MURABAHAH MARGIN INCOME BASED ON INFLATION, LOAN INTEREST RATES, AND FINANCING RISK AT THE ISLAMIC COMMERCIAL BANKS IN INDONESIA

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ABSTRACT

Murabahah is one of the financing products that is much in demand by people in Indonesia. Its contract is considered as minimal risk both for customers and Islamic banks. Determining the margin income is basically based on the agreement between the financing customer as a buyer and the Islamic bank as a seller. There are several factors that can influence the determination of the margin which in turn have an impact on Murabahah margin income. This study aims to identify the factors that influence the Murabahah margin income of Islamic banks in Indonesia, such as, inflation, loan interest rates, and financing risk. The technique of sample selection uses purposive sampling. Out of a population of 14 Islamic commercial banks, 10 banks were studied. Data was analyzed by using panel data regression analysis. The result of the study shows that inflation does not have negative effect on Murabahah margin income, the loan interest rates does not have negative effect on margin income, and the financing risk does not have negative effect on Murabahah margin income of Islamic commercial banks in Indonesia. The result of this study can become a reference for Islamic commercial banks themselves to develop their financing products, especially Murabahah, in terms of profit margin determination. Basically, Murabahah is determined based on the agreement between the seller and the buyer so that the buyer feels capable to pay their credit and is not harmed. Furthermore, if the margin determination is correct, it can increase Murabahah margin income of Islamic banks.

Keywords: Inflation, Loan Interest Rate, Financing Risk, Murabahah Margin Income

INTRODUCTION

Murabahah contract that is considered as minimal risk still dominates Islamic bank financings, both Islamic commercial banks and also Islamic business units. Until 2019, Murabahah contract still has the biggest composition of 62% of the total financing portfolio, following Musyarakah contract, Mudharabah, and Qardh. The Murabahah contract is considered as minimal risk from both the bank and the customer side. From the bank side, the guarantee has a higher value than the amount of financing provided to the customers. From the customer side, there is certainty of the amount of installment because in sale and purchase scheme the margin value or bank profit is not changed until the financing is paid off (Elena, 2019). According to Laucereno (2018), profit margin in Murabahah agreement paid by customer will not be changed until the financing is paid off. The determination of margin amount depends on the bank assessing the customer, for example by including some elements, such as cost, risk, and so on".

Today, in determining the level of Murabahah there are several Islamic banks which use the same approach as conventional banks do in determining the loan interest rates. As a result, the loan interest is high or equal to the conventional banks. This condition creates a perception that the Murabahah products are the same as the conventional bank loan (Ekawati, and Shofawati, 2019). According to Safri (2020), "in determining the margin (profit), the Islamic banks can use the method of the Prophet Muhammad PBUH in making sale and purchase contract." The use of margin is to explain the purchase price in detail to the customer, how much the cost spent is, and how much the reasonable profit expected is, suitable with the joint agreement without harming either party. The difference between Murabahah contract from different ones is really obvious. The seller in Murabahah tells the buyer how much the principle value is and how much profit is charged to the value of the goods specified. According to Turmudi (2014), "to determine the profit margin the Islamic banks consider some aspects, such as, Direct Competitor's Market Rate (DCMR); the average profit margin level of the Islamic banks, Indirect Competitor's Market Rate (ICMR); the average interest rates of conventional banks; Expected Competitive Return For Investor (ECRI); the competitive profit sharing targets that can be given to the third party, Acquiring Cost; the direct costs spent by banks to get the third party funds, and Overhead Cost; the indirect costs spent by banks to get the third party fund".

Research problem of this study is how are influences of the inflation, lending rates, and financing risks on murabahah margin revenue either partially or simultaneously. There are several previous studies that have examined the effect of inflation, lending rates, and financing risks on murabahah margin income and have different results. This can be said as a research gap. There are some studies which state that inflation influences murabahah margin income, i.e. Satya (2013), Purwanto and Ratna (2018), Wahyuni (2015), and Ardiansyah et al. (2019) while a study which states that inflation does not influence murabahah margin income is by Anik (2017). There are studies that state loan interest rates influence murabahah margin income, i.e. Anik (2017), Fakhrina (2015), and Satya (2013). However, those that state loan interest rates have no effect on murabahah margin income are studies by Sari and Syafitri (2014) and Rosa and Kusumawaty (2019). There is a study which states that financing risk influences murabahah margin income, i.e. Zulpahmi et al. (2018). However, a study that states financing risk does not influence murabahah margin income is from Fauzi (2017). The differences from the previous studies are that this study was analyzed by using panel data regression analysis, by selecting the best method to use either common effect, fixed effect, or random effect, and taking a sample of 10 out of 14 Islamic commercial banks in Indonesia. The research data taken were from 2015 until 2019.

THEORETICAL BASIS

Murabahah Margin

Murabahah is one of the sale and purchase activities with the contract basis of trust and blessing, base price information, and profit margin that have to be declared and agreed by two parties (Rabbani and Nawirah, 2018). Murabahah is a financing that has the same characteristics as the credit loan scheme at conventional banks. In Murabahah financing scheme, the bank will buy the goods that is desired by the customer or with certain criteria. Next the customer will buy it according to the purchase price plus the profit margin agreed by both parties, and the customer will pay it with periodic credit that is appropriate to their financial capabilities (Fakhrina, 2015). In Islamic bank products which are based on Natural Certainty Contracts there is a set profit margin . Natural Certainty Contracts financing is the business contract that can give a certain payment both in amount and time. One of them is on murabahah product or sale and purchase that give margin to the customers (Anik, 2017).

Impact of inflation on murabahah margin income

According to Purwanto and Ratna (2018) "inflasion happens when the prices get increased continuously and influence to each other." The cause can be due to the increased public consumption or the lack of goods distribution. According to Wahyuni (2015) "the increase of inflation will rise the production cost, as the result the goods and service prices will be expensive." This condition has an impact on the decline of people's purchasing power, so that it reduces the demand of Murabahah financing. The decline of Murabahah financing demand will be followed by the decline of Murabahah margin. Another similar view, according to Satya (2013) and Setyaji and Musaroh (2018), states that "inflation has a negative and significant effect on Murabahah profit margin." Murabahah margin payment that is constant and cannot be changed can cause in addition to the banks having non performing loan, it will also reduce the number of customers due to the low people's purchasing power. As a result, the income from Murabahah financing which is selling and buying financing will be decreased.

Impact of loan interest rates on murabahah margin income

According to Turjayawan (2017), loan Interest Rates is the available funds lent by conventional commercial banks to the customers for consumption purposes, either clothing, food, or shelter. According to Anik (2017), Loan Interest Rates is the policy of loan interest rates that is issued by Bank Indonesia which is a monetary policy and announced to public. According to Anik (2017), "bank interest rates (BI rates) has an impact on the Murabahah margin profit. BI rates is related to inflation, in which Bank Indonesia will increase its rates if the inflation is predicted to exceed the set target, and will reduce its rates if the inflation is predicted to be under the set target. Therefore, if the inflation increased, it will also increase BI rates that can cause a decrease in purchasing power. Therefore, Murabahah margin is also reduced. According to Wahyuni (2015), "interest rates level has a negative, insignificant impact on Murabahah margin.

Impact of financing risk on murabahah margin income

If Islamic banks can maintain their loans properly and non performing financing is reduced, it can increase the Murabahah margin to be accepted by the banks themselves (Purwanto and Ratna, 2018). Non performing financing has a negative, insignificant influence on Murabahah margin (Zulpahmi et al., 2018). If the financing risk is getting increased especially for Murabahah financing risk, Islamic banks can consider to reduce Murabahah margin to be adjusted to the customer's ability. Therefore, the financing risk has a negative impact on murabahah margin determination.

RESEARCH METHOD

This study is quantitative research with explanatory approach. The kind of data is panel data. The data source is the secondary data that is obtained from the annual report of Islamic commercial banks of Indonesia. In addition, data collection techniques are carried out by collecting secondary data from several sources such as text books, research journals, and online articles. The population of this research is all 14 Islamic commercial banks in Indonesia. The selection sample technique uses purposive sampling method with the criteria of Islamic banks which have completed their financial report from 2015 until 2019. Based on the selection sample technique, 10 Islamic banks out of 14 are used as samples. They are BCA Syariah, BNI Syariah, BRI Syariah, NTB Syariah bank, BTPN Syariah, BUKOPIN Syariah, Mandiri Syariah bank, Muamalat bank, Panin Syariah bank, and Victoria Syariah bank. Before conducting the regression test, the researcher conducts classical assumption test (normality test uses Kolmogorov Smimov test, heteroscedasticity uses Glejser test, and multicollinearity test is by seeing the coefficient correlation between each independent variable). After that, hypothesis uses panel data regression analysis by selecting the best method that will be used, either common effect method, fixed effect, or random effect. In addition, determination coefficient test, F test, t test were also conducted. The regression equation obtained is as follows:

$$\mathbf{MM = \beta0 + \beta1I + \beta2SBK + \beta3NPF + \varepsilon \ldots\ldots\ldots\ldots\ldots\ldots..(1)}$$

Explanation:

MM = Murabahah Margin
I = Inflation
SBK = loan interest rates
NPF = Non Performing Financing
β0 = Constant; Y value if all X variables are zero values
β1 = coefficient regression of I
β2 = coefficient regression of SBK
β3 = coefficient regression of NPF
ε = other variables that are not tested

RESULT AND DISCUSSION

The Result of Classic Assumption Test

The normality test result using Kolmogorov Smimov gains the point of asymp.sig of 0.112 > 0.05. It shows that the data is distributed normally. By using Glejser test, it shows that the point of prob.chi-square is 0.7656 > 0.05 that means no symptom of heteroscedasticity appeared. The multicollinearity test result shows that the correlation point among all independent variables tested is less than 0.9. This means that there is no multicollinearity problem appeared.

Hypothesis Test Result

For the selection of panel data regression, the results gained were as follows:

Table 1. Chow Test Result

Effects Test	Statistic	d.f.	Prob.
Cross-section F	139.753576	(9,37)	0.0000
Cross-section Chi-square	177.758993	9	0.0000

Source: Output Eviews 10 (2020)

Based on Chow test result above, it gains the point of prob.cross-section Chi-square = 0.00. Probability point is less than 0.05, so that the better method to use is fixed effect.

Table 2. Hausmann Test Result

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	1.056064	3	0.7877

Source: Output Eviews 10 (2020)

Next the researcher conducts Hausmann test as seen on the table 2. It gains the probability point of 0.7877, it is greater than 0.05. It means that the better method to use is random effect.

Table 3. Lagrange Multiplier Test Result

	Cross-section	Time	Both
Breusch-Pagan	92.93586	2.772825	95.70869
	(0.0000)	(0.0959)	(0.0000)

Source: Output Eviews 10 (2020)

Probability point shows 0.00 that is less than 0.05. It means that the better method to use is random effect. The following is the result of estimating panel data regression using random effect method.

Table 4. Panel Data Regression resultUsing Random Effect Method

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1032.791	313.3901	3.295544	0.0019
Inflation	74.81061	195.2303	0.383192	0.7033
Loan interest rates	-9.82	6.07	-1.617295	0.1127
Financing risk	-122.0128	75.17940	-1.622955	0.1114

Source: Output Eviews 10 (2020)

Based on the regression result on Table 4, it shows that the probability point of X_1 (inflation) is 0.7033, greater than 0.05. It means that inflation has no negative impact on the Murabahah margin determination at Islamic commercial banks. The probability point of X_2 (loan interest rates) is 0.1127, greater than 0.05. It means that the loan interest rates does not have a negative impact on the murabahah margin determination at Islamic commercial banks. The probability point of X_3 (financing risk) is 0.1114, greater than 0.05. It means that the financing risk has no negative impact on the Murabahah margin determination at Islamic commercial banks. The model of regression equation as follows.

MM = 1032,79 + 74,81 I – 9,82 SBK – 112,012 NPF ………………..(2)

The F test gains point of 1.786 and probability of 0.6128. It means that the inflation, the loan interest rates, and the financing risk simultaneously have no negative impact on Murabahah margin determination at the Islamic commercial banks in Indonesia. The point of adjusted R-squared is 0.0459 or 4.59 that means the murabahah margin income is influenced by variables studied (inflation, loan interest rates, and financing risk) 0f 4.59%, while the rest is influenced by other unstudied variables.

Based on the result of this study, inflation does not have negative impact on Murabahah margin income at Islamic commercial banks. This study is in line with Anik's study (2017) that states inflation does not have impact on Murabahah margin income. This condition can be caused by Murabahah as the sale and purchase contract with its margin profit is agreed by both of two parties, bank and customer. The agreement of the margin is inseparable from the customer's ability to pay. If a customer needs an item then enters a sale and purchase contract to buy it, even if inflation is rising, it is possible that the customer will continue to buy it. The price of the goods may be rising but the margin can be adjusted with the customer's ability to pay and not harm the Islamic bank.
Based on the result of this study, the loan interest rates do not have a negative impact on the Murabahah margin income at Islamic commercial banks. The result of this study is in line with the research results of Sari and Syafitri (2014), Arumdhani and Septiani (2012), Fauzi (2017), and Rosa and Kusumawaty (2019). Therefore, the Murabahah margin income is not influenced by the rising and falling of the loan interest rate level because Murabahah margin is calculated based on the agreement of two sides, bank and financing customer, and in line with the customer's ability without harming the Islamic bank.

Based on the result of this study, the financing risk does not have a negative impact on the Murabahah margin income at Islamic commercial banks. The result of this study is in line with Fauzi's research (2017), and Azizah et al. (2017). İn this study the researcher takes the data of NPF from all financings at Islamic commercial banks not only Murabahah financing. The element contributes to the largest point of NPF which cannot be from Murabahah financing, but other types of financing, such as Mudharabah and Musyarakah. Therefore, if the study uses the existing data, the result will have no effect.

CLOSING

The conclusion of this study is that the inflation does not have negative impact on the Murabahah margin income, the loan interest rates does not have negative impact on Murabahah margin income, and the financing risk does not have negative impact on Murabahah margin income at the Islamic commercial banks. In addition, the implication of this study is that it can be input for the Islamic banks themselves in developing their financing products especially Murabahah in terms of margin determination. Basically, the Murabahah margin is determined based on the agreement between the seller and the buyer, so that the buyer can afford to pay the loan and the seller is not harmed. Meanwhile, the factors that influence the margin determination can be further studied to become a reference for the Islamic banks. When the Murabahah margin determination is correct, the income of Murabahah margin will also be much higher. What other countries can learn from this paper is that the Indonesian people in general choose murabahah products that have minimal risk compared to other Islamic bank products based on profit sharing such as mudharabah and musyarakah. Islamic bank products have become an alternative choice for them to meet the needs of life. Margin is also not fully understood by the public since there are still many who think that the margin is the same as conventional bank loan interest.

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