Original Article

Examining the Effect of Third-Party Funding and Non-Performing Loan on Syariah Banking Financing: Moderating Role of Profitability

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Abstract: Today, the expansion of the Sharia banking industry has shown sustained development over time, indicating satisfactory growth and enhancement, particularly in asset accumulation. Profitability moderates the relationship between third-party funds and non-performing financing on financing in Sharia banking (a case study of all Sharia commercial banks for 2018-2022). This study determines the influence of Third-Party Funds (DPK) and non-performing Financing (NPF) on financing with profitability as a moderating variable. This research uses a type of research, namely quantitative research using Moderated Regression Analysis (MRA). The samples used were 10 banks. The analytical tool used is multiple linear analysis using the EVIEWS application. Research results show that third-party funds have no effect on financing at Sharia Commercial Banks, non-performing financing has no effect on financing at Sharia Commercial Banks, and profitability cannot moderate third-party funds and non-performing financing on financing at Sharia Commercial Banks.

Keywords: Third-party funds; Non-performing loan; Financing; Profitability; Shariah Banking

1. Introduction

The Sharia banking industry's growth has continued to develop until now, which shows that development and improvement can be satisfactory, one of which is in terms of assets. It is crucial for Islamic banking to maintain the quality of its assets to achieve the desired profit (Ariani et al., 2022). During the COVID-19 pandemic at that time, the Sharia Banking industry had to move in terms of economic development and create new strategies and innovations so that appropriate and careful risks did not occur as well as creative strategies to deal with the COVID-19 pandemic (Yanti et al., 2022). A factor in describing

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a bank's development can be seen in the number of third-party funds that have been successfully collected by a bank so that the company can increase the number of third-party funds from customers for Sharia commercial banks with economic activities so that these activities include banking activities in collecting third party funds (Hadiani, 2018). With the establishment of a bank, many functions and strategies are carried out to grow intermediation institutions. They can also provide many services in various very easy payments, such as in distributing funds from the public or customers (Jatnika, 2020). One of the factors that can describe good growth in a company, one of which is in a bank, is the number of third-party funds that can be successfully collected by the bank so that it can produce good growth. It can influence the number of third-party funds in Sharia commercial banks (Hadiani, 2018). Sharia banking is a company that carries out its business activities in a way that is based on Sharia principles and there are several types of Sharia banks, namely consisting of Sharia Commercial Banks, Sharia business unit banks and also Sharia People's Financing Banks (Zumaidah et al., 2018).
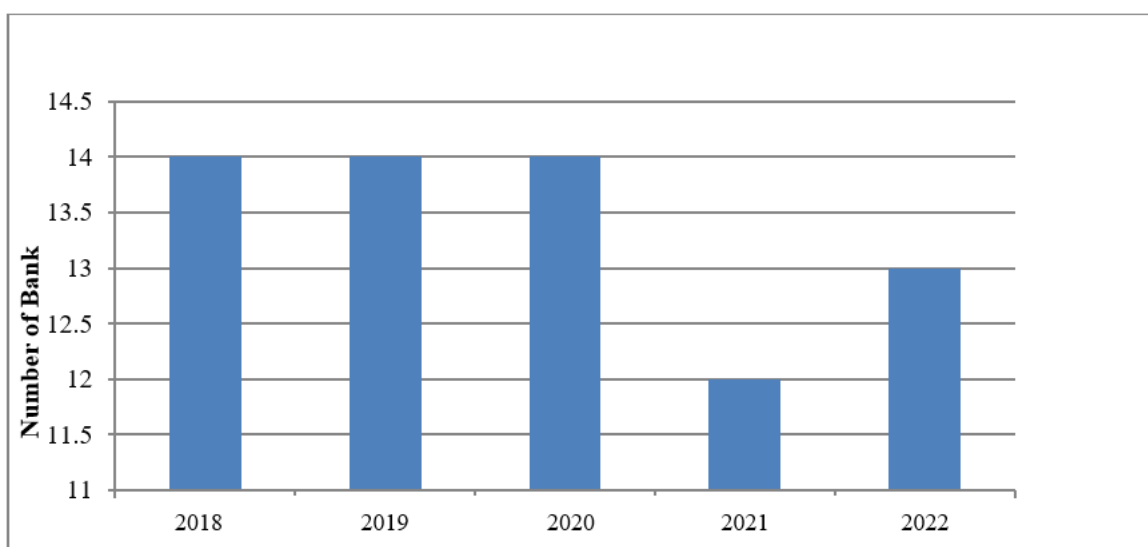

Figure 1. Sharia Banking Statistics

Source: Sharia banking statistics 2018-2022 (www.ojk.go.id)

Figure 1 shows that Islamic banking in Indonesia continues to develop very well from year to year. It shows that in December 2022, Sharia banks will have assets reaching 782,100 billion, so the stated amount has increased from the previous year, and the number of deposits has increased to 3.33 billion. In this case, we can see that people are increasingly interested in Sharia banking. The Return On Assets (ROA) growth section usually indicates good financial performance at the bank. On the basis of registered data in www.ojk.go.id statistics, Sharia banking experienced increases and decreases from 2018 to 2022. In 2018, the number of Sharia commercial banks was 14, then in 2019, the number of Sharia commercial banks namely 14 banks in 2020, there were 14 banks. Then, in 2021, there were 12 banks. In the following year, in 2022, 13 Sharia commercial banks were established in Indonesia (www.ojk.co.id).

Profitability is an indicator that can help with the most precise calculations in measuring a bank's performance. It calculates a profit, and Return on Assets (ROA) can be used to calculate profitability (Tisa Arifi Putriani, 2019). Based on data obtained from the official website of the financial services authority, profitability, measured through Return on Assets (ROA), is used to measure the profitability of Sharia Commercial Banks in 2018. Return on Assets (ROA) was 1.28% and experienced an increase in 2019, namely 1.73%. Then, in 2020, the return on assets (ROA) decreased by 1.40%. In 2021, it also increased by 1.55%; in 2022, it increased by 2.00%.

In previous research, the results of third-party funds showed a positive effect on financing. This research is supported by Kurniawan & Nurhidayah (2020), Yanti (2018) and Harianto et al. (2022) state that third-party funds influence financing. Besides that, Ayu Azillah Thohari (2018), Evi Maulida Yanti (2018), and Wau (2019) stated that non-performing loans had a negative effect on financing, and also supported by Ayu Azillah Thohari (2018), Anisa & Tripuspitorini (2019) and Wau (2019). Besides that, several studies, such as Ryad & Yuliawati (2017), Mauluddi (2020) and Kurniawan & Nurhidayah (2020), state that Non-performing financing does not affect financing. Thus, this study examines the effect of Third Party Funds used to measure profitability. Sharia Commercial Bank is a Sharia bank that provides services, so payment

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traffic is based on Sharia (Saputri & Rahayu, 2020). Banks, known as financial or financial institutions, also aim to obtain high profits or profitability. Then, Katuuk et al. (2018) stated that profits that can be obtained from financing an activity that operates within the company so that when paying salaries and other costs can be used for expansion and improvement of the company through various activities in the future

2. Literature Review
2.1. Third-party funds

Third-party funds are funds collected from the public, the largest source of funds relied on by banks. Third-party funds include current accounts, savings and deposits (Sholicha & Fuadati, 2021). Third-party funds are usually better known as public funds. Public funds are funds originating from the public, savings held by banks. Funds are collected by Sharia banking through third-party funds, which can be in the form of Sharia savings, Sharia current accounts and other types of Sharia products which are intended to attract funds from the public to be then entrusted to the banking sector (Jatmiko & Agustin, 2018).

2.2. Non-Performing Loan

In a corporate body in Sharia banking, mistakes in instalment payments are very biased, and bias, also called non-performing loans, is a problematic financing that banks can experience. Problematic financing can make a performance bad, affecting a bank's performance as a financial institution and impacting profits (Suryadi & Burhan, 2022). Non-performing financing is an indicator that we can use to measure one of the indicators that can be used to measure so that it can be seen by looking at losses and profits due to an increase in problematic financing. So, the greater the non-performing financing in a bank, the greater the problem of financing that occurs (Evi Maulida Yanti, 2018).

2.3. Financing

Financing is a willingness to provide money or bills that are given to do so based on an agreement or agreement between two parties between the bank and another party, which requires the party being financed to be able to return the money or bills that have been received after a period of time (Putra, 2018). Some of what banks do, namely Sharia and conventional banks, also have similarities, such as the technicalities of receiving money, transfer mechanisms, and general conditions for opening deposits and obtaining financing (Saputri & Rahayu, 2020).

2.4. Profitability

Profitability is related to income and costs and also what can be produced by using the company's assets, both in the part that can be used and in the fixed part, both current and fixed assets in production activities (Ardheta & Sina, 2020). Profit in Islam Profit is the income remaining after all costs have been paid. The costs include labor, material, margin, and taxes. In other words, this profit is a positive profit resulting from business operations or investments after deducting all expenses or costs (A. M. Anisa, 2021).

3. Materials and Methods

This study was conducted at Sharia Commercial Banks in Indonesia and uses secondary data collected from financial reports from 2018 to 2022. The data was analyzed using the EVIEWS-9 application. The samples used were 10 banks. This study is designed using a panel data approach. In determining the appropriate regression model, the first test carried out is the Chow test to choose between the Common Effect Model (CEM) or the Fixed Effect Model (FEM). Next, CEM will be compared with the Lagrange Multiplier (LM). The LM test determines the best panel data regression model between the Common Effect or Random Effect models.

4. Results

The result of the analysis using descriptive statistics, as seen in Table 1 below:

Table 1. Result of Descriptive Statistics

Statistics	X1	X2	X3	Y
Mean	0.196860	2.477400	0.180380	1.794800

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Statistics	X1	X2	X3	Y
Median	0.182000	1.555000	0.180000	1.285000
Maximum	0.930000	9.540000	0.196000	11.43000
Minimum	0.163000	0.080000	0.163000	0.020000
Std. Dev.	0.106130	2.123912	0.007420	2.379945
Skewness	6.790251	1.669736	-0.201914	2.666298
Kurtosis	47.42166	5.363987	3.423106	10.46633
Jarque-Bera	4495.237	34.87605	0.712700	175.3804
Probability	0.000000	0.000000	0.700228	0.000000
Sum	9.843000	123.8700	9.019000	89.74000
Sum Sq. Dev.	0.551920	221.0392	0.002698	277.5428

Table 1 shows as many as 10 Sharia banking companies met the criteria from 2018 to 2022. The data obtained was 50 observations. This study indicates that the mean value of Third-Party Funds (X1) is 0.198, the Non-Performing Loan (X2) is 2.47, Profitability (Z) is 0.180, and Financing (Y) is 1.794. The median of Third-Party Funds (X1) is 0.930, the Non-Performing Loan (X2) is 1.555, Profitability (Z) is 0.180, and Financing (Y) is 1.285. The maximum value of Third-Party Funds (X1) is 0.930, the Non-Performing Loan (X2) is 9,540, Profitability (Z) is 0.196, and Financing (Y) is 11,430. The minimum value of Third-Party Funds (X1) is 0.163, the Non-Performing Loan (X2) is 0.080, Profitability (Z) is 0.163, and Financing (Y) is 0.020.

4.1. Model Selection (The Best Model)

Table 2. Result of Chow Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	8.383472	(9,37)	0.000
Cross-section Chi-square	55.5801	9	0.000

Table 2 captures that in determining the appropriate regression model, the first test carried out is the Chow test to choose between the Common Effect Model (CEM) or Fixed Effect Model (FEM) with the decision-making rules: a) If probability> 0.05: H0 accepted, CEM is more appropriate to use, b) If probability <0.05: Ha is accepted, FEM is more appropriate to use. From the data in Table 2 above, it shows that Prob. Cross-section Chi-square < 0.05. so it can be concluded that the chosen one is fixed effects (FEM).

Table 3. Result of the Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.894544	3	0.8267

Table 3 shows that the next model determination is carried out by means. If the Hausman test value is > 0.05. Thus, the model chosen is the Common Effect Model. If the Hausman test value is <0.05, then the model chosen is a Random Effect. The value obtained from the test is 0.826 > 0.05, which shows that the selected model is the Common Effect Model.

Table 4. Result of LM Test

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	31.09715	0.394446	31.49159
	0.000	-0.53	0.000
Honda	5.576481	-0.628049	3.499070
	0.000	--	-0.0002
King-Wu	5.576481	-0.628049	2.570707

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	Test Hypothesis		
	Cross-section	Time	Both
	0.000	--	-0.0051
Standardized Honda	6.705609	-0.384329	1.266294
	0.000	--	-0.1027
Standardized King-Wu	6.705609	-0.384329	0.333229
	0.000	--	-0.3695
Gourierioux, et al.*	--	--	31.09715
			(< 0.01)

The LM test is used to determine the best panel data regression model between the Common Effect Model and Random Effect Model so that the LM test is carried out using decision-making rules. Table 4 indicates that, based on the LM test results, the calculated LM value is (>0.05). This means the calculated LM value is >0.05, so the model chosen is the Common Effect. The best model was produced from the Lagrange Multiplier (LM) test, namely the Common Effect Model. This study used the Common Effect Model as the best model to estimate this research. This model is the simplest approach, which only combines Time Series and Cross-section data, so it does not pay attention to time or individual dimensions or assumes that the behavior of the data is the same in various periods.

4.2. Classical Assumption Test
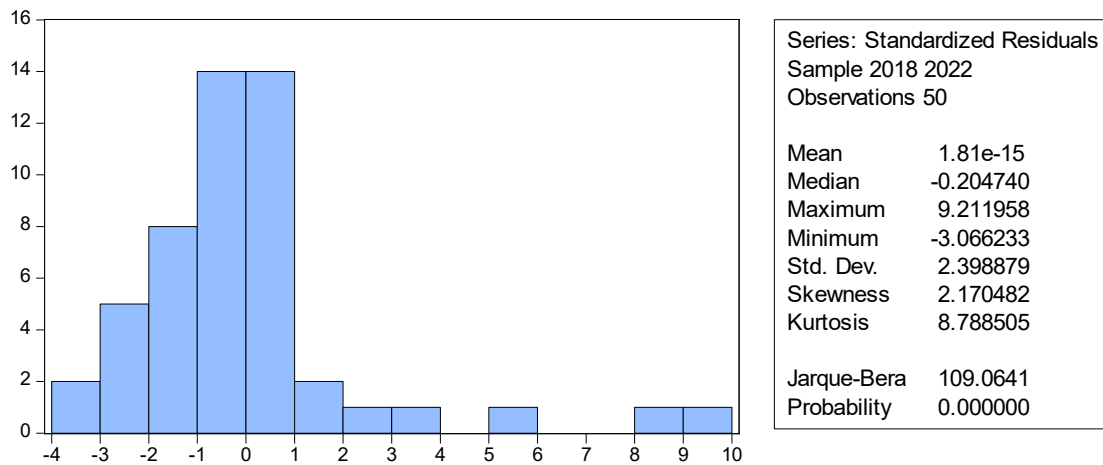### 4.2.1. Normality Test

Figure 2. Result of Normality Testing

Figure 2 describes a Jarque-bera probability value of 0.000. From these results, a decision can be made that the Jarque-bera Probability value is $< \alpha$ 0.05, so the residual is not normally distributed.

4.2.2. Multicollinearity Test

Table 5. Result of Multicollinearity Testing

Variable(s)	X1	X2	X3	Y
X1	1.000000	-0.1146	0.235174	0.007615
X2	-0.1146	1.000000	-0.31344	-0.08307
X3	0.235174	-0.31344	1.000000	0.132935
Y	0.007615	-0.08307	0.132935	1.000000

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Table 5 indicates that the results of the multicollinearity test using the pairwise correlation method obtained results where the pairwise correlation value of each independent variable was < α 0.85, so it can be interpreted that there is no multicollinearity.
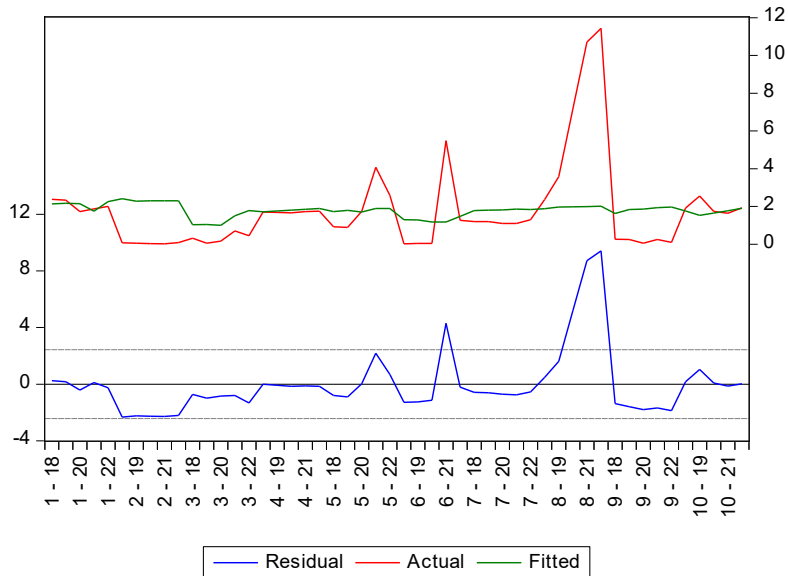
4.2.3. Heteroscedasticity Test

Figure 3. Result of Heteroscedasticity Testing

Figure 3 indicates that the test results do not have multicollinearity in the data distribution.

4.2.4. Autocorrelation Test

Table 6. Result of Autocorrelation Testing

R-squared	0.056778	Mean dependent var	0.525117
Adjusted R-squared	-0.00474	S.D. dependent var	1.515437
S.E. of regression	1.519021	Sum squared resid	106.1416
F-statistic	0.923009	Durbin-Watson stat	1.923654
Prob(F-statistic)	0.437226		

Table 6 shows that testing the autocorrelation assumption can be seen through the Durbin-Watson Test. In Table 6, the Durbin-Watson value is 1.923. The dL and dU values at df1 = 2 and df1 = 66 are 1.5395 and 1.6640, respectively, so the d value of 1.8852 is in the range of dU<d<4-dU values, namely 1.6640<1.923<2.336. This shows that the regression model is free from autocorrelation problems.

4.3. Hypothesis testing

Table 7. Result of Hypothesis Testing

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-11.07619	10.61444	-1.0435	0.3022
X1	-0.323343	2.335204	-0.13847	0.8905
X2	0.168599	0.170327	0.989856	0.3274
X3	69.39217	59.04368	1.175268	0.2459
R-squared	0.056778	Mean dependent var		0.525117
Adjusted R-squared	-0.004736	S.D. dependent var		1.515437
S.E. of regression	1.519021	Sum squared resid		106.1416
F-statistic	0.923009	Durbin-Watson stat		0.923654

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Variable	Coefficient	Std. Error	t-Statistic	Prob.
Prob(F-statistic)	0.007226			

Table 7 captures that X1 has a coefficient of -0.3233 and a probability t-statistic value of 0.8905, so it can be concluded that the relationship between X1 and Y has a negative and insignificant effect on financing. The variable X2 coefficient is 0.1685, and the probability t-statistic value is 0.3274. The simultaneous test (F Test) shows that the Probability F statistical value is 0.0072 < α 0.05. All the variables in this test are third-party funds and non-performing financing simultaneously and significantly affect the dependent variable, namely financing. In addition, this study found that the coefficient of determination test (R^2 test) can be interpreted as R-squared obtaining a result of 0.056 or 5.6%, so it can be concluded that third-party funds and non-performing financing can describe the financing variable of 5.6% and the remainder explained by other variables not mentioned in this study.

4.4. Moderated Regression Analysis (MRA)

Table 8. Result of Moderation Analysis (M1 and M2)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
M1	-2877.566	4640.568	-0.62009	0.5383
M2	-30.04696	25.2327	-1.1908	0.2398

Table 8 indicates that third-party funds have a probability value of 0.5385 > α 0.05, so it can be interpreted that profitability cannot moderate third-party funds towards financing. Then, non-performing financing has a probability value of 0.2260 > α 0.05, so it can be interpreted that profitability cannot moderate non-performing financing on financing.

5. Conclusions

This study concludes that third-party funds have no effect on financing and non-performing financing has no effect on financing. In contrast, third-party funds and non-performing financing affect financing. Then, profitability cannot moderate third-party funds on financing, and profitability also does not moderate non-performing financing at Indonesian Sharia commercial banks from 2018 to 2022.

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