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The Influence of Third-Party Funds, Capital Adequacy Ratio, and Non-Performing Financing on Company Profitability with Financing as an Intervening Variable in Islamic Non-banking Institution

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Abstract
The researcher wrote this scientific paper so that he could set hypotheses that affect each variable to provide benefits for further writing. Through this writing, the researchers obtained the following results: 1) DPK had a positive and significant impact on financing; 2) CAR has a positive and significant impact on financing; 3) NPF has a positive impact and is quite important for financing; 4) Deposits have a positive and significant impact on Profitability; 5) CAR has a positive impact and is quite important to Profitability; 6) NPF has a positive impact and is quite important to Profitability; 7) Financing has a positive and quite important impact on Profitability; 8) DPK has a positive and quite important impact on profitability through financing mediation; 9) CAR has a positive and significant impact on Profitability through financing mediation; 10) NPF has a positive impact and is quite important to profitability mediated by financial lending.
Keyword: Islamic Non-Banking Institution, Third-Party Funds (DPK), Capital Adequacy Ratio (CAR), Non-Performing Financing (NPF)

INTRODUCTION

Indonesian Islamic non banking institution continues to provide positive growth, although there are still several strategic issues and challenges that still need to be resolved. The transformation of the Islamic Non banking institution study conducted by the Financial Services Authority (OJK) in 2018 found several strategic issues that still hamper the acceleration of the growth of Islamic non banking institution businesses, including the absence of significant business example differentiation, suboptimal quality and quantity of human resources and low levels of literacy and inclusion.

According to Law no. 10 of 1998, in carrying out its business activities in Indonesia, banks carry out their business activities conventionally or in accordance with sharia principles. Until now, Islamic banks in Indonesia have experienced very rapid development, especially after the enactment of Law no. 21 of 2008 on Islamic non banking institution. However, when viewed from the total assets owned by Islamic banks, the total assets owned by Islamic banks in Indonesia are only 4.83% of the total assets of banks in Indonesia. This figure is still below the target set by Bank Indonesia of 5%. Where Islamic banks in Indonesia should be able to exceed this target because the majority of the population in Indonesia are Muslims. Therefore, Islamic banks are required to improve their performance optimally so that they can compete with conventional banks in Indonesia and achieve the targets set by Bank Indonesia.

Profitability is the most appropriate indicator to measure a bank's performance. In general, profitability is measured by Return On Assets (ROA). Hanafi and Halim (2009) stated that ROA can measure a company's ability to generate profits by using the company's assets after being adjusted for the costs incurred to fund the assets. Therefore, ROA is the right indicator to measure bank performance.

Financing is the main factor that can affect the level of bank profitability. Rivai and Veithzal (2008) stated that most financial institutions contribute to the source of bank income from financing distribution. According to Dendawijaya (2003) financing/credit is the largest activity of non banking institution. This is in accordance with the Risk Bearing Theory of Profit, namely that companies can get above normal profits if their type of business has a high risk. In non banking institution, financing means business activities that have a high risk. The funds owned by the bank are also one of the factors that can affect the level of profitability.

The funds owned by the bank are very crucial for investment planning and carrying out its business activities. For a bank, as a financial institution, funds are the blood in the body of the business entity and the most important issue, Dendawijaya (2003). Without funds, the bank cannot do anything, meaning it cannot function at all. The largest funds owned by the bank and the most relied on in carrying out its business activities come from third party funds or funds from the community. Therefore, the amount of third party funds collected by the bank will determine the level of profitability.

Apart from financing and third party funds, financial ratios such as CAR (Capital Adequacy Ratio) and NPF (Non Performing Financing) are also factors that can...

affect profitability. According to Dendawijaya (2003) CAR is a ratio that shows how far all bank assets that contain risk are funded from the bank's own capital funds in addition to obtaining funds from sources outside the bank. Based on the definition of CAR above, it can be said that when a bank has a high CAR, the bank has sufficient capital to carry out its operational activities including financing distribution activities and the bank is able to bear the risks that may arise when carrying out its activities.

The next financial ratio that can affect profitability is NPF. NPF or NPL is a comparison between problematic credit/financing and total credit/financing provided. The higher this ratio indicates the inability of a bank to manage its problematic credit/financing, of course this will reduce the level of confidence of a bank and its caution in carrying out its business activities in the next period such as financing distribution. Therefore, the amount of NPF in the previous period can determine the level of bank profitability.

In this study, the high value of third party funds, CAR, and NPF will affect the business activities carried out by the bank, which of course will affect the level of profitability that will be obtained by the bank. Meanwhile, the main and largest business activity of the bank is financing. Therefore, in this study, financing is used as an intervening variable to determine the indirect effect of third party funds, CAR, and NPF on profitability through financing channeled by the bank.

This study aims to determine the effect of third party funds, CAR, and NPF on profitability in Islamic banks with financing as an intervening variable.

Referring to the explanation above, the researcher attached a problem formulation to this study, such as:

1. Is there any influence of Third Party Funds (TPF) on financing?
2. Is there an influence of the Capital Adequacy Ratio (CAR) on financing?
3. Is there any influence of Non Performing Financing (NPF) on financing?
4. Is there any influence of Third Party Funds (TPF) on Profitability?
5. Is there any influence of Capital Adequacy Ratio (CAR) on Profitability?
6. Is there any influence of Non Performing Financing (NPF) on Profitability?
7. Is there any influence of financing on profitability?
8. Is there any influence? Funds partythird (DPK) on Profitability mediated by financing?
9. Is there an influence of the Capital Adequacy Ratio (CAR) on profitability mediated by financing?
10. Is there an influence of Non Performing Financing (NPF) on Profitability mediated by financing?

METHOD

The writing of this scientific work refers to qualitative research and literature review. In writing, researchers need to analyze the theory and relationship of each variable obtained from reference books, journals, Mendeley, and several other references or methods. In writing this creative work, researchers must use it inductively, considering that the writing of this creative work is exploratory (Ali & Limakrisna, 2013).

CONCLUSION

The Influence of Third Party Funds (TPF) on Financing

According to Kuncoro (2002) in carrying out daily business activities, banks must have funds in order to provide credit to the public. Where third party funds are the largest source of funds for banks that are most relied on. Kasmir (2004) stated, If the bank does not distribute credit while the funds collected from savings are large, it will result in the bank losing money. Thus, if there is an increase in third party funds collected, it will be balanced by the bank by increasing the amount of financing so that the assets owned by the bank become productive and generate profits. Therefore, third party funds have a positive influence on financing. This is in accordance with the research of Arisandi (2008) and Oktaviani (2012) which stated the same thing.

Capital Adequacy Ratio (CAR) Impact on Financing

CAR is a bank performance ratio to measure the adequacy of capital owned by the bank to support assets that contain or create risks, such as credit (Dendawijaya, 2003). From the above understanding, it can be interpreted that the amount of CAR reflects the bank's ability to bear risks that may occur in the bank's business activities, where according to Dendawijaya (2003) the greatest risk that will be faced is from credit. Therefore, the higher the CAR value makes the bank confident in increasing its financing activities, because the bank has the ability to bear the risks that may occur and the bank will take advantage of these conditions to maximize profits from financing. Therefore, CAR has a positive impact on financing channeled by the bank. This is in accordance with research by Subegti (2010) and Oktaviani (2012) which states the same thing.

Non-Performing Financing (NPF) Against Financing

NPF or in the context of conventional banks, namely NPL is a ratio that reflects the size of a bank's credit ratio. Where the larger this ratio indicates the larger the problem credit faced by the bank. According to Dendawijaya (2003), the large problem credit causes the loss of opportunities to obtain income from the credit given, thus reducing profit and negatively affecting bank profitability. This is a loss that must be borne by the bank, because it will not receive profit from financing. Therefore, in the next period the bank will be more careful and tend to reduce its financing to reduce the credit risk that may occur again in the next period. Thus, the previous period's NPF has a negative effect on financing channeled by the bank. This is in accordance with research by Arisandi (2008) and Muklis (2011) which stated the same thing.

The Influence of Third Party Funds (TPF) on Profitability

Funds from the public or third party funds are the largest source of funds relied on by banks, reaching 80%-90% of all funds managed by banks (Dendawijaya, 2003). Third party funds are the most important source of funds for a bank's operational activities and are a measure of the bank's success if the bank can finance its operations from this source of funds (Kasmir, 2004). Thus, the higher the funds collected from the public, the bank has more opportunities to channel its funds in productive assets such as credit/financing, placement of funds in other banks, placement in securities, and other business activities. This will certainly increase the profit obtained by the bank. Therefore, the increase in third party funds has a positive effect on profit income or profitability and is in accordance with research by Gul et.al (2011) and Dawood (2014).

Capital Adequacy Ration (CAR) Impact on Profitability

The higher CAR reflects the greater ability of bank capital to bear the risk of productive assets such as credit, participation, securities, and bills on other banks, where these assets have the potential to generate profits for the bank. Therefore, the high CAR will also be accompanied by high bank profits derived from the large distribution of the bank's productive assets. This is in accordance with the research of Yuliani (2007), Masood and Ashraf, and Dawood (2014).

Non-Performing Financing (NPF) Against Profitability

NPF reflects the amount of non-performing loans in the bank. According to Dendawijaya (2003), the amount of non-performing loans causes the loss of opportunities to obtain income from the credit provided. The amount of non-performing loans faced, the bank uses its prudential principle to be more careful and selective in distributing its financing and tends to reduce financing to reduce risk and increase public trust in the next period which of course will affect the decline in return on assets (ROA). Therefore, the high NPF value in the previous period will be followed by the bank's profitability level. This is in line with research by Masood and Ashraf (2012), and Anees (2012).

The Impact of Financing on Profitability

Based on the Risk Bearing Theory of Profit, a company can gain above normal profits if its type of business has a very high risk. Financing channeled by banks is one of the bank's business activities that has the greatest risk. from Kasmir (2004), The amount of credit or financing channeled will determine the bank's profit. Thus, financing channeled by banks has a positive influence on bank profitability. This is in line with research by Gul et.al (2011) and Masood and Ashraf (2012).

The Influence of Third Party Funds on Profitability Mediated by Financing

If the bank does not distribute credit, while the bank has excess capital, namely funds collected from deposits, it can cause the bank to lose, Kasmir (2004). Thus, if there is an increase in third party funds collected, it will be balanced by the bank by increasing the amount of financing so that the assets owned by the bank become productive and make a profit. Therefore, third party funds have a positive effect on financing. This is in accordance with research by Arisandi (2008) and Oktaviani (2012) which stated the same thing. The higher the financing distributed by the bank which is caused by the high third party funds collected will certainly increase the bank's profitability. This is in accordance with research by Masood and Ashraf (2012), and Gul et.al (2011). Thus, if there is an increase in third party funds collected, it will be balanced by the bank by increasing the amount of financing so that the assets owned by the bank become productive and make a profit. Therefore, third party funds have a positive effect on financing. This is in accordance with the research of Arisandi (2008) and Oktaviani (2012) which stated the same thing. The higher financing distributed by the bank caused by the high third party funds collected will certainly increase the bank's profitability. This is in accordance with the research of Masood and Ashraf (2012), and Gul et.al (2011).

The Influence of CAR on Profitability Mediated by Financing

The amount of CAR reflects the bank's ability to bear the risks that may occur in the bank's business activities, where based on Dendawijaya (2003) the greatest risk that will be faced is from credit. Therefore, the higher the CAR value makes the bank confident in increasing its financing activities, because the bank has the ability to bear the risks that may occur and the bank will take advantage of this condition to maximize profits from financing. Therefore, CAR has a positive impact on financing channeled by the bank. This is in accordance with research by Subegti (2010) and Oktaviani (2012). The higher the financing caused by the high CAR value owned by a bank will certainly also increase the bank's profitability. This is in accordance with research by Masood and Ashraf (2012), and Gul et.al (2011).

The Influence of NPF on Profitability Mediated by Financing

The higher the NPF ratio of a bank indicates the greater the number of non-performing loans faced by the bank. According to Dendawijaya (2003), the large number of non-performing loans causes the loss of opportunities to obtain income from the credit provided, as a result reducing profit and having a negative impact on the bank's profitability. This is a loss that must be borne by the bank, because it will not receive profit from financing. Therefore, in the next period the bank will be more careful and tend to reduce its financing to reduce the credit risk that may occur again in the next period. Thus, the previous period's NPF has a negative impact on the financing channeled by the bank. This is in accordance with research by Arisandi (2008) and Mukhlis (2011). The decrease in the amount of financing channeled due to the high value of the previous period's NPF will certainly also affect the bank's profitability which will also decrease. This is in accordance with research by Masood and Ashraf (2012), and Gul et.al (2011).

Referring to the explanation above, the framework of thought that researchers can obtain consists of:

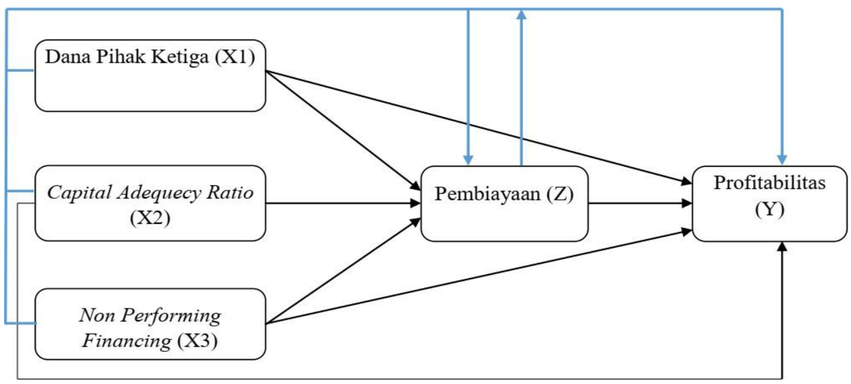

Figure 1. Theoretical Framework of Thought

Referring to the description above, Third Party Funds, CAR, and NPM have an impact on Profitability with financing as an Intervening variable either individually or through mediation. In addition to these variables, variables that have an impact are also obtained from LDR (X4), FDR (X5) and BOPO (X6).

CONCLUSION

Based on the description above, the hypothesis formulation that the researcher obtained was:

1. DPK has a positive and important impact on financing.
2. CAR has a positive and important impact on financing.
3. NPF has a positive and important impact on financing.
4. DPK has a positive and important impact on Profitability.
5. CAR has a positive and important impact on Profitability.
6. NPF has a positive and significant impact on Profitability.
7. Financing has a positive and important impact on Profitability
8. DPK has a positive and important influence on profitability through financing mediation.
9. NPF has a positive and important influence on profitability through financing mediation.
10. CAR has a positive and important influence on profitability through financing mediation.

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