

CHAPTER 1

INTRODUCTION

A. Background

Since 1950, the needs of the community for the existence of banks that are free of interest or usury have been studied by Muslim scholars who also formulated economic theories in line with Islam (Saeed, 2004). Since then, the growth of Islamic banks, including those in Indonesia has been increasing continuously. This is indicated by data on sharia bank customer growth that has increased from year to year (www.ojk.go.id). The growth of Islamic banks can be achieved along with the increasing understanding of the layman about usury. Where, in Islam, capital for which the outcome has been determined upfront is included in the category of usury which is prohibited by the Shari'a (Islamic law).

In Indonesia, the enactment of Law Number 10 of 1998 concerning amendments to Law Number 7 of 1992 concerning banking has provided ample opportunity for the development of the Sharia banking network. In addition, Act Number 23 of 1999 concerning Bank Indonesia has assigned BI to prepare regulatory instruments and supporting facilities that support the operations of Islamic banks.

The position of Islamic banking is further strengthened by a fatwa stating that bank interest is haram issued by the Indonesian Ulema Council (MUI) Fatwa Commission at the end of 2003. Law No. 10 of 1998 provides wider opportunities to develop Islamic banking networks. There are several steps taken in the process of developing Islamic banking, including through granting permits to open Sharia Business Units (UUS) by conventional commercial banks, and conversion of branch offices or conventional banks to Islamic banks. Until finally, since then, the Indonesian banking system implemented a dual banking system, in which two banking systems (conventional and sharia) were held

in one country, the implementation of which was regulated in various applicable laws and regulations (Ambarwati, 2008). The following table shows the growth in the number of Islamic banks and their assets.

As for the outline of Islamic bank operational activities are divided into three, namely raising funds, channeling funds and bank services / financial services. Funds collected by Islamic banking include the principle of wadiah (demand deposits and savings) and the mudharabah principle (deposits and savings). While the distribution of funds carried out through Islamic banking include the principle of buying and selling (murabahah, istishna and salam), the principle of profit sharing (mudharabah and musyarakah) and the principle of rent (ijarah, and ijarah muntahiya bittamlik). Besides this, Islamic banks also provide financial services in the form of wakalah, kafalah, hiwalah, rahn, qardh, and sharf (Yaya, 2009).

According to data obtained from Indonesian banks, it shows that of the eight financing provided by Islamic banks, the murabahah contract is the highest, from 2014 to 2018 more than 50% of the financing provided through the murabahah contract, and the rest provided through the wadiah contract, mudharabah contract, the musyarakah contract, the salam contract, the istishna contract, the ijarah contract and the qardh contract. The researcher use the data from year 2014 until year 2018 because from that period any inflation condition and phenomena in year 2015. The researcher want to know that there is any effect on the total assets and the demand of Murabahah Financing products or not. From this period also known that the calculation of data became more valid because use 5 years period.

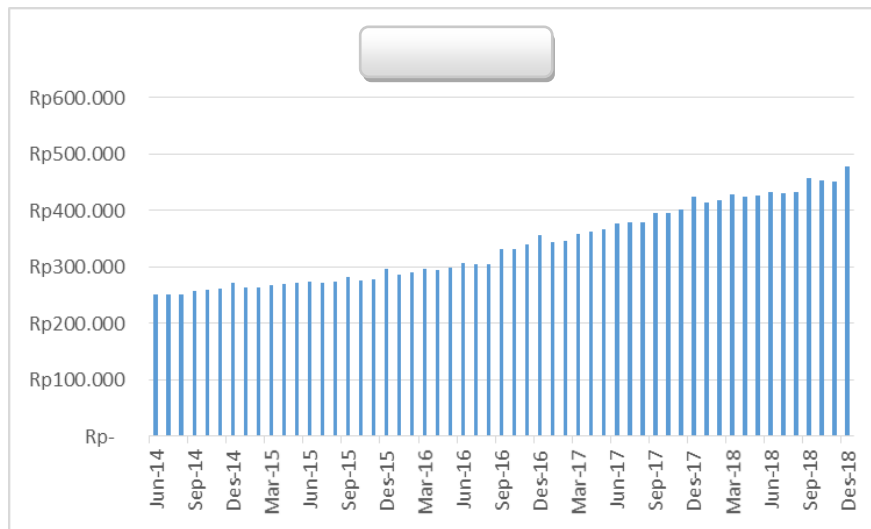


Figure 1.1 Graphics of Total Assets of Islamic Banks in Indonesia from January 2014 until December 2018 (rupiah)

Source : www.ojk.go.id

In the table above, it is found that the movement of Islamic banks is fluctuating, but its development has increased from year to year. In June 2014 the total assets of an Islamic bank was IDR 252,023. While in June 2015, total assets amounted to IDR 273,494. In June 2016 the total assets of IDR 306,225. In June 2017 total assets amounted to IDR 378,198. While in June 2018 the total assets of IDR 433,203. Therefore it can be seen that from year to year the number of Islamic bank assets is always increasing.

One form of channeling funds to Islamic banks is through murabaha financing products. This product has an important influence on the development of the Indonesian economy. As explained in the journal Dina Camelia & Ahmad Ajib Ridlwan entitled 'The Role of Murabahah Financing on Business Development and Welfare of Traditional Market SMEs', namely the provision of murabaha financing by BMT to its members influences the efforts of its members. Therefore, it can have an impact on the income level

of BMT members. If income increases, the economy can be said to increase. In addition, murabaha financing provides convenience because the method of payment can be done in cash or installments and without worrying about the risk of loss in the continuity of financing (sulistio, 2008 the influence of musyarakah and murabaha financing on the development of micro small and medium enterprises (MSMEs)).

Murabaha is buying and selling goods at the original price with additional agreed profits. The characteristics of murabaha are the product and states the amount of profit added to the cost. The basis of sharia permissible murabaha is QS. Al-Baqarah: 275 which means as follows:

الَّذِينَ يَأْكُلُونَ الرِّبَا لَا يَقُومُونَ إِلَّا كَمَا يَقُومُ الَّذِي يَتَخَبَّطُهُ الشَّيْطَانُ مِنَ الْمَسِّ ۗ ذَٰلِكَ بِأَنَّهُمْ قَالُوا إِنَّمَا الْبَيْعُ مِثْلُ الرِّبَا ۗ وَأَحَلَّ اللَّهُ الْبَيْعَ وَحَرَّمَ الرِّبَا ۗ فَمَنْ جَاءَهُ مَوْعِظَةٌ مِنْ رَبِّهِ فَانْتَهَىٰ فَلَهُ مَا سَلَفَ وَأَمْرُهُ إِلَى اللَّهِ ۗ وَمَنْ عَادَ فَأُولَٰئِكَ أَصْحَابُ النَّارِ ۗ هُمْ فِيهَا خَالِدُونَ

“People who eat usury cannot stand, but like a person who is possessed by a demon because he is mad. That is because they say that buying and selling is the same as usury. In fact, Allah has made buying and selling legal and forbidden usury. Whoever gets a warning from his Lord, then he stops, then what he has obtained before becomes his and his business (up to) Allah. Whoever repeats, they are residents of hell, they are eternal in it.”

Also mentioned in the hadith of the Prophet Muhammad SAW which means: From Suhaib al-Rumi ra, that Rasulullah SAW said: "Three things in which there is blessing: resilient trading, muqaradhan (mudharabah), and mixing wheat with flour for home use, not for sale "(HR.Ibn Majah) (Wiroso, 2005).

This research tells about the factors influence financing, in this case is about murabahah financing that mentioned by ayat in Al-Qur'an that is Q.S. An-Nisa ayat 29

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لَا يَأْتِيهَا الَّذِينَ ءَامَنُوا لَا تَأْكُلُوا أَمْوَالَكُمْ بَيْنَكُمْ بِالْبَاطِلِ إِلَّا أَنْ تَكُونَ تِجَارَةً عَنْ تَرَاضٍ مِنْكُمْ وَلَا تَقْتُلُوا أَنْفُسَكُمْ إِنَّ اللَّهَ كَانَ بِكُمْ رَحِيمًا
(٢٩)

"O you who believe, do not eat each other's wealth in an immoral way, except by way of commerce which is consensual among you." (Q.S An Nisa: 29)

So far, the majority of Islamic bank financing portfolios have been dominated by murabahah / buying and selling financing (Perkasa in Ambarwati (2008). It can be seen from the following graphic :

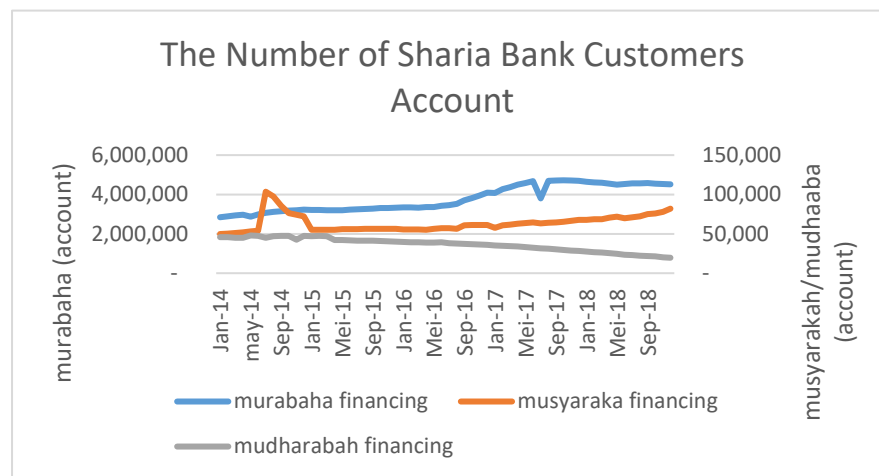


Figure 1.2 Graphics of The Number of Islamic Bank Customers Account in Indonesia (January 2014 until December 2018)

Source : ojk.go.id

From the figure 1.2, it is known that the comparison of the number of account customers in Islamic banks, namely murabahah financing is the most compared to mudharabah and musyarakah. Murabahah development has also increased, although not every year, it is stable and continues to rise. From this explanation, this research was conducted regarding the development of Islamic banks in murabahah financing products.

According to Danil (2019), the development of Islamic banks from year to year is influenced by many factors, one of which is financing products. of several types of financing, the one that has a big influence is murabahah financing. Murabahah financing makes it easy for customers to venture capital without any usury.

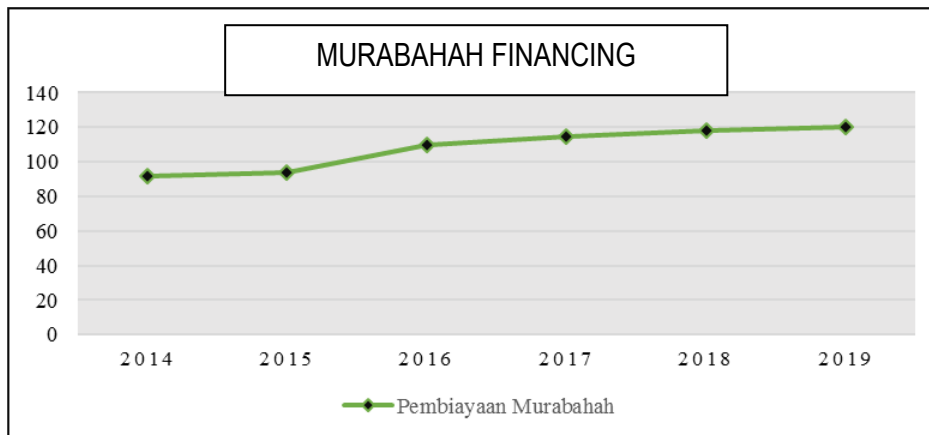


Figure 1.3 Graphics of Growth on Murabahah Financing in Islamic Bank in Indonesia
(January 2014 until December 2018)

Source : www.ojk.go.id

From the figure 1.3 shows that the distribution of murabahah financing to Islamic banks in Indonesia has increased from year to year, seen in 2014, the amount of murabahah financing was 91,867 billion, in 2015 amounted to 93,642 billion, in 2016 amounted to 110,063 billion, in 2017 amounted to 114,458 billion and in 2018 amounted to 118,134 billion. This is evident from year to year that Indonesians are interested in using murabahah financing. however, along with the increasing development of Islamic banks in Indonesia it is still inferior to the development of conventional banks because many people do not know about Islamic banks. Therefore, the researcher use the variable murabahah financing because in the product and account of Murabahah Financing itself have the highest account in Islamic Banks product after saving. This research want to know about the factors that affecting

Murabahah Financing and became the highest products in Islamic Banks in Indonesia nowadays. This research also want to research about the definition of Murabahah Financing that not including in Conventional Banks in Indonesia.

Much research has been done on murabahah financing. Promotion costs, third party funds, margin levels, SBIS and inflation are important variables in influencing murabahah financing according to Islamic banking. Research on promotional costs has been carried out by Rini (2016) and Umi, et al (2018) which states that promotional costs have a positive and significant effect on murabahah financing. Promotion costs are in the calculation of Islamic banking as capital for the marketing of Islamic banking itself. The more costs incurred for bank promotions, the more widespread and clear bank information is because there will be more variations and types of automatic promotions. That way, the higher the promotional costs at the bank will encourage the demand for murabahah financing.

Research on the level of margin states that there is a negative and significant effect on murabahah financing (Juniaty and Rifadli, 2020 and Mulfi, 2011). The margin level is determined by the agreement of both parties, namely the bank and the customer. However, if the margin demanded by the bank is high, customers will have more discussions and renegotiations or will not take financing. So this has resulted in the demand for murabahah financing going down.

Research on third party funds (TPF) has been conducted by Citra (2014), Nita (2018), Uus (2016), Herni, et al (2016) and Widya, et al (2018) stated that third party funds (TPF) have a positive influence and significant to murabahah financing. Raising and channeling funds is the main focus of Islamic banking activities. Without sufficient funds, the bank becomes dysfunctional. Third party funds can affect the bank's budget. The size of the funds raised by a bank is a barometer in assessing the

level of public trust in the bank concerned. TPF is the main source of bank funds, if in a bank, TPF growth shows a decline, it will weaken bank operations. In banking operations, TPF is a source of liquidity to facilitate financing on the asset side of the bank's balance sheet. So that the more deposits that are successfully collected, the more financing the bank can channel.

SBIS has a positive and significant impact on murabahah financing (Taufik, 2016 and Gittry and Astiwi, 2016). SBIS is a securities issued by Indonesian banks as a means to support activities in Islamic banking. So, the higher the SBIS, the higher the murabahah financing.

Inflation has a negative and significant impact on murabahah financing (Ma'rifatul, 2018 and Widya, et al, 2018). This can occur because actually operational activities in Islamic banking are different from non-bank operational activities. If non-bank operations use company capital as mainstay capital, it is different from banks. In this case, the Islamic bank performs its function as a collector of funds from the public as well as channeling these funds to partners who need them with certain contracts. So that capital in banking is not too influential in financing distribution activities. This research has the gap theory with other thesis and research. In this research, the variable that used is not including in previous research. There are research was did to know the margin and third party funds only, use the inflation and SBIS only and others. Not including the mix factors that are external and internal factors which in this research use margin, third party funds, and promotion cost in internal factors and inflation and SBIS in external factors.

Therefore, the two factors external and internal have important effect to Murabahah Financing. Another, a reliable marketing mix is needed to produce good results for Islamic banking. Hence the need for promotion, third party funds and

margin levels. This component influences the course of the development system of banking products offered to the public. And other component in external factors that are SBIS and inflation. Therefore, the title of this research is "*the factors affecting murabaha financing in Indonesia's Islamic banks*" which examines the variables that are factors that influence the amount of murabaha financing. In this study the authors emphasize and explain the internal factors of Islamic banks.

B. Scope of the Research

The research will only focus on the variables that influence murabaha financing in Islamic Bank, internal variables that are margin (fee), promotion costs, third party funds, and external variables namely the SBIS and inflation.

C. Research Background

Based on the background, the problem statements in this study include:

1. How does the influence of Margin on the Murabahah Financing in Islamic banks in Indonesia?
2. How does Promotion Cost influence the Murabahah Financing in Islamic banks in Indonesia?
3. How does Third Party Funds influence the Murabahah Financing in Islamic banks in Indonesia?
4. How does the SBIS influence the Murabahah Financing in Islamic banks in Indonesia?
5. How does Inflation influence the Murabahah Financing in Islamic banks in Indonesia?

C. Research Objective

Based on the above problems statements, the objectives of this study include:

1. To analyze effect of Margin (Fee) on murabaha financing in Islamic banks in Indonesia
2. To analyze effect Promotion Cost on Murabahah Financing in Islamic banks in Indonesia
- 3, To analyze effect of the Third Party Funds on Murabahah Financing in Islamic banks in Indonesia
4. To analyze effect of SBIS on Murabahah Financing in Islamic banks in Indonesia
5. To analyze effect of Inflation on Murabahah Financing in Islamic banks in Indonesia

D. Contributions

This study is expected to provide the following contributions :

a. For Writer

The results of this study are an opportunity for writer apply the knowledge gained during college, as well as add insight and experience to compare it direct theory gained during lectures and practice directly.

b. For Government and related Institutions

This study results from the factors that influence Murabahah Financing in Islamic banks in Indonesia. These factors have a negative and positive effect for Murabahah Financing. This research is expected to provide useful thoughts and can be taken into consideration in making decisions related to fund raising policies by Islamic Banks.

c. For Society and Academics

People become more familiar with Islamic banks and their product especially Murabahah Financing. As we know that in common, the people just know the product of bank which is saving but people rarely know about the product namely financing that quiet similar with savings but its different. The Murabahah Financing itself have been

effected by some factors such as in this research which is margin (fee), promotion costs and others aspect that not including in this research. People can know that financing, savings and deposits not just effected by income, religion and other common factors in the community. Therefore society will become more aware of deposit products that have almost the same procedures with savings but are different.