Comparison of Risk and Return on Trading and Profit Sharing Based Financing Contract in Indonesian Islamic Bank

Fatin Fadhilah Hasib, Puji Sucia Sukmaningrum, Nisful Laila and Achsania Hendratmi
Faculty of Economics and Business, Universitas Airlangga, Jl. Airlangga 4, 60286, Surabaya, Indonesia
{fatin.fadhilah, puji.sucia, achsania.hendratmi, nisful.laila}@feb.unair.ac.id

Keyword: Financing, Islamic Bank, Return, Risk.

Abstract: This study aims to analyze the difference between return and risk between profit sharing-based and trading-based financing in Islamic bank. This study uses quantitative approach using Mann Whitney Test data sampled from 6 Indonesian Islamic banks, collected from their quarterly financial reports from 2011 to 2015. The result shows the significant difference in return, while the risk of profit sharing based and trading based are almost the same. From the analysis, it can be concluded that profit sharing-based financing is less desirable not because of its risk. Trading-based financing is more desirable then the profit sharing because of its return. This study is discussing about the comparison between risk and return of trading and profit sharing contract in Islamic bank. Until now still there is no study about this topic, because many of the topics of the bank are contracts, while to compare the risk and return alone there are still not much.

1 INTRODUCTION

During the last 30 years, Islamic banking has been growing very fast, because supported by many emerging international conventional banks that open sharia business units such as bank CIMB, Astra, etc. (Mahdi and Abbes, 2017). Although relatively newer and smaller than the conventional banking industry, Islamic banking can still show significant growth in innovation and scale. (Wulandari et al., 2015).

One of the functions undertaken by Islamic banking is the function of financing, all types of financing offered by Islamic banks in Indonesia should be adjusted to the principles of Islamic sharia if the bank wants to perform its financing functions. Various types of financing that are available and well developed in the Islamic banking industry in Indonesia are financing with the principle of profit sharing (*mudharabah* and *musyarakah*). Financing by the law of sale and purchase (*murabahah* and *istishna*), financing by the law of lease (*ijarah*) and financing by debt principle (*qardh*).

As a profit based oriented business entity, Islamic banks are required to consider the rate of return of all financing provided. That is done to detect which financing that gives advantages and which are not, due to by such financing, the Islamic bank can gain profit. In addition to the rate of return, Islamic banks also need to consider the risks of financing given due to the rate of return is always directly proportional to the risk that is owned and every contract offered by Islamic banks have different risks and returns. So, this study aims to compare the risks and returns that are held by a deal based on profit sharing to based on the sale and purchase agreement. Since seen from the financial report of all Islamic banks, the most financed contract is based on the profit sharing and based on sale and purchase, the rest is not much found.

2 LITERATURE REVIEW

The most widely used Islamic bank contracts are based on sale and purchase and profit sharing. For contracts based on sale and purchase such as *murabahah* and *salam* while for the contract based on profit sharing is *mudharabah* and *musyarakah*. Until now, many studies compare the risk and return to a thing, but the object of study on risk and return is mostly still about capital market investments, company, and Islamic banks. While study compares the risk and return of Islamic bank contract based on profit sharing to contract based on the sale and purchase simultaneously are rarely. Credits risk in Islamic banks is in the form of settlement/payment

Hasib, F., Sukmaningrum, P., Hendratmi, A. and Laila, N.
Comparison of Risk and Return on Trading and Profit Sharing Based Financing Contract in Indonesian Islamic Bank.
In *Proceedings of the 1st International Conference on Islamic Economics, Business, and Philanthropy (ICIEBP 2017) - Transforming Islamic Economy and Societies*, pages 131-134
ISBN: 978-989-758-315-5

risk arising when one party to a business transaction pays money or deliver assets before receiving its assets or cash thereby exposing it to potential loss (Khan and Ahmed, 2001).

Here are some studies that have the same topic. Nurafini, (2014) studied the comparison of risk, return, and coefficient of variation of *musyarakah*, *mudharabah*, and *murabahah* in which the results indicate that there is a significant difference to the rate of return between all contracts. As for the level of risk and coefficient of variation there is no significant difference between the three. Mahdi and Abbes, (2017) studied the relationship between capital, risk, and liquidity between conventional banks and Islamic banks in MENA countries. The results of this study show that there is a definite relationship between risk and capital in Islamic banking. Moreover, most of the risks faced by banks related to the practice of financing, adherence to the principle of sharia in *mudharabah* and *musyarakah*. Also, if there is a change of liquidity, it will have a direct effect on the risk owned by the bank. Rifki Ismail (2010) conducted a study with VAR approach to analyze the changes occurred to the rate of return of financing and expect losses from such financing in the period 2000 - 2008. The result of that study is a different resistance rate of return on three groups financing those are profit sharing, sale and purchase, and services in the period 2000 - 2008. Khan and Ahmed (2001) explain in his study that the risk rating of the contracts in Islamic banks. In that study, contracts *murabahah* as the financing with the lowest risk rating. While the profit-sharing contract tends to has high-risk rating. Based on the introduction and literature review that existed above then the hypothesis in this study are:

H1: there is a significant difference between the return of profit sharing financing and sell and purchase financing in Islamic banking in Indonesia.

H2: There is a significant difference between the risk of profit sharing financing and sell and purchase financing in Islamic banking in Indonesia.

3 METHODOLOGY

The study approach used in this study is a quantitative approach. The variables used in this study are the Rate of return and Risk. Types and sources of data used in this study are secondary data in the form of the quarterly financial report of Islamic Commercial Banks from the years 2011-2015 and from some other sources such as the financial report of the authority of the Financial Services and Bank Indonesia. The population in this study is Sharia Banking in Indonesia. The sampling method used in this study is purposive sampling. The requirement criteria for the sample in this study are 1. Islamic Commercial Bank which has published quarterly financial report during the observation period that is 2011-2015. 2. Islamic Commercial Bank which has the completeness of data based on the variables studied. Based on the sample selection criteria above the Islamic banks that meet the criteria to be sampled are six Islamic commercial banks, which are PT. Bank Muamalat Syariah, PT Bank Mega Syariah, PT Bank Syariah Mandiri, PT. Bank BRI Syariah, PT. Bank Central Asia Syariah and PT. Bank BNI Syariah.

The analytical technique in this study use is paired sample t-test since the purpose of this study is to compare two means from two paired samples with an assumption that the existing data is normally distributed by normality test using one sample, in Kolmogorov-Smirnov test with the level of 5%. If the p-value is more than 5%, then the data is normally distributed and vice versa. The test equipment used is a nonparametric test by using Mann-Whitney test. The next is t-test of two paired samples for data that is normally distributed and Mann-Whitney test for data that is not normally distributed.

In this study, the analysis technique used is the t-test analysis technique of Paired Samples t-Test. This Paired Samples t-Test is used to compare the difference of two mean between the two paired sample assuming the data are normally distributed (Uyanto, 2009).

To test whether or not the data is normally distributed or not, then normality test was conducted by using the One-Sample Kolmogorov-Smirnov Test with the significance level of 5%, then the data distribution is not normal. If the data is not normally distributed then the test equipment used is a different test by using a non-parametric Wilcoxon Signed-Rank Test.

After being conducted the normality test, then the next process is carried out using the difference test by using two-paired sample t-test for normal distribution of data and Wilcoxon Signed-Rank Test for data that is not normally distributed. The steps for difference test using the two-paired sample t-test are as follows:

4 RESULTS AND DISCUSSION

The discussion in this study is about the comparison of return and risk for profit sharing and sell and purchase financing in Islamic banking in Indonesia.

This study used 6 sample of sharia banks which are Bank Muamalat Indonesia, Bank Syariah Mandiri, Bank Rakyat Indonesia Syariah, Bank Mega Syariah, Bank Nasional Indonesia Syariah, and Bank Central Asia Syariah. The data used in this study obtained using documentation method that is in the form of quarterly financial report of Islamic banks in the period 2011- 2015. After that, the data was processed using Mann Whitney Test then analyzed and interpreted. So that finally the conclusion of conducted study could be made.

4.1 Comparison of return rate of profit sharing financing with sale and purchase financing of Islamic banking in Indonesia

Table 2: Result of hypothesis return test.

	Results
Mann-Whitney U	256.000
Wilcoxon W	721.000
Z	-2.876
Asymp. Sig. (2-tailed)	.004

Table 2 shows us that the value of P-value of the variable rate of return is 0.004, which is smaller than the value of a (0.05) so it can be concluded that Ho is rejected and Ha accepted. In other words that the rate of return on profit sharing with sale and purchase financing, there was a significant difference. This significant difference occurred because of the different characteristics of Islamic banking financing and the level of income that will be received by the bank. That is supported by the explanation of Rosly and Zaini (2008) explaining that the Islamic banking industry has several models of sharia financing that aims to meet the needs of customers in financial facilities.

Antonio (2011) explained that the financing system for sale and purchase financing is much more straightforward and more comfortable in handling administration at Islamic bank compared to profit sharing financing system. Muhammad (2014) added the pre-determined price of the contract of sale and purchase financing should not change during the time of the agreement. The customer will bear all current administrative costs and recognized as income by the bank. No proposition in sharia is related to the determination of the maximum limit of business profit taking of sale and purchase financing so that the bank can determine the maximum profit in the financing. The profit sharing financing has a more complicated system than the sale and purchase financing.

According to Muhammad (2014) profit sharing system used in Islamic banking in Indonesia is a profit-sharing system based on revenue sharing system. The revenue sharing system is a profit sharing calculation system based on the total revenue received before deducting the expenses incurred to obtain the income. That is done so that the level of profit sharing received by the fund owner more significant than the prevailing market interest rates.

Nurafini (2014) warned Islamic bank to pay more attention to the management and handling of profit sharing financing due to the profit or rate of profit sharing is determined by the result of the condition of the business financed by the Islamic bank. Karim (2010) added in this profit sharing financing, in the event the profit from the business financed by large banks, then both parties including banks will get a significant portion. Otherwise, in the event the profit of the business is small, then the portion earned by both parties will also be small. Muhammad (2014) added that in case of the business in this *mudharabah* contract brings losses, then the distribution of the loss is not based on the ratio, but based on the portion of the capital of each party. Due to there is a difference in the ability to bear losses between the two sides.

Currently, all Sharia banks in Indonesia rely on sale and purchase financing as the primary financing. That is very adverse since this sale and purchase financing includes consumptive financing unlike profit sharing financing, which is productive financing. Islamic banks should be more active in finding for profit sharing financing which can support the income of Islamic bank. In table 1. Explains the significance Level of return on profit sharing financing is larger than the sale and purchase financing and it is followed by the significance level of the risk obtained that the risk of profit sharing financing is more significant than the risk of sale and purchase financing. Tandelilin (2010) added the larger return of an asset also the larger the risk obtained.

4.2 Comparison of Risk of Profit Sharing Financing with Sale and Purchase Financing of Islamic banking in Indonesia.

Table 3: Results of risk hypothesis test.

	Results
Mann-Whitney U	403.500
Wilcoxon W	868,500
Z	-.697
Asymp. Sig. (2-tailed)	.486

Table 3 shown us the P-value of the variable rate of return is 0.486 which is larger than (0.05), so it can be concluded that Ho is accepted and Ha is rejected. In other words that the risk of profit sharing financing with sale and purchase financing have no significant difference. The absence of any difference between the risk of profit sharing financing with sales and purchase financing significantly can be due to the risk management owned by the bank. Muhammad (2011) explained that in an investment or business must be followed by risk so that the main problem is how investment or business can minimize risk. Therefore, we need a proper risk management in investment or business. According to Sundarajan and Errico, (2002) most significant difficulty faced by Islamic banking is handling and overcoming the risks that exist because of the level of complexity that continues to grow due to some specific risks and losses gain which exists on the financing concept in Islam.

5 CONCLUSION

The conclusion from this study are: there is a significant difference between the rate of return from the profit sharing financing with the sale and purchase financing. Moreover, there is no significant difference between the risks of profit sharing financing and sale and purchase financing. The implication of this study is becoming the reference for practitioners of Islamic banks to decide the contract optimization and for academicians to develop this study furthermore.

ACKNOWLEGMENTS

Thanks to our research assistant, Dewi Nuraini Rahmiasasi. Thank you helping finish this research.

REFERENCE

Antonio, Muhammad syafi`I. 2001. *Bank Syariah dari Teori Ke Praktik.* Jakarta: Gema Insani.

Ismail, Rifki. 2010. Volatility of the return and expected losses of Islamic bank financing. *International Journal of Islamic and Middle Eastern Finance and Management*. Vol 3, No 3. PDF.

Karim, Adiwarman. 2010. Bank Islam Analisis, Fiqih and Keuangan. PT. Raja Grafindo Perkasa, Jakarta, Issue 4.

Khan, tariqullah and habib ahmed. 1998. *Edisi 1. Manajemen resiko lembaga keuangan syariah. Terjemahan oleh Ikhwan Adibing Basri*., 2008. Bumi Aksara.Jakarta.

Khan,T and Ahmed, H, 2001. Risk Management – An Analysis of Issue in Islamic Financial Industry. *Islamic Development Bank – Islamic Research and Training Institute, Occasional Paper (no 5).* Jeddah.

Mahdi, Ines Ben Salah., Abbes, Mouna Boujelbene., 2017. *Relationship between Capita, Risk and Liquidity: A Comparative Study between Islamic and Conventional Banks in MENA Region.* Research in International Business and Finance.

Muhammad, 2014. *Manajemen Keuangan Syariah.* UPP STIM YKPN. Yogyakarta, Edisi 1.

Muhammad, 2005. *Manajemen Dana Bank Syariah.* Ekonisia. Yogyakarta.

Nurafini, Fira., 2014. *Perbandingan Tingkat Pengembalian, Resiko, Dan Koefisien Variasi antara pembiayaan Mudharabah–Musyarakah dan Pembiayaan Murabahah pada Perbankan Syariah di Indonesia.* Skripsi. Surabaya. Fakultas Ekonomi dan Bisnis.

Rosly, Saiful Azhar, Zaini, Mohammad Ashadi Mohd. 2008. *Risk-Return Analysis of Islamic Bank's Investment Deposits and Shareholders` Fund.* www.emeraldinsight.com.

Tandelilin, Prof. Dr. Eduardus., 2010. *Portofolio dan Investasi Teori dan Aplikasi. Kanisius.* Yogyakarta. Edisi 1.

Uyanto, Stanislaus S., 2009. *Pedoman Analisis Data dengan SPSS, graham ilmu.* Yogyakarta, Edisi 1.

Wulandari, Permata., Putri, Niken Iswani Surya., Kassim, Salina., Sulung, Liyu Adhikasari., 2015. *Contract Agreement Model for Murabahah Financing In Indonesia Islamic Banking.* www.emeraldinsight.com

Bank Syariah Mandiri. Quarterly Financial Report of bank mandiri syariah year 2011-2015.

Bank Rakyat Indonesia Syariah.Quarterly Financial Report of bank BRI syariah in 2011-2015.

Bank Muamalat Indonesia. Quarterly Financial Report of Bank Muamalat in 2011-2015.

Bank Negara Indonesia Syariah. Quarterly Financial Report of Bank BNI syariahin 2011-2015.

Bank Central Asia. Quarterly Financial Report of BCA syariah in 2011-2015.

Bank Mega Syariah. Quarterly Financial Report of BCA syariah in 2011-2015.

www.bi.go.id.

www.ojk.go.id.