and non performing financing had no effect on the financing to deposit ratio. Third-party funds, non performing financing, and financing to deposit ratio have a significant effect on return on assets. Furthermore, financing to deposit ratio was unable to mediate the effect of third party funds and non performing financing on return on assets.***

Keywords: Third Party Funds, Non Performing Financing, Financing to Deposit Ratio, Return On Assets.

1. Introduction

Indonesia is one of the largest countries with a majority Muslim population in the world. Islamic countries, by law, the economic and state system, as well as socio- cultural, are fully regulated based on the sources of the Qur'an, Hadith, and the thoughts of the scholars [1]. The banking sector is one that has the most positive impact, because every community activity today cannot be separated from banking.
According to [2] the Islamic banking industry is a fast-growing sector that has captured the attention of researchers from various perspectives. Financial performance remains one of the key issues that regulators and managers a like look into and strive to list variables that can improve performance.

According to [3] the presence of Islamic banking has significantly added to the variant forms of financial institutions for the development of the banking system in Indonesia. The existence of this Islamic financial institution was preceded by the issuance of Bank Indonesia regulations Undang-Undang Number 7 of 1992 concerning the legality of Islamic banks operating in Indonesia that implement a profit sharing system.

According to [4] there is a comparison between Islamic Commercial Banks and Islamic Business Units in Indonesia as measured by liquidity risk. The results of this study found that there is a significant difference between Islamic Commercial

Banks and Islamic Business Units in Indonesia, liquidity in Islamic Business Units is better than Islamic Commercial Banks.

Based on the results of the Financial Services Authority's report, the stability of Islamic banking in 2021 will be even more solid. This is reflected in the adequate liquidity of sharia banking, as indicated by the maintained FDR ratio in the range of 80-90%. Based on the OJK report, the TPF ratio was on average above the 10% threshold, which was 30.57%. This was followed by the risk that national Islamic banking financing experienced a decrease in gross NPF by 51 bps (yoy) to 2.57%.

In the post- COVID 19 pandemic situation, Islamic banking is starting to prepare to improve the economy and increase bank profitability. There are challenges faced by Islamic banking when looking at third party funds and uncertain financing distribution. Added to this is the level of liquidity of Islamic banking, especially Islamic business units, which creates a separate dilemma.

2. Literature Review

In conducting research it is necessary to have strong principles related to the problem to be discussed. Therefore, in the literature review, the researcher will present the grand theory of other related theories and hypotheses regarding the variables in this study.

2.1 Pecking Order Theory

This theory shows that companies or organizations direct managers to use more internal funding sources. Internal funding is synonymous with the profitability obtained by a company or organization. Companies with high profitability will use internal funds in the form of retained earnings after debt if necessary to fulfill the company's funding decisions [5].

2.2 Third-party Funds

According to [6] third party funds are a source of funding collected by banks from the public. Funds raised can be in the form of savings, time deposits, and demand deposits. Of the three sources of funds, Islamic banking is to carry out long-term financing/distribution, namely deposit funds. Deposits are savings funds with withdrawals that can be made within a certain period of time [7]. Deposits are made by agreement between the lender and the bank. Apart from public funding to banks, this is the biggest source of funds for banks. The formula for third-party fund:

$$Third\ party\ Fund\ =\ Savings\ + Giro\ + Deposito \quad (1)$$

2.3 Non Performing Financing

According to [7] Non Performing Financing (NPF) is a comparison between the amount of payment (financing) compared to the amount of problematic financing. A financing that has problems in returning is caused by external factors from the customer to the bank it self [8]. The formula for Non Performing Financing:

$$NPF = \frac{The\ amount\ of\ problematic\ financing}{Total\ financing\ provided} \quad (2)$$

2.4 Financing to Deposit Ratio

According to [9] the financing to deposit ratio is a measurement ratio to find out the composition of the amount of financing provided compared to the amount of funding provided by the public and the internal capital used by the bank. This can be interpreted to measure the composition of the amount of financing provided with the amount of funds and capital owned or used [10]. The Financing to Deposit Ratio can be summed up as a ratio that describes the level of ability of Islamic banks to return third party funds through profit [9]. The formula for Financing to Deposit Ratio:

$$FDR = \frac{Total\ Loans}{Total\ Deposit\ + Equity} \times 100\% \quad (3)$$

2.5 Return on Assets

Return on Assets (ROA) is a measure of a company's ability to generate profits from the assets used. The higher this ratio, the better the condition of a company [11]. The higher the profit generated, the company will be considered able to maximize the efficient use of its assets. The amount of financial performance can be calculated through ROA with the formula:

$$ROA = \frac{Net\ Profit}{Total\ Assets} \quad (4)$$

2.6 Research Hypothesis

Based on the literature review and framework, the hypotheses that can be developed are as follows:
H_1:Third party funds have a positive effect on profitability
H_2: Non Performing Financing has no effect on profitability
H_3: Third Party Funds have a significant influence on liquidity
H_4: Non Performing Financing has no effect on Liquidity
H_5: Liquidity has a significant effect on Profitability
H_6: Liquidity is able to mediate the influence of Third Party Funds on Profitability
H_7: Liquidity has no direct effect on being able to mediate Non Performing Financing on Profitability.

3. Methodology

In this study the analysis technique used is the PLS (Partial Least Square) approach with a component basis having formative construct properties. This type of research data uses secondary data, obtained from Islamic bank business units registered with the financial services authority that publish financial reports from 2017 to 2022. Obtained 20 populations. The sample selection technique was purposive sampling in order to obtain 10 companies that met the criteria based on the six trillion KBMI (Core Capital Bank Group) standard.

4. Result

The following presents the results of data processing using reviews to help answer questions in this study.

4.1 R-Square

Changes in the R-Square value are used to assess the effect of certain independent latent variables on the dependent latent variable with the aim of determining whether there is a substance effect or not [12]. In grouping the value of R square, it consists of three categories, namely the strong category, the medium category, and the weak category. This parameter with an R square value of 0.75 is in the strong category, an R square value of 0.50 is in the medium category and an R square value of 0.25 is in the weak category [12]. Based on this research, the R- square results are obtained as follows:

Table 1: Recapitulation of R-Square Result

	R-Square	R-Square Adj
FDR	0.021	-0.014
ROA	0.384	0.351

The R-Square value on FDR which is a variable of liquidity has a value of 0.021, it can be concluded that the FDR variable (liquidity) is included in the weak category in R-Square. The R-Square value for ROA, which is a profitability variable, has a value of 0.384. It can be concluded that the ROA (profitability) variable is included in the weak category in R-Square.

4.2 Partial Hypothesis Testing (T Test)

The t test was conducted to find out whether third party funds and non-performing financing partially affect the financing to deposit ratio and return on assets which can be measured by comparing the probability value with the α level of 0.10.

Table 2: Recapitulation of Partial Hypothesis Test Result

Variable Effect	Coef	Prob.	α (0.10)	Result
TPF→FDR	-0.097	0.140	> 0.10	No significant effect
TPF→ROA	0.530	0.000	< 0.10	Positive significant
FDR→ROA	0.496	0.000	< 0.10	Positive significant
NPF→FDR	0.096	0.168	> 0.10	No significant effect
NPF→ROA	-0.118	0.051	< 0.10	Negative significant

4.3 Intervening Analysis Test

The interaction test was carried out to find out whether the intervening variables in this study were whether the relationship was a causal relationship or just an association between the independent variables and the dependent variable.

Table 3: Recapitulation of Intervening Analysis Result

Variable Effect	Coef	Prob.	α (0.10)	Result
TPF→FDR→ROA	-0.049	0.148	> 0.10	Unable tomediate
NPF→FDR→ROA	0.048	0.111	< 0.10	Unable tomediate

5. Discussion

Based on the results of data processing that has been carried out in the previous discussion, several findings were found which will be discussed further to reveal the purpose of this study.

5.1. Effect Third-party Fund on Profitability

Based on table 2, information can be obtained that the coefficient value of TPF is 0.530 which is positive and has a probability value of less than 0.10 or (0.000 < 0.10) which means that Third-party Fund as an independent variable has a significant positive effect on ROA. The factor that determines this significant influence is because the presence of large third party funds will increase the financing by banks provided to customers, this will increase the return generated from this financing. The profits obtained will increase the profitability of the bank's sharia business unit.

5.2 Effect Non Performing Financing on Profitability

Based on table 2, information can be obtained that the coefficient value of NPF is -0.118 which is negative and has a probability value of less than 0.10 or (0.051 < 0.10) which means that Non Performing Financing as an independent variable has a significant negative effect on ROA. This shows that the bank's financial management must have good abilities in observing financing, observing guarantees and supervising debtors. With this in order to enable the bank to avoid the buildup of bad financing which can later affect the profitability of the bank by the interest on financing loans paid by the debtor.

5.3 Effect Third-party Fund on Liquidity

Based on table 2, information can be obtained that the coefficient value of TPF is -0.097 which is negative and has a probability value of more than 0.10 or (0.140 > 0.10) which means that Third-party Fund as an independent variable has a not significant negative effect on FDR. The factor that does not significantly influence third party funds on liquidity is that although third party funds at Islamic Business Unit Banks are classified as stable and quite large compared to Islamic Commercial Banks, they are not able to reduce the level of liquidity at Islamic Unit Banks which are classified as large > 90%. This large level of liquidity allows banks to be unable to fulfill their obligations to return customer funds.

5.4 Effect Non Performing Financing on Liquidity

Based on table 2, information can be obtained that the coefficient value of NPF is 0.096 which is positive and has a probability value of more than 0.10 or (0.168 > 0.10) which means that non performing financing as an independent variable has a not significant effect on FDR. These results indicate problematic financing if it cannot be handled properly, including wasting opportunities to get opportunities to receive loans, resulting in reduced profits and reduced ability to provide financing. Therefore the NPF in Islamic business unit banks does not affect liquidity.

5.5 Effect Liquidity on Profitability

Based on table 2, information can be obtained that the coefficient value of FDR is 0.496 which is positive and has a probability value of less than 0.10 or (0.000 < 0.10) which means that financing to deposit ratio as an independent variable has a significant positive effect on FDR. This shows that the bank's financial management must have good abilities in observing financing, observing guarantees and supervising debtors. With this in order to enable the bank to avoid the build up of bad financing which can later affect the profitability of the bank by the interest on financing loans paid by the debtor.

5.6 Liquidity Ability mediates the effect of Third Party Funds on Profitability

Based on table 3, information can be obtained that the indirect variable is the value of the influence of third party funds on return on assets through intervening liquidity of more than 0.10 or (0.148 > 0.10) so it can be concluded that liquidity is unable to intervening the effect of TPF on ROA. This shows that the greater the liquidity of a bank does not affect the amount of third party funds that enter the bank's capital and are unable to affect the amount of profitability generated. Even though the high TPF will ensure a decrease in bank liquidity.

5.7 Liquidity Ability mediates the effect of Non Performing Financing on Profitability

Based on table 3, information can be obtained that the indirect variable is the value of the influence of non performing financing on return on assets through intervening liquidity of more than 0.10 or (0.111 > 0.10) so it can be concluded that liquidity is unable to intervening the effect of NPF on ROA. The level of the bank's ability to fulfill its responsibility to pay debts to customers is not able to influence the level of the amount of bad financing that arises at the bank. Even a high level of liquidity is unable to mediate the effect of bad financing on bank profitability income.

6. Conclusion

Based on the results of data processing in this study, it can be concluded that the existence of TFP as an independent variable (X_1) and NPF as an independent variable (X_2) can have a significant effect on ROA. Meanwhile, TFP variabel (X_1) and NPF variable (X_2) has no significant effect on ROA. Followed by liquidity results have a significant effect on profitability. The existence of FDR is not able to intervening the effect of TFP and NPF on ROA.

7. Future Scope

Based on the results of this study, researchers provide suggestions that can be used as input so that further research is better and developing, including namely; It is hoped that future researchers can use other financial ratios in order to obtain an overview from a different perspective on company performance and are expected to increase the observation period, because adding years of observation will better describe the accuracy desired. research result. Then the research was expanded to cover the population by involving Islamic Commercial Banks and BPRS so that the assessment was more specific to Islamic Banking.

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