JURIDICAL REVIEW ON THE DETERMINATION OF MURABAHAH PROFIT MARGIN AND THE ADVANTAGES & DRAWBACKS FOR THE BANKS AND THE CUSTOMERS (A COMPARATIVE ANALYSIS OF BANK RAKYAT INDONESIA SYARIAH (BRIS) AND BANK JAWA BARAT DAN BANTEN (bjb) SYARIAH)

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ABSTRACT

Murabahah is one of the most dominant financing agreements applied in Islamic banking throughout the world including Indonesia. Bank Rakyat Indonesia Shariah (BRIS) and Bank Jawa Barat and Banten Shariah (BJBS) are two of many Islamic banks that have murabahah as a dominant product. Bank Rakyat Indonesia Shariah has 70%-90% murabahah financing out of its total financing, while Bank Jawa Barat dan Banten Sharia offers up to 90% of its financing fund for murabahah. However, some people think that murabahah financing practice in Indonesia is not in line with the provisions of sharia legal standards as well as positive laws. This article aims to determine the profit determination mechanism of murabahah financing at BRIS and BJBS in Bandung and to give juridical review on its application based on the provisions of sharia legal standards and positive laws at the same time. This article is also aimed to examine the advantages and disavantages of the murabaha scheme for the banks and their customers. This study employs a comparative study analysis with the normative juridical methode. The findings show that the mechanism for profit determination was decided based on recommendations and suggestions from the Islamic banks ALCO Team Meeting. However, both BRIS and BJBS differ from determining the level of annual lending rate. It turns out that the determination of high or low margin was affected by internal and external factors. Furthermore the mechanism used in both BRIS and BJBS is in accordance with the provisions of sharia legal standards and the prevailing positive laws. Meanwhile, the murabaha scheme has some advantages both for banks and their cuscomers which overcome its disadvantages.

Keywords: Murabahah, Profit margin, Bank Rakyat Indonesia Shariah (BRIS) and Bank Jawa Barat dan Banten Shariah (bjbs), advantages and disadvantages

1. Introduction

1.1. Background of Problem

Murabahah is one of the most common types of contracts (akad) applied in financing activities in sharia banking. *Murabahah* is applied through the mechanism of sale and purchase of goods with the addition of margin as profit to be obtained by the bank. The financing portion with *murabahah* contract currently contributes the most to the total financing of the Indonesian Sharia Banking, which is about 60%. This is because most of the credit and financing provided by the banking sector in Indonesia is based on the consumptive sector. In order to be able to compete with conventional banking, *murabahah* Financing features, that are easy and simple, become the excellence for sharia banking to meet the needs of consumer financing such as motor vehicle procurement, home purchase and other consumer needs.

At first, *murabahah* was not related to financing. But, experts and scholars of sharia banking combined the concept of *murabahah* with several other concepts to form the concept of financing using *murabahah* contract. Although *murabahah* financing seems identical with consumptive financing, the actual *murabahah* financing can also be used for the purchase of productive goods for investment activities and working capital. Unfortunately, the ease of the *murabahah* financing mechanism may not exactly be the same in the field when it comes to the provisions and standards of sharia as well as the prevailing laws and regulations. There are some deviation between *murabahah* financing practices and the concept as well as provisions of syariah legal standards and positive law. This problem, unfortunately, becomes the basis for the preparation of *murabahah* product standardization. Therefore, this research is aimed to find out whether the mechanism of profit margin determination is in accordance with the provisions and standards of sharia as well as the prevailing laws and regulations

Judging from its functions, there are three products that are created by Sharia banks to fulfill its role; namely, fund raising, fund channeling, and services. However, the innovation and creation of Sharia Banks' products depend on each bank individually. Sharia banks run fund raising through savings which are in the form of savings accounts, deposits, and demand deposits using the principles of *mudlārabah* and *wadhi'ah* while fund channeling is performed through various schemes, such as trading (*murabaha*, *salam*, *istishna*), *ijārah*, profit sharing (*musyārakah* and *mudlārabah*), and complementary products which are fee based services (Ascarya, 2007).

In terms of fund channeling through financing, the most dominant scheme applied by Sharia banks is the scheme of sale and purchase using *murabaha*. Among the dominant sharia banks in Indonesia applying these products are Bank Rakyat Indonesia Syariah (BRIS) and Bank bjb Syariah (BJBS) in which they apply 70% to 90% of their total financing available. The dominancy of *murabaha* is undoubtedly caused by its advantages. Therefore, this phenomenon not only happens in Indonesia, but also in other countries where the population is predominantly Muslim such as Malaysia. However, Indonesia was deliberately chosen due to the fact that it has the biggest population with the majority of being Muslim and the popularity of shariah banks and their products, mainly *murabahah*, fail to register on any significant level. Consequently many Muslims still only use conventional banking and financing in Indonesia.

Murabahah is a contract of sale and purchase of goods by stating the price of acquisition and profit (margin) agreed upon by the seller and the buyer. *Murabahah* financing is the financing to the customer, for as much as the acquisition price (the price of the goods traded) plus the profit (which in the context of *shari'a* is known as margin) which is mutually agreed upon and the customer's payment can be made through installments or paid at once. (Reza, 2016)

In terms of payments in Islamic banks, the *murabaha* practice has two prevailing models. The first model is direct financing (cash), in which the basic price of goods is added with the profit. Related to this model, there is no alarming issue among the Islamic scholars because this model is in agreement with the practice of buying and selling which generally applies. The second model in *murabahah* is gradual payments (installments), in which the longer the time taken by customers to pay back the loan, the greater the level of profit margin is taken by the bank. The second model has an issue as this model is the subject of debates among Islamic scholars. It happens due to the fact that the determination of the rate of profit which comes from the base price plus the profit margin are paid gradually, so it indirectly indicates that this kind of financing is not much different from the existing consumer financing in conventional banks. (Sri Nurhayati, 2013)

Islamic banks impose margins on natural certainty contracts (NCC) based financing products. That is business contracts that provide payment certainty, both in terms of amount and time. One of which is murabahah financing. Basically, the mechanism for determining the *murabaha* profit margin in Sharia banks is stipulated in the Asset Liability Management Committee (ALCO) meeting. It means that the margin value of these reference results become the minimum reference standard for the determination of margin *murabahah* in sharia banks. But in practice, the ceiling price becomes the main reference in the determination of margin. Ceiling price is the highest margin rate applied to *murabahah*. (Interview of management trainee at BRIS).

The determination of profit margin of *murabahah* financing is based on recommendations and suggestions from the team of ALCO Sharia bank with the consideration of several things, namely, Direct competitor's Market Rate (DCMR), In Direct Competitor's Market Rate (ICMR), Expected Competitive Return for Investors (ECRI), Acquiring Cost, and Overhead Cost (Karim, 2010).

In general, the determination of profit margin of *murabahah* products in Sharia banks uses relatively the same indicators. The indicators used are: *cost of funds, overhead costs*, and *profit*. *Cost of funds* is the cost of the customers' deposit (profit sharing). Cost of funds must be incurred after the fund is reduced with liquidity. Meanwhile, *overhead costs* are all expenses incurred by sharia banks in the process of raising funds including the expense of promotion, personnel, and administrative expenses. Last, *profit* is the desired profit targets taking into account inflation rates, market rates, risk premiums, spreads, and reserves of collectible receivables. These indicators become the basic foundation in determining the level of profit margin of *murabahah* in sharia banks. The same thing applies to BRIS and BJBS, where the above indicators also form the basis of the mechanism for determining the profit margins of *murabahah*. However, in determining the lending rate (percentage), the two banks are different. In BRIS, the provision of *murabahah* margin ranges from 13.5% to 14% annually and the lowest is 13.5% annually; while in BJBS, the margin rate is around 10,92% to 13.85% annually and the lowest is 10.92% (BRIS and Bank bjb Sharia, 2018).

The above data shows that the level of lending rate (percentage) of *murabahah* profit margin in sharia banks is relatively high; it almost exceeds twice the amount of BI's (Bank of Indonesia) rate. The issue that is alarming is that the high *murabahah* margin, at this time, will have a significant impact on the emergence of Islamic banks' controversy from various elements of society. For example, the assumption appearing that the amount of *murabahah* margin in Islamic banks is higher than the existing interest rates in conventional banks whereas, in previous years, BI requested Sharia Banks to recalculate their margins.

In addition to the stipulation of *murabahah* margin on BRIS and BJBS having the same basic indicators, both also follow the BI rate. The BI rate is used as a reference in determining the *murabahah* price. However, in determining the lending rate (percentage) per year, both BRIS and BJBS are different. This is due to other factors that influence the determination of *murabahah* profit margins in both sharia banks; thus, it causes the high level of lending rate margin specified. In fact, it will also affect the high or low margin of *murabahah* profit per year.

From the background of problems, the researcher is interested in examining and analyzing more deeply about the mechanism for determining *murabahah* profit margin in sharia bank, whether the mechanism is in accordance with the provisions and standards of sharia as well as the prevailing laws and regulations. And more, the researcher is also interested in explore more about the advantages and the drawbacks of *murabahah* for banks and customers, since some people think that *murabahah* financing practice in Indonesia is not in line with the provisions of sharia legal standards as well as positive laws.

1.2. Identifications of Problem

Based on the problem above, that there are possibly some deviations between *murabahah* financing practices and the provisions of sharia legal standards as well as positive laws, the researcher formulates two research questions:

1. Is the mechanism for determining *murabahah* profit margin in sharia bank in accordance with the provisions and standards of sharia as well as the prevailing laws and regulations?
2. What are the advantages and disadvantages of *murabahah* for banks and customers?

1.3. Research Method

The qualitative method which formulates some statements to support data validation was used in this research. Based on the information (data) required, this research is both field research conducted at BRIS and Bank bjb Syariah and library research to support the existing information. Then this research is also a comparative analysis that depicts proportionally on how the object is being studied and interpreted based on the existing data to be further analyzed and compared. Furthermore, the comparative result of the analysis is conducted by a normative juridical review of the regulations applicable to the provisions of margin determination applicable in the Al Quran, Hadist, and Fatwa of the National Sharia Council. In this study, the researcher tries to describe and compare the mechanism of *murabahah* profit margins of both BRIS and BJBS. Furthermore, for the source of data, the primary data of this research is field data in which the information is obtained directly from BRIS and BJBS, as well as annual financial data published on the official website while the secondary data is in the form of library data, in which the primary material is the data derived from Qur'an and its translations, hadith and fatwa of Islamic Scholar of DSN-MUI; and the secondary material is the data derived from some books of fiqh muamalah, Islamic economic books, journals, and related research results.

2. Literature Review

2.2.1 Previous Research

Along with this phenomenon, there are some studies discussing *murabahah* profit margins in Islamic banks. The first study entitled "Factors Affecting the Murabahah Margin of Sharia Bank in Indonesia". This article was written by Yusro Rahma from UIN Syari Hidayatullah Jakarta, and was published in the Journal of Accounting Science, Volume 9 (I), April 2016.

The second study entitled "The Analysis of Margin Determination of Murabahah Financing at PT. Bank Syariah X, Pontianak Branch". This article was written by Nur Fitriana Hamsyi, from Tanjungpura University, and published in the Journal of Business Economics and Entrepreneurship, Volume 6, 2017.

2.2.2 Definition of Murabahah

Murabahah is one of muamalah contracts in the form of buying and selling. Etymologically, *murabahah* comes from the basic word *ribh* which means "profit, revenue, additional (margin)". Wahbah az-Zuhaili provides a definition of *murabahah*, as "buying and selling at cost plus profit". In general, the basis and the legal terms of the contract are regulated in article 22 KHES (Compilation of Sharia Economic Law) which includes: the subject of the contract (*al-'aqidain*), the object of the contract (*mahallul 'aqad*), the purpose of the contract (*maudhu'ul aqad*), and contract or hand over and acceptance *(sighatul akad)*.

Selling and purchasing of *murabahah* in Islamic economic perspective has several basis and conditions that must be met, consisting of:

1. Parties who do the contract (*al-'aqidain*)
    a. Seller (Bank)
    b. Buyer (Customer)
    c. Supplier (Supplier)
2. Objects that are in the contract (*Mahallul 'Aqad*)
    a. The existence of goods which are sold and traded
    b. Price of goods
3. Purpose of Contract (*Maudhu'ul Aqad*)
4. Contract (*Sighat al-'Aqad*)
    a. Hand over (*ijab*)
    b. Acceptance (*qabul*)

Talking about the parties who do the contract (*al-'aqadain),* the legal understandings must be fulfilled by the parties in the *murabahah* contract because the the parties who do the contract will perform a legal act that result in the existence of the rights and obligations. Meanwhile, related to the object of the contract (*mahallul 'aqad*) in the positive law or BW, it is called the "lawful cause". So in the general principle, the object of the contract must be free from elements which are prohibited by sharia or positive law, namely the elements of *maghrib* (*maysir*, *gharar*, and *usury*).

The main purpose of a contract (*maudhu'ul aqad*) is an essential thing because it will determine whether or not a contract is valid. The main principle in Islamic law, as it is set by Imam Suyuti in the book Al Asybah wa an Nazhir, is that "everything is considered according to its purpose (*al ummuru bi maqasidaha*)". In the relation to the sale and purchase of *murabahah* h financing, the purpose of the contract is the transfer of ownership rights from the Bank (*bai*') to the Customer (*musytari'*).

On the other hand, *Sighat al-'aqad* is in the form of hand over and acceptance. Conditions in this hand over and acceptance include:

1. *Jala'ul ma'na,*
   The purpose contained in the statement which should be clear, so the desired contract can be understood.
2. *Tawafuq*
   The existence of conformity between the hand over and acceptance.
3. *Jazmul iradataini*,

The will of the parties with certainty, no doubt, and no compulsion which is shown in the hand over and acceptance.

The agreement then is realized after the arrangement between the offer and acceptance is expressed by the signing of the contract. If the basis and the conditions described above can be fulfilled, then the bank and the customer can choose a payment mechanism based on the types of buying and selling *murabahah* as follows:

a. *Murabahah* with cash. That is, buying and selling of goods where the bank acts as a temporary seller and the customers as buyers.
b. *Murabahah* with installments (*bitsaman ajil*). That is, the sale and purchase of goods where the selling price is included in the sale and purchase contract.

As it is stated previously, at first, *murabahah* was not related to financing. Then, experts and scholars of sharia banking combine the concept of *murabahah* with several other concepts to form the concept of financing with the *murabahah* contract. Conceptually, there is a clear distinction between *murabahah* -based financing implemented by Islamic banks and credits run by conventional banks:

Islamic Bank
1. Selling goods to customers
2. The customer's debt is at a fixed selling price during the period of *murabahah*
3. There is supplier analysis
4. Margin is based on the benefits or value added business

Conventional Bank
1. Giving credit (money) to the customer
2. Customer debt is as much as credit and interest (changeable)
3. No supplier analysis
4. Interest based on prevailing market rate

Murabahah financing mechanisms have some basic features or elements. The most important and distinguishable *murabahah* financing with conventional credit is the existence of goods as an underlying asset of transaction in which the goods must remain in the banks' liability as long as the transaction between the bank and the customer has not been completed. (Abdul Buchori, 2016)

In the Islamic banking system, *Murabahah* has its own definition as it is formulated by Muhammad that *murabahah* is the contract of sale of goods at the cost of goods plus the agreed profit margin (Muhammad, 2000). Based on the agreement, the bank buys goods at the price ordered by the bank and resells it to customers. The selling price of the bank is the purchase price of the suppliers plus the agreed profits between the bank and the customer. In this case, the bank must inform honestly and transparently to the customer about the cost of goods plus any other necessary costs. From some of the definitions mentioned above, it can be concluded that *murabahah* is a contract of sale where the seller specifies the price of a good and the costs associated with the acquisition of goods plus the profit margin agreed by both the seller and the buyer in a contract agreement. The payments can be made in accordance with the agreement of both parties in cash or installments.

2.2.3 Basis of Murabahah Laws

Although the Qur'an does not directly address *murabahah*, there are a number of references related to sale and purchase, profit, and trade. Likewise in the hadith, there is no detailed legal basis regarding *murabahah*. Early generations of scholars, such as Maliki and Shafi'i specifically said that the sale and purchase of *murabahah* is allowed but they do not mention clear references from the Qur'an or hadith (Veithzal and Andria, 2008).

Meanwhile, the basic proposition that the majority use in the principle of *murabahah* is the surah of al-Baqarah verse 275 as follows: *"... And Allah has justified the sale and purchase and forbid the usury ..."* (Q.S. Al-Baqarah: 275). In surah an-Nisa ' verse 29, Allah (SWT) reaffirms: *"O ye who believe, do not eat of your neighbor's goods in a vanity way, except by way of commerce which applies equally among you."* (Q.S. an-Nisa ': 29).

As for the hadith which explains the sale and purchase with a deferred payment (*murabahah*), the hadith narrated by Ibn Majah states:

> *"From Shalih bin Shuhaib, his father said, Rasulullah SAW said."The three things in which there is blessing: the first, selling with the payment with installment (murabaha); the second, muqaradhah (another name of mudlārabah); and the third, mixing flour with wheat for the sake of the house, not to be traded. "(Narrated by Ibnu Majah) (Al-Albani, 2007).*

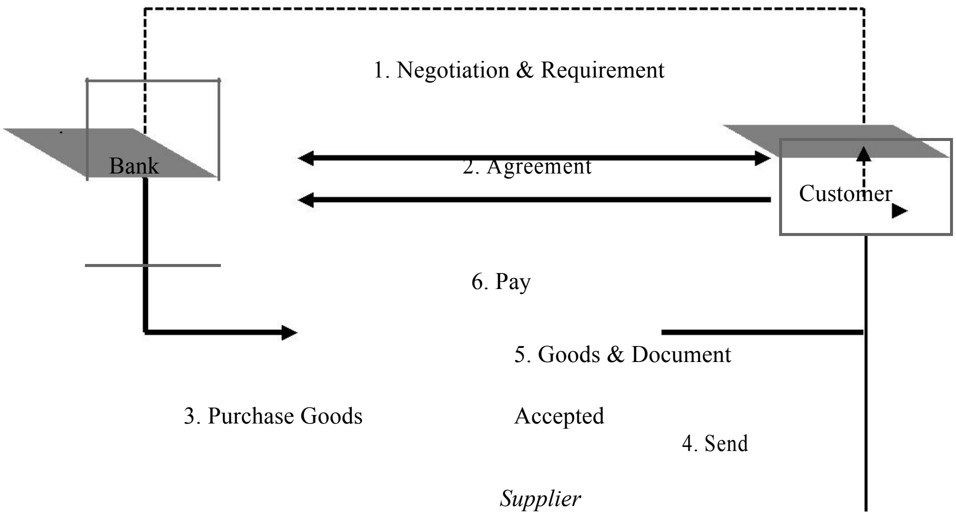
The scholars have agreed on the halal aspect of sale and purchase as a real transaction which is highly recommended and as the Sunnah of the Prophet Muhammad.

2.2.4The Application of *Murabahah* in Sharia Banking

Generally, *murabahah* applications in sharia banking can be described in the scheme below (Wirdyaningsih et al, 2005). The scheme clarifies the *murabahah* transaction process between the bank and the customer, namely:

1. The Customers shall apply for the purchase of goods in the *murabahah* scheme.
2. After the sharia bank approves the customers' application (an agreement is made between the customer regarding the price of the goods, the profit and etc.), the bank buys the goods to the supplier in cash.
3. Then, suppliers send goods to the bank as it has been ordered by the bank. At this stage, suppliers can also deliver goods directly to customers based on the agreements between the bank and its customers. On the goods purchased, the customers fulfill the obligations to the bank in installments over the prescribed term of purchase. Thereby, purchasing goods serve as collateral until all costs are settled. In this case, the bank is permitted to request additional collateral if necessary (BPSBI, 2001).

The Shceme of *Murabahah Application in Sharia Bank*



3.1. Discussion

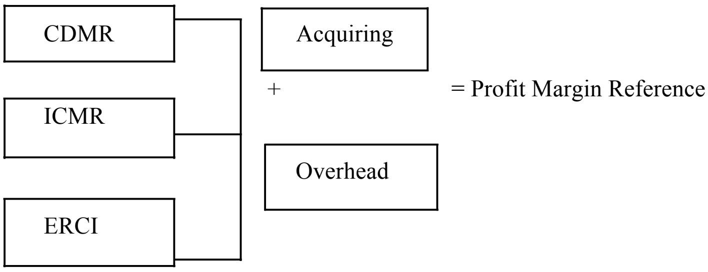
The Mechanism for Determining *Murabahah* Profit Margin in Sharia Banks

Murabahah originally was just a purchasing and selling concept that had nothing to do with financing. However, this form of purchasing and selling was then used by sharia banks by adding several other concepts to form financing. However, the validity of such transactions depends on several conditions that must be taken into account in order for the transaction to be accepted under sharia. *Murabahah* is one of the financings of purchasing and selling between the customers as the buyer and the bank as the provider of goods which are derived from the third party. In its agreement, the detail about the goods, the purchase price of the bank, and the selling price of the bank are stated clearly to the customer, so that it is included within the profit margin obtained by the bank, as well as the approval of the customers to pay the bank's selling price on a lump sum or in installments (Bank bjb Syariah, 2014).

The basic mechanism for determining the *murabahah* profit margin in Sharia Banks refers to the margin reference set in the Asset Liability Management Committee (ALCO) meeting of sharia banks (Karim, 2010). It means that the margin value of these reference results become the minimum reference standard for the determination of *murabahah* margins in sharia banks. But in practice, it is the ceiling price that becomes the main reference in the determination of margin. Ceiling price is the highest margin rate applied to murabahah. (Interview of management trainee at BRIS).

The determination of *murabahah* margin is based on approval, suggestion and recommendation from sharia bank's ALCO team. The organizations of ALCO's functions in small sharia banks may consist of Director and Key Managers who are active in credit, investment, and money market decisions. In a larger bank, ALCO may consist of Managers of Key Posts of the Balance Sheet, Director, Head of Finance and Accounting, Head of Credit Division, Investment Manager, Head of Deposits and Liabilities, Economist and Credit Policy Supervisor. ALCO's responsibilities typically include providing direction on the mastery and allocation of funds to maximize revenues, and ensuring demand and financial resources (Bankirnews, 2004, in Isnaliana, 2015). Therefore, ALCO has access to liabilities and pricing strategies on borrowing, establishing the practice of acquiring funds and options for loan allocation, monitoring spreed, asset distribution/liability, timeframes, dealing with secondary reserves for money market activities, reviewing budget variations, and most importantly arranging an action plant based on the causes of variation. In general, ALCO's responsibility is to manage the position and allocation of bank funds in order to provide sufficient liquidity, to maximize profitability and to minimize risk. As for the determination of profit margin based on recommendationss and suggestions from sharia bank's ALCO team are by considering some of the following (Karim, 2010):

1. Direct Competitor's Market Rate (DCMR)
   DCMR is the average profit margin rate of some sharia banks which is specified in the ALCO meeting as a direct competitor group, or the level of margin of certain sharia banks which is specified in the ALCO meeting as the nearest direct competitor.
2. Indirect Competitor's Market Rate (ICMR)
   ICMR is the average interest rate of conventional banks, or the average interest rate of certain conventional bank in which the ALCO meeting is defined as the nearest indirect competitor.
3. Expected Competitive Return for Investors (ECRI)
   ECRI is the target for the expected competitive outcomes which can be given to third party funds, and of course, the expected rate of profit can increase the number of revenues of Islamic banks.
4. Acquiring Cost
   Acquiring cost is the cost incurred by the bank which is directly related to the effort to obtain third party funds.
5. Overhead Cost
   Overhead cost is the cost incurred by the bank which is not directly related to the efforts to obtain third party funds.
   $$\text{Overhead Cost} = \frac{\text{Total Cost (excluding the cost of fund x 100\%)}}{\text{Total earning Assets}}$$



After obtaining the reference of the profit margin by considering the points above, the bank will set the selling price. The selling price is the sum of the purchase price, cost of goods, cost of the bank and the profit margin.

In sharia banks, there are three factors in determining the amount of margin (Zaenuri, 2012):

1. Overhead Costs
   Ovcerhead costs are all costs incurred by sharia banks in the process of fund raising, which include promotional, personnel and administrative expenses.
2. Cost of Loanable Funds
   Cost of loanable funds is the cost of the customer's savings account (profit sharing) which is the cost of funds needed to be spent after the fund is reduced by liquidity.
3. Target Profit
   Target profit is the desired profit by considering inflation rate, market interest rate, risk premium, spread, and reserve for collectible receivables.

Murabahah margin determination which uses base lendig rate can be seen in the illustration below:

Mr F needs funds to buy a car for business. Therefore, Mr F proposes for *murabahah* financing to sharia bank. The required fund is Rp 150,000,000, - and the margin charged to the customer is Rp 22,500,000, - (equivalent to 15%). Then the details of the components of margin determination of 15% are as follows:
Expected revenue share = 8%
Overhead cost = 2.5%
Expected return = 2%
Risk premium = 2.5%

Margin = 15%

When viewed from components of margin above, the components of base lending rate (BLR) aree: expectation of result, overhead cost, and expected profit. After obtaining the BLR value, it is added with the risk premium. In the case of risk premium, (Wiroso, 2005), if this risk premium is for covering the customer's failure for not paying, a customer who pays smoothly must be entittled to having the risk premium returned (not held as bank income). This is different from what it is applied in sharia banking. If compared to the real condition with the theory, according to Wiroso, this is not appropriate because the current customers must come to bear the failure of other customers who experience difficulty in paying. Supposedly, if the customer is paying smoothly according to the agreement, some risk premium can be returned in the form of discount so that the amount of margin charged to the customer can also be reduced.

In conventional banks, this portion is recognized as the income of the banks, in any kinds of customer category. Sharia banks themselves should be able to preclude the risk premium imposed for each borrower carefully. In the practice run by Islamic banks applying base lending rate, although calculations have been obtained on the numbers used as the basis for determining the amount of profit, the application of sharia tariffs still needs to still pay attention to market price. In general, to anticipate the market price increases after the contract, the margin which is set at the beginning of the contract is higher than the market price.

These three factors are the basic methods used by sharia banks in the mechanism for determining *murabahah* profit margin. However, in terms of their calculations, every bank is different because they involve the secrets of the banking institutions. Nevertheless, if it refers to the concept of a fair price by looking at the above three factors, it will be unfair to sharia banks in case they set lower margins and also unfair in case the margin set for customers is higher than the market rate.

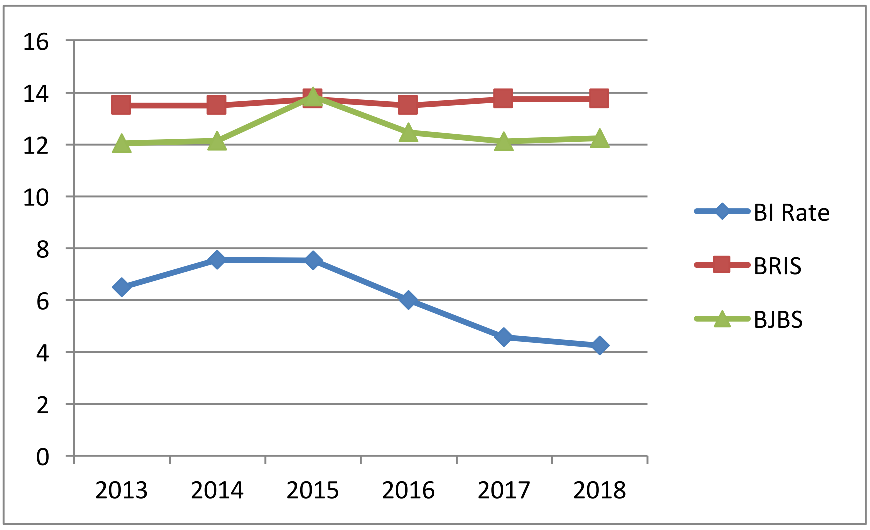
Basically, the determination of *murabahah* profit margin on both BRIS and BJBS refers to the reference margin which is specified in the Asset Liability Management Committee (ALCO) meeting and the respective Directors of the respective banks. The policies adopted by BRIS and BJBS are due to the absence of standard rules regarding the mechanism for determining *murabahah* profit margin in sharia banks. ALCO is the bank committee in charge of maximizing profits, minimizing risks, and ensuring sufficient liquidity, as well as an asset and liability committee. It is a committee consisting of directors and several divisional heads responsible for managing, strategizing, and managing bank portfolios to produce maximum profit and stay healthy.

Although both BRIS and BJBS refer to the ALCO meeting in establishing their *murabahah* profit margin, the two banks vary in determining the lending rate margin of the *murabahah* profit margins. In determining the profit margins of *murabahah,* there are several factors that are considered by both Islamic banks, which has an effect on the high or low profit margins set. The table below can be used to understand the development of BI rate and *murabahah* profit margins in sharia banks.

Tabel 1. Percentage of BI Rate and *Murabaha* profit margin of BRIS and BJBS

No.	Year	BI rate	BRIS	BJBS
1.	2013	5.75%-7.5%	13.5%-14%	12.05%
2.	2014	7.5%-7.75%	13.5%-14%	12.13%
3.	2015	7.5%	13.75%-14%	13.85%
4.	2016	4.75%-7.25%	13.5%-14%	12.45%
5.	2017	4.25%-4.75%	13.75%-14%	12.22%
6.	2018	4.25%-5.75%	13.75%-14%	12.24%

Figure 1. Graphic of BI Rate and *Murabaha* profit margin of BRIS and BJBS



Source of Data: Source of Financial Statistics Indonesia, Bank Indonesia, 2018.

The ups and downs of the *murabahah* profit margin incentives, as seen in the table 1, are influenced by two factors: the internal and external factors of the bank. At BRIS, the internal factors consist of the need for BRIS to obtain real profits, the marketability of *murabahah* goods, the cost of overhead, and the expected profit targets while the external factors consist of inflation, running interest rates, monetary policy, and interest rates abroad.

The factors affecting the ups and downs of the above-mentioned *murabahah* profit margins are not different from the lending rates of the conventional banks. Conventional banks, in setting bank's interest rates, set on the basis of the needs for funds to gain real profits, inflation, uncertain future inflation rates, liquidity preferences, loan demand, monetary policy, and foreign interest rates. Although the factors used are similar between setting profit margins of sharia banks and lending rates of conventional banks, the process remains different.

The same things occur in BJBS since the ups and downs for determining its *murabahah* profit margin are also influenced by the internal and external factors. The internal factors consist of cost of funds, overhead costs (employee costs, depreciation of fixed assets, and other costs associated with general administration), financing volume, target profit, and third party funds (DPK). The external factors consist of BI rate and market competition. The factors which are used by BRIS and BJBS in determining the rise of *murabahah* profit margin is almost the same, but BJBS does not take into account foreign interest rates. This also causes the *murabahah* profit margin at BJBS to be lower.

Although the determination of the *murabahah* profit margin in both BRIS and BJBS uses the factors that have been determined, at BJBS, there is a process of negotiating *murabahah* profit margin between the bank and the customers. However, at BRIS, there is no negotiation process between the bank and the customers since the predetermined margin has been fixed. The high or low margin of *murabahah* in both BRIS and BJBS is influenced by the internal and external factors of the banks. However, in the case of what happened in 2012, the decrease of margin was caused by market competition. Market competition that occurs in sharia banks runs like traders in the market. In this case, the position of sharia banks is as traders in terms of setting the price in accordance with the prevailing market price. This provision is enforced so that the goods can participate in the market; and so it is in sharia banking. To make the product to be able to be sold, the banks must follow the prevailing market competition because in such conditions, people are looking for and want a cheaper price compared to the expensive price of the same product quality.

However, the determination of the profit margin of *murabahah* in BJBS does not follow the law of demand and supply in the market. That can happen because when BJBS offer many *murabahah* products, the supply of these products are also abundant. It causes *murabahah* prices to go down; and therefore, this process indirectly causes the demand for *murabahah* products to also decrease. On the contrary, it shows that the demand for *murabahah* products increased, and it also occurs in BJBS. With the increasing demand for *murabahah* products, actually, the price offered will increase, or at least the price offered is at a standard level as it was in 2014.

From the statement above, it can be seen that the *murabahah* receivables of BJBS in the period of December 2013 increase from the previous period in 2012, with the total of *murabahah* receivables of Rp.1.938.562,000.000,-, in December 2012 to Rp.3.254.188.000.000,- in December 2013 (Source data : Bank bjb Syariah, 2018). Thus, it can be concluded that the increase of the *murabahah* receivables means demand for the increase of the *murabahah* products, compared with the previous year. Based on those phenomena, it can be concluded that the ups and downs of *murabahah* margins at Bank bjb Syariah are influenced by market competition in West Java, so that the situation also forces BJBS to lower the margin in order to compete in the market. In addition, it also keeps its customers from moving to other Islamic banks and to seek new customers at the same time

Furthermore, related to the effect of the BI rate on the determination of *murabahah* profit margins either at BRIS or at BJBS, basically, there is no authority and policy from BI to make the BI rate as a benchmark for Islamic banks to follow the BI rate in sharia financing. At any increase in the BI rate, the *murabahah* margin in sharia banks also rises. Similarly, if the BI rate falls, then, the *murabahah* margin also decreases. So, the rise and fall of the BI rate does not only affect conventional banks, but sharia banks as well.

Related to the BI rate which is used by BRIS and BJBS as the benchmark of interest rate in the determination of *murabahah* profit margins, one of the reasons is that the increase in the BI rate also means that the credit in conventional banks also rises. It is apparently fair to do so by a number of sharia banks by considering the future predictions, such as the possibility of inflation, in addition to the BI rate which is used as one of the factors that greatly affects the increase and decrease of the determination of *murabahah* profit margins in both banks.

However, the statement from BJBS also indicates that the increase in *murabahah* profit margin in Islamic banks is likely due to the conversion of profit sharing for savings accounts, deposits, time deposits and current accounts which are much smaller compared to conventional banks, in that the profit share is less competitive. In this case, the logical consequence to increase the profit share of the *murabahah* profit margin is that the *murabahah* profit margin should also be increased, unless it will experience a "spread" for the results of financing in which the share of savings deposit becomes smaller and it will also affect the profit (financial performance) of Islamic banks.

The statement is an enormous responsibility for Islamic banks because everyone who saves in Islamic banks is not only simply to keep the security of money, but also to expect profit in the form of profit sharing provided by the banks. In this case, the banks surely do not want to disappoint their customers who have entrusted their money in the banks. Therefore, the banks are looking for various alternatives to invest the third party funds in the form of financing, hoping their institution can obtain large and definite profits.

The above phenomenon is indeed a challenge on the credibility of Islamic banks to be able to compete and to increase their market share. The ability to build trust for ordinary people and businesses people to switch and choose sharia products need to be maintained. Sharia banks should not make the interest rate as the only reference in determining the selling price (principal + margin) of *murabahah* products. Islamic banks should provide an attraction that increases the interest of the public to invest or save their funds in sharia banks. This is inseparable from government support. The follow-up to be done by the government to improve the competitiveness of sharia banking is by the enactment of the provisions regarding standardization in determining the profit margin of murabahah financing in the existing syariah bank in Indonesia. In addition, it is also consistent to collect funds such as pilgrims funds stored in Islamic banks as one source of Islamic banking funds. This is one of the important components in influencing the high or low margin in sharia bank.

Related to the mechanism for determining profit margin in BRIS and BJBS, the researcher found that banks are in accordance with the provisions and standards of sharia as well as the prevailing laws and regulations. Based on the standars of sharia, the mechanism of profit margin determination in BRIS and BJBS do not break Islamic principle as there is no practice of usury. Moreover, the mechanism is run using consideration which does not give more burdens to the customers. For the prevailing laws and regulations, BRIS and BJBS use the prevailing laws and regulations comes from DSN MUI No 84, 2012 concerning *murabahah* profit margin. Based on *fatwa* of MUI, there are two acceptable methods in determining *murabaha* profit margin: proportional method and annuity method. Both methods are used by BRIS and BJBS in determining the profit margin in their *murabahah* products.

The Advantages and Disadvantages of *Murabaha* for Banks and Customers

Compared to the products of credit loans in conventional banks, *murabahah* products offered by Islamic banks have advantages and disadvantages for both the banks and the customers. However, *murabaha* also has some drawbacks when compared to the products of credit loans in conventional banks. Among the advantages of *murabahah* over credit loans in conventional banks for the customers lies on the amount of debt obligations. In the *murabahah* scheme, the price of a product has been agreed and set by the banks and their customers at the beginning of the contract, so that the price of goods will not change until the end of the contract; in addition, the price of goods does not depend on the term of payment, so that the repayments are fixed, and not changed. While in conventional credit, it requires the difference of payment in accordance with a predetermined time periods, the longer the payment time, the greater the amount that has to be paid back by the customers. Moreover, another advantage of *murabahah* over credit loans lies on the payment problem. In the *murabahah* scheme, the price of the goods will not change if the customer experiences payment problems, such as inability for paying the installment. The situation which is going to happen in the *murabahah* scheme if such problem appears is that the term of financing is changed to be longer than the original period. However, in conventional loans, the changes of installment time period require additional liabilities. Sometimes, the unpaid interest is made as an additional principal to be paid. This is another advantage of *murabahah* schemes for customers.

For the bank, the advantage of *murabahah* lies on the stability of profits to be achieved. These profits are formed from the sales margin which includes it within the selling price, so that the bank firstly has obtained the fixed profits from the sales margin. This is certainly inversely proportional to the profits obtained from conventional credits which are not fixed because the profits on conventional credit are based on interest rates. Due to adjustments to the interest rate, customers who get credit from conventional banks are charged with installment payments and interest rate fluctuations.

On the other hand, *murabahah* also has drawbacks in some aspects. In one point, the practices of the *murabahah* scheme as a product, today, are still not in accordance with the initial Islamic basic concept of *murabahah; w*hereas, these practices are performed by some Islamic finance industries. This may happen because the human resources still do not understand the true form of theory and the concept of *murabahah*. Thus, the practice in reality indicates the similarity between the *murabahah* practice and the practice of investment credit. Another point of *murabahah* drawback at this time lies on the absence of bargaining power owned by the customers. So the customers' position is often "somewhat forced" to accept the price offered by the sharia bank. In fact, in the practice of *murabahah,* the existing price is a price that has been agreed by the banks and their customers.

3.2. Conclusion

The mechanism for determining murabahah profit margins in both BRIS and BJBS refers to the margin reference which is set in the Asset Liability Management Committee (ALCO) meeting of sharia banks and the Board of Directors of each bank by considering several aspects: Direct Competitor's Market Rate (DCMR), Indirect Competitor's Market Rate (ICMR), Expected Competitive Return for Investors (ECRI), Acquiring Cost, and Overhead Cost. While the high or low margin of *murabahah* profit margin in both banks is influenced by internal and external factors of the banks.

Talking about the influence of the BI rate on the determination of *murabahah* profit margins in both BRIS and BJBS, basically, there is no policy and authority of BI in determining *murabahah* profit margins in sharia banks. However, for both Islamic banks, the BI rate is one of the biggest factors which are considered in determining the high or low margin per year, beside as the reference of interest, in order to be competitive in the financing.

Meanwhile, the mechanism for determining profit margin in BRIS and BJBS is found to be in accordance with the provisions and standards of sharia as well as the prevailing laws and regulations. Based on the standars of sharia, the mechanism of profit margin determination in BRIS and BJBS do not break Islamic principle as there is no practice of usury. Moreover, the mechanism is run using consideration which does not give more burdens to the customers. For the prevailing laws and regulations, BRIS and BJBS use the prevailing laws and regulations comes from DSN MUI No 84, 2012 concerning *murabahah* profit margin. Based on *fatwa* of MUI, there are two acceptable methods in determining *murabaha* profit margin: proportional method and annuity method. Both methods are used by BRIS and BJBS in determining the profit margin in their *murabahah* products.

Compared to the products of credit loans in conventional banks, *murabahah* products offered by Islamic banks have advantages and disadvantages for both the banks and the customers. Among the advantages of *murabahah* over credit loans in conventional banks for the customers lies on the amount of debt obligations. In the *murabahah* scheme, the price of a product has been agreed and set by the banks and their customers at the beginning of the contract, in that the price of goods will not change until the end of the contract; in addition, the price of goods does not depend on the term of payment, in that the repayments are fixed, and not changed. Moreover, another advantage of *murabahah* over credit loans lies on the payment problem. In *murabahah* schemes, the price of the goods will not change if the customer experiences payment problems, such as inability of paying the installment. On the contrary, for the bank, the advantage of *murabahah* lies on the stability of profits to be achieved. These profits are formed from the sales margin which includes it within the selling price, so that the bank firstly has obtained the fixed profits from the sales margin. On the other hand, *murabahah* also has drawbacks in some aspects. In one point, the practices of the *murabaha* scheme as a product, today, are still not in accordance with the initial Islamic basic concept of *murabahah; w*hereas, these practices are performed by some Islamic finance industries. Another point regarding *murabahah* drawbacks at this time lies on the absence of bargaining power owned by the customers. So the customers' position is often "somewhat forced" to accept the price offered by the sharia bank. In fact, in the practice of *murabahah,* the existing price is a price that has been agreed by the banks and their customers.

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