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2nd AICIF

2nd ASEAN INTERNATIONAL CONFERENCE ON ISLAMIC FINANCE

"Islamic Finance and Its Role in Economic Development and the Creation of Just and Stable Financial System in Light of Maqosid Syariah"

State Islamic University Sunan Kalijaga
Royal Ambarukmo Hotel

Yogyakarta, 12th - 14th November 2014

2nd ASEAN INTERNATIONAL CONFERENCE ON ISLAMIC FINANCE

Jointly organized by:

Faculty of Islamic Economics and Business-UIN Sunan Kalijaga

Institute of Islamic Banking & Finance-IIU Malaysia

Faculty of Economics-UNISSULA

PREFACE

State Islamic University, as the oldest State Islamic University in Indonesia, has strong commitment in developing Islamic Economics in the world, especially in ASEAN Countries. 2nd ASEAN International Conference on Islamic Finance is the annual conference which has been jointly organized by State Islamic University Sunan Kalijaga Yogyakarta, International Islamic University Malaysia and University Islam Sultan Agung Semarang supported by Islamic Research and Training Institute (IRTI-IDB). The idea of having this international conference sparked from the discussion between II*i*BF and two universities from Indonesia i.e. UNISSULA and UIN Jogjakarta. They have agreed to strengthen their cooperation and the body of knowledge of Islamic banking and finance by jointly organizing an annual international conference which will be held in Malaysia and Indonesia subsequently.The purpose of this conference has been to generate and disseminate ideas to encourage the best practices as a way for enhancing the growth of Islamic economics around for betterment to all mankind.
The topic of the international conference was "*Islamic Finance and Its Role in Economic Development and the Creation of Just and Stable Monetary System in light of Maqosid Syariah*". The background of this topics are to address some significant issues, including a) addressing the issue of Islamic finance in the era of ASEAN Economics community that will be started 2015. b) its implication for Islamic economics development of ASEAN members countries. c) the role of Islamic finance on the creation of Islamic monetary system, both in theoretical and practical basis, supported by the integration of ASEAN Community, to enhance the role of Islamic finance. 4) the challange of Muslim countries for robustness the development of Ummah in ASEAN Community, that mostly are muslem.

Therefore, addressing some above issues, the conference is designed to serve as forum and platform for the academician, practicioners and researchers to share their knowledge, experience and to learn lessons in managing the Islamic finance especially in the market integration. The conference is answering the need of some ASEAN Countries which much focuses on development of Islamic finance in dealing with the issues of ASEAN Economics community, namely 1) ideas in the creation of just and stable Monetary policy that comply with shariah rule and guidlines. 2) the solution for encouraging the development of Islamic banking and finance in the ASEAN Economics community. 3) Current issues of Islamic banking and finance in managing Hajj fund which is uderstood as crucial isssues for Muslim Countries particularly ASEAN Countries such as Indonesia. The conference also highlighted some issues related to shariah compliant financial Instruments that are very important in providing safeguards against the ribawi system in ASEAN Members countries.

To answer all above issues, some panelists, namely Dr. Dadang Muljawan from Bank Indonesia, Mr. Adiwarman Azwar Karim (nominated by IRTI-IDB) will present some issue regarding the role of OIC countries for ASEAN Economics Community. In addition, Prof. Dr. Amin Abdullah will discuss some issue regarding Islamic Economics from philosopics perspective, and Prof Tjiptohadi Sawarjuwono from University Airlangga will discuss accounting issues in Islam. In the plenary session, there are Chief Executive Officers (CEO) from 6 Islamic Banks, namely Bank Mandiri Syariah, Bank Muamalat Indonesia, Bank BNI Syariah, Bank BRI Syariah, Bank Mega Syariah and Bank Permata Syariah who will highlight their experience in managing Islamic banking. Followed by the discussion on issue of Hajj Fund Management and the role of Islamic Finance: Best Practised in Malaysia and Indonesia. Directur General, Hajj and Umroh, Minisitry of Religious Affair, Prof. Dr. H. Abdul Djamil and Dean of Institute of Islamic Banking and Finance, IIUM, Prof. Dr. Syed Musa Al-Habsyi will deliver speech on this issues.

In addition, in this conference there are 70 articles that will be presented in many area of Islamic economics. This proceeding consists the abstracts of that articles, which is hopefully can be a general guideline for the participant of the conference to understand all isssue discussed during the event. Therefore, the conference's participant will generate useful discussion on some pertinent issues and will encourage the finding of new ideas to develop Islamic finance.

Yogyakarta, 05 November 2014

Dr. Misnen Ardiansyah, SE, M.Si.Ak.CA.
Chairman

AGENDA
2ND ASEAN INTERNATIONAL CONFERENCE ON ISLAMIC FINANCE
Royal Ambarukmo Hotel & Convention Hall UIN Sunan Kalijaga
12th-14th November 2014

Day 1: Wednesday, 12 November 2014	
Venue: Convention Hall UIN Sunan Kalijaga Yogyakarta	
OPENING CEREMONY AND INTERNATIONAL SEMINAR	
12.30-12.45	Registration
12.45-13.00	Welcoming Remarks by the Rector of the UIN Sunan Kalijaga: Prof. Dr. Musa Asy'arie
13.00-13.15	Official Launching by Ministry of Religious Affair : Prof. Dr. Nur Syam, M.Si
13.15-13.30	MOU Signing: UIN Sunan Kaliga and BSM, BMI, BRI Syariah, BNI Syariah, Bank Mega Syariah, Bank Permata Syariah
13.30-14.00	KEYNOTE SPEECH: Deputy Commissioner of OJK: Dr. Mulya E. Siregar
14.00-14.45	Special Address : Dr. Muhammad Syafii Antonio
14.45-15.15	Break and Ashar Prayer
INTERNATIONAL SEMINAR	
15.15-17.30	Moderator: Assoc. Prof. Dr. Muhammad Abduh
	1. Adiwarman Azwar Karim (IRTI-Islamic Development Bank) *"Islamic Finance development in OIC Countries and Its Role for the ASEAN Economics Community"*
	2. Prof. Dr. H. Amin Abdullah (UIN Sunan Kalijaga) *"Islamic Economics in the paradigm of Intergration and Interconnection: Developing New Economics Mainstream for the Betterment of the Ummah."*
	3. Prof. Dr. Tjiptohadi Sawarjuwono (UNAIR) *"Islamic Accounting in the Era of ASEAN Economics Community: Opportunity and Challange"*
	4. Dr. Dadang Muljawan (Bank Indonesia) *"Islamic Finance and Monetary Policy: the Case of Indonesia"*
17.30	End of Session
GALA DINNER AND ISLAMIC ART PERFORMANCE: Theme: "Sunan Kalijaga and Islamic Propagation in Java Island"	
20.00-22.00	Islamic Music Performance: Sunan Kalijaga - *Gambus Al-Jamiah* - *Ilir-ilir Sunan Kalijaga and Islamic Propagation*

Day 2: Thursday, 13 November 2014	
Venue : Royal Ambarukmo Hotel	
Plenary Session: CEO Talk: ***Panel Discussion on Indonesia Shariah Banking***	
08:00-10.10	Registration
	Moderator : Dr. Anggito Abimanyu
	1. *CEO Bank Syariah Mandiri*
	2. *CEO Bank BRI Syariah*
	3. *CEO Bank BNI Syariah*
	4. *CEO Bank Muammalat Indonesia*
	5. *CEO Bank Mega Syariah*
	6. *CEO Bank Permata Syariah*
10.10-10.15	**Coffee Break**
Plenary Session: ***Hajj Fund Management : Malaysia and Indonesia Experience***	
10.15-11.30	Moderator : M. Kurnia Rahman Abadi
	1. Prof. Dr. Syed Musa Al-Habsyi *(Tabung Haji Malaysia)*
	2. Prof. Dr. H. Abdul Jamil *(Director General of Hajj, Religious Ministry of RI)*
11.30-12.30	**Lunch and Dhuhr Prayer**
2ND ASEAN INTERANATIONAL CONFERENCE ON ISLAMIC FINANCE	
12:30-14.00	SESSION ONE: (Parallel Session in 5 different Venue)
14.00-15.30	SESSION TWO: (Parallel Session in 5 different Venue)
15.30-16.00	**Coffe Break and Ashr Prayer**
16.00-17.30	SESSION THREE: (Parallel Session in 5 different Venue)

Day 3: Friday, 14 November 2014	
Venue : Royal Ambarukmo Hotel	
08.00-09.30	SESSION FOUR: (Parallel Session in 5 different Venue)
09.30-10.00	**Coffee Break**
CLOSING CEREMONY	
10.00-10.30	Speech : FEBI-UIN, IIiBF-IIUM, FE-UNISULA
10.30-10.45	Closing Remarks : Prof. Dr. H. Anis Malik Thoha (Rector of Universitas Islam Semarang)
10.45-11.00	Award Announcement: Dr. Misnen Ardiansyah
11.00	End of Session

Table of Content

Indications Of Moral Hazard On *Mudharabah* And *Murabahah* Financing At Islamic Commercial Banks In Indonesia

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Abstract

This study aims to analyze the presence of indications of Moral Hazard on *Mudaraba* and *Murabaha* Financing at Islamic Banks in Indonesia. To measure the indication of moral hazard is by using the variable of NPF. If the NPF is high, then there will be indications of moral hazard; but if the value of the NPF is low, then there will be no indication of moral hazard on Islamic banking. The population in this research is the Islamic banking in Indonesia in the period of 2007 to 2012. The sampling method is purposive sampling technique with the following criteria: First, Islamic banks which are enrolled in Legal Islamic Banks database; Second, Islamic banks which publish their Quarter financial statements during the period of 2007 – 2012; Third, Islamic Banks that have complete variable database to be studied. The data taken is the data that produces a positive return value. So, the numbers of sample that pass several measurements are defined. It is found 3 Islamic banks used as sample, they are BMI, BMSI, and BSM. The analyses used in this study are multiple linear regression and SPSS the software. The independent variables of the study are the growth of GDP, The return ratio of *Mudaraba* financing compared with the return of total financing *(RR)* and The Return Ratio of *murabaha* receivables allocation compared with the Return of Total Financing *(RF)*.The findings show that the GDP (X1) has a negative and significant influence. This negative influence shows that there is no indication of moral hazard in Islamic banks in terms of macroeconomic. Meanwhile, RR (X2) has a positive and significant influence toward the NPF. It means that there is indication of moral hazard in Islamic banks related to *mudaraba* financing. However, RF (X3) has a positive but not significant influence toward the NPF. It means that the RF variable has no influence on the NPF. So that, the RF variable cannot prove that there is an indication of moral hazard in Islamic banking. Generally, it can be concluded that Islamic banking in Indonesia tends to choose a smaller risk in *murabaha* financing. In *murabaha* financing, the risk of moral hazard is lower than in *mudharabah* financing. Banks tend to be more focus on *murabaha* financing so as to better carry out maintenance of the debtor.

Keywords*: Indications of Moral Hazard; Gross Domestic Product; Return of Mudaraba;Return of Murabaha; Non-Performing Financing.*

1. Introduction

1.1 Background

In the banking field of Indonesia, the development of Islamic banking has become a benchmark for the success of the existence of Islamic economics. The rapid development of Islamic banking is highly considered because the Islamic banks are able to target the *sharia* market where consumers believe that the bank interest is forbidden. In general, Islamic Banks are financial industries that have a number of fundamental differences in their operations than the conventional ones. The main difference lies in the determination of return to be earned by depositors. While in operation, Islamic banking has a spesific difference from the conventional ones. The most fundamental difference is the absence of the system of interest; and as its replacement, it is used the *mudharabah* system (profit sharing) either on the side of liabilities or assets. Briefly, this system is also known as *two-tier* mudharabah.

The monetary crisis in 1998 had drowned many conventional banks into liquidation, and many of them are liquidated due to the failure of interest system. Meanwhile, for some banks implementing *sharia* system, they can continue to exist and survive. However, the carelessness of banks in funding the third party can be categorized as an act *of moral hazard. Moral hazard* in Bahasa Indonesia is literally defined as *"moral trap"* or explained as a condition that comes from people related to mental attitude, life perspectives and habits that can extend to lead some activities causing a loss (Arif, 2010). The Incautiousness of banks in funding the third party can be categorized as an act of *moral hazard.* The *Moral hazard* hitting the Indonesian banking system makes the fundamental base of banking industry into a fragile; even the presence of collateral system does not guarantee the secure of customer funds. Based on the experience in some countries, the existence of the government warranty programs and deposit insurance have led to cases of moral hazard in banking filed to be growing (Khan and Ahmed, 2001 in Desty, 2008). *Moral hazard* in the banking terms can be divided into 2 levels; they are *moral hazard* at the bank and the customer level.

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Moral hazard occurs when Islamic banks as *mudharib* are not careful in channeling funds and thus potentially lead to *moral hazard* on the client side and it can cause a loss. Another *Moral hazard* indication is when a bank does not pay a part of *Shahibul Maal* as predetermined ratio at the beginning of the agreement. Moreover, the non-adherence ofIslamic bank activities to the principles of *sharia* can also be categorized as the action of *moral hazard.* Meanwhile, the *moral hazard* at the customer level generally occurs in financing products which are based on *equity financing (mudharabah* and *Musyarakah)* or it is commonly known as *profit-loss sharing.* The *mudharaba* terms and conditions which do not require guarantees, give full rights on *mudharib* to conduct business without interference of *Shahibul Maal* and loss borne by *Shahibul Maal* (except fault of management) cause this financing agreement to be very susceptible to *moral hazard problems.*

The *presence* or absence of *Moral Hazard* is measured by looking at the value of the NPF. If the NPF value is high, then the indication of moral hazard is happening; whereas when the value of the NPF is low, then there is no indication of moral hazard in Islamic banking. To identify the cause of the financing problem is by looking at the external and internal factors. The external factor is presented by the growth of the GDP, while the internal ones is presented by the return ratio of *Mudaraba* financing compared with the Return of Total Financing (RR) and the return ratio of *Murabahah* allocated receivables compared with Return of Total Financing (RF). If GDP growth decreases, the sales and corporate incomes will decline, which in turn will affect the company's ability to repay the loan and finally, this will lead to the increase of *outstanding* non-current loans (Muntoha, 2011). Meanwhile, if GDP increases, in theory, the economic transactions will also increase, business world arises, so that the *non-performing financing* will be down (Nasution, 2007). Meanwhile, the correlation of the *Mudaraba* and *Murabaha* finances and the problematic financing is when the return of the *mudharabah* or *murabaha* financing increases and ideally it will decrease the value of the NPF, because the higher ratio of returnmeans the better the bank's policy in anticipating the possibility of *financing problems.* Yet, if the opposite occurs, when the return of *mudharabah* or *murabaha* financing is decrease, it means that the banks are less careful in selecting prospective clients, which led to a high financing problem causing an indication of *moral hazard* in the banks.

1.2 Research Problems

Based on the background above, the formulation of the problem of this study is: "Is there any indication of *moral hazard* in the *mudaraba* and *murabaha* financial system on Islamic banking in Indonesia?"

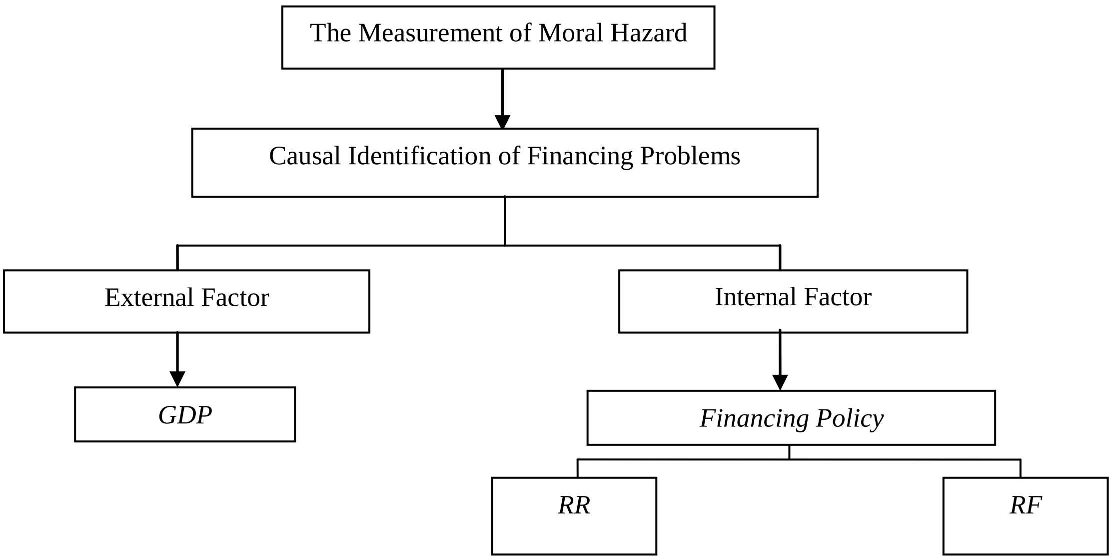
1.3 The purpose of the study

The purpose of the study is described as follows:

1. To know and analyze the influence of GDP growth toward financing problems at Islamic Banking in Indonesia.
2. To find out and analyze whether there is an indication *of moral hazard* in the distribution of funds (*mudharabah* financing) at Islamic banks in Indonesia.
3. To find out and analyze whether there is an indication *of moral hazard* in the distribution of funds (*murabaha* financing) at Islamic banks in Indonesia.

2. Theoretical Framework and Hypotheses

2.1 Theoretical Framework



2.2 Hypotheses

Based on the conceptual framework that has been presented, the hypotheses presented in this study are as follows:

H1: The growth of *Gross Domestic Product* (GDP) influences the ratio of *non-performing financing* (NPF).

H2: The return ratio of *Mudaraba* financing compared with the *return* of total financing *(RR)* influences the ratio of *non-performing financing (NPF).*

H3: The Return Ratio of *murabaha* receivables allocation compared with Return of Total Financing *(RF)* influences the ratio of *non-performing financing* (NPF).

3. Methods

3.1 Population and Sample

The population of this study is all Islamic banking in Indonesia. The samples in this study are taken by *purposive sampling* technique. *Purposive sampling* is the sampling method based on the subjective judgment of researchers where the terms are made as the criteria to be met by the sample. The criteria proposed to be a sample are as follows:

1. Islamic banks that are already enrolled in General Islamic Banks Database.
2. Islamic banks which publish quarterly financial statements during the period of 2007-2012.
3. Islamic banks met the data needed based on the variables studied.
4. The data taken is the data that produce a positive return value.

So that the sample obtained in this study is three Islamic Banks, namely Bank Muamalat Indonesia (BMI), Bank Syariah Mandiri (BSM), Bank Syariah Mega Indonesia (BSMI).

3.2 Data Sources and Collection

The data used in this study is secondary data. The secondary data in this research is the quarterly financial statements of the 3 Islamic Banking proposed, those are BMI, BMSI, BSM. In this study the method of data collection is done through documentation, review of literature and journals related to research.

3.3 Indication of Moral Hazard at Islamic Banking

Moral hazard in Bahasa Indonesia is literally defined "moral trap" or translated as a condition that comes from people related to mental attitude, life perspective and habits that can increase the occurrence of activities causing a loss (Arif, 2010).

Moral hazard in the banking field can be divided into at least two levels. First, *moral hazard* at the bank level and the second is *moral hazard* at the customer level. *Moral hazard* at the bank level can be divided as the following:

1. *Moral Hazard* in the distribution of third-party funds, which is the *lending risky behavior* that led to the emergence of *moral hazard* and *adverse selection* at the customer level. It is also called as indirect *moral hazard* (referring to the notion *of moral hazard* presented by Vaubel (1983) in Dreher (2004).
2. *Moral hazard* by the inadvertent of banks in lending because of the guarantee of the government or the existence of deposit insurance agency. In this case, it is included in the direct *moral hazard* (referring to the notion *of moral hazard* presented by Vaubel (1983) in Dreher (2004)).
3. *Moral hazard* when the bank does not reflect the distribution of the bank as intermediary or the banks do not distribute funds to the real sector.
4. *Moral hazard* when the bank provides a low *cost of funds* and applies at high level, it is also included in the category of *moral hazard* and etc.

The Islamic banks as financial institutions based on the divine principles in their operation have some differences from the conventional banks. Although the *sharia* principles in banking come from the divine values; but as other economic activities, the Islamic banks are not able to be separated from the issue of corruptions (Gunawan, 2005), *moral hazard* and *adverse selection.* As with conventional banking, *moral hazard* in Islamic banks can be divided into at least a *moral hazard* in banks and clients. *Moral hazard* occurs when the Islamic banks as *mudharib* are not careful in channeling funds and thus potentially lead to *moral hazard* on the side of the customer and cause loss. Moreover, another *Moral hazard* is when the banks do not pay a part of *Shahibul Maal* as predetermined ratio at the beginning of the agreement. The non-compliance of Islamic banks against Islamic principles can also be categorized in the action *moral hazard* as well.

Meanwhile, *moral hazard* on the customer generally occurs in financing products based on *equity financing (mudaraba* and *Musharaka),* or it is commonly known by *profit shares.* The *mudharabah* terms and conditions which do not require collateral and also gives full rights on *mudharib* to conduct business without interference of *Shahibul Maal* and losses borne by *Shahibul Maal* (except fault management) will cause this financing agreement to be very susceptible to *moral hazard problems.Moral hazard* on the side of the client is a global issue that caused Islamic banks prefer to finance on the basis of *debt financing (murabaha, ishtisna,* and *salam).*

To measure whether there is any indication of Moral Hazard in the distribution of funding is by looking at the ratio of the NPF. *Non Performing Financing* (NPF) is the ratio between the total financing problems and financing provided by Islamic banks. Based on the criteria set forth by the Bank of Indonesia, categories included in the NPF is the financing of substandard, doubtful and loss. NPF is the level of risk faced by banks. NPF is the number of troubled loans and may not be billed. The greater the value of the NPF, the worse the performance of the bank will be (Mohammad, 2005). The correlation of NPF with indication of *moral hazard* is when the value of the NPF is high; there will be an indication of moral hazard. Whereas, when the value of NPF is low, then, an indication of moral hazard does not occur in Islamic banking.

The value of a bank's NPF can be calculated by the formula:

$$NPF = \frac{\text{Total Number of Financing Problems}}{\text{Total Financing}} \times 100\%$$

3.4 The Growth of Gross Domestic Product (GDP) In Islamic Banking

The growth of GDP has an impact on the quality of the loans granted by the banks. If the economic level decreases, the GDP growth will be negative. Consequently, it will cause the deterioration in the quality of banking. The GDP growth is the one that will be part of the profitability of Islamic banks.

In relation to non-performing loans, in a state of recession (seen from the drop in GDP) where a decline in sales and corporate earnings happened, it will influence the company's ability to repay the loan. This will lead to increase in *outstanding* non-current loans (Muntoha, 2011). Meanwhile, if GDP rises, there will be an increase in economic transactions and business world, so that the *non-performing financing* will be down (Nasution, 2007).

The value of GDP growth can be calculated by the formula:

$$GDP_t = \frac{GDP_t - GDP_{t-1}}{GDP_{t-1}} \times 100\%$$

3.5 The Mudharabah Return Ratio Compared with the Return of Total Financing (RR)

As revealed in many literatures, that the type of this *profit shares* financing consisting of *Mudhorobah* and *Musyarokah* is the most ideal scheme of financing in the Islamic Banks. Clearly, it becomes a real differentiator from the conventional banking system. However, this kind of funding has a very high risk because, in this contract, the benefits obtained by *Shohibul Maal* (banks) are relatively uncertain, even to be ready to bear the loss.

The absence of collateral in this *profit shares* financing will cause the banks to face a very high risk, especially the risk of *moral hazard* and *adverse selection* due to asymmetric information (Muntoha, 2011).

In Its application in Islamic banks, as a caution in applying the high-risk types of financing, banks tend to set the profit sharing ratio (revenue) higher than the total financing. The amount of the profit sharing ratio reflects the amount of risk that is tolerated by the bank in obtaining revenue sharing.

By setting the ratio that will give higher *returns* for risky type of financing *(profit shares: mudhorobah* and *musyarokah),* it means that it has prevented the risk *of moral hazard* for borrowers who are not responsible. The higher the ratio *of return is,* the better the bank's policy in anticipation of the possibility of *moral hazard* will be. To get a higher return, it can be achieved by increasing the ratio *of profit* to the bank in the terms of agreement with debtors (Barenberg in Muntoha: 2011).

The *Mudharabah* financing return ratio compared with the returnof total financing which is denoted by the notation of RR *(Return* Ratio) reflects the type of financing policy by the Islamic banks.

The RR variable calculation can be formulated as follows:

$$\mathrm{RR} = \frac{\mathrm{RPMd}}{\mathrm{RF}}$$

In Which,
RR: the mudharabah Return Ratio compared with the Return of Total Financing.
RPMd: the Return of *Mudaraba* Financing.
RF: the Return of Total Financing.

3.6 The Return of Murabaha receivables Allocation compared with the return of Total Financing (RF)

According to Syamsuddin (2008), there are several reasons why *murabahah* contract is very popular in Islamic banking operations. First, in terms of Islamic banks; Short-term investments are quite easy, the benefits derived from the *mark-up* can be determined and confirmed; and it can avoid the uncertainty and risk minimization in the system of profit sharing. Second, in terms of customers; *murabaha* does not allow Islamic banks to intervene in business management. However, this is different with *mudharabah (Trust financing)* which sometimes the bank forces to put a representative on the company's management, to provide internal controls.

This variable describes the allocation of financial returns that are not at risk compared with a total return of financing. The equation is as follows:

$$\mathrm{RF} = \frac{\mathrm{RPMr}}{\mathrm{RTF}}$$

In Which,
RF: the Return Ratio of Murabaha receivables Allocation compared with the Return of Total Financing.
RPMr: the Return of *Murabaha* receivables
RTF: the Return of Total Financing

3.7 Data Analysis Technique

The analysis technique used in this study is a multiple linear regression:
$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + ei$
In which,
Y: *Non-Performing Financing*
$X_{1:}$ the Growth of *Gross Domestic Product*
$X_{2:}$ the return Ratio of *Mudaraba* financing compared with the return of total financing
$X_{3:}$ the Return Ratio of Murabaha receivables Allocation compared with the Return of Total Financing.
α: constant
E: Residual
$\beta_{123:}$ The magnitude of the regression coefficients of each variable.

4. Research Findings

In this study, multiple linear regression analysis is used to find the influence of *GDP growth, the RR* and *RF* toward the *NPF*. Based on calculations using the *SPSS* program, it is obtained the results as the following:

Multiple Regression Results

Coefficients [a]								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	2655	3,363		.789	.434		
	Gdp	-1057	.401	- .385	-2638	.012	.911	1,097
	Rr	1,687	.775	.339	2,176	.035	.804	1,244
	Rf	.617	2,942	**.033**	.210	.835	.785	1,274
a. Dependent Variable: NPF								

The test results of the regression equation can be explained as follows:
***NPF*= 2.655 to 1.057 *GDP* growth *RR* 1.687 + 0.617 + *RF*.**

1. *Gross Domestic Product* has a regression coefficient with a negative direction of 1.057. If we assume that the other independent variables are constant, it means that every 1 percent increase of *GDP* growth variable will cause a decrease of NPF variable by 1.057 percent.

   The results show the significant value of GDP growth of (0.012) <α = 0.05, then the hypothesis that *GDP* growth has an influence on the *NPF* is acceptable. Based on the partial results of the statistical test, it shows that the GDP growth has a negative correlation to the NPF, and the results of the analysis show that GDP has a significant influence on the NPF. Clearly, it is figured out by the significance of regression coefficient with probability value which is less than 0.05.

   The results of this study demonstrate the value of the coefficient of GDP growth is negative and significant, where every increase in GDP will decrease the value of the NPF. This condition indicates that there is no indication of moral hazard in Islamic banking on the side of macroeconomics. Ideally, if GDP growth increases, the NPF will decrease, because the macroeconomic side argues that if GDP growth increases, there will be an increase in the economic transaction, the business world is stretched, so that people income increases and ability of customers to pay even higher. As a result, the customers are able to repay the loan to the bank. In this case, it means that the banks' management are already well-estimated the appropriate funds on the macroeconomic side.

2. *The Return ratios of the Mudaraba Financing compared with the Return of Total Financing (RR)* has a regression coefficient of 1.687 with a positive direction. If we assume that the other independent variables are constant, this means that an increase of 1 percent of *the RR* variable will cause the increase of *NPF* variable by 1.687 percent.

   The results showed the significance value of (0.035) <α = 0.05, then the hypothesis that the *RR* has an influence on the *NPF* is acceptable. Based on the partial results of the statistical test, it is showed that the RR has a positive influence, and the results of the analysis show that the RR is significant to the NPF. Briefly, it is figured out by the significance of regression coefficient with probability value which is less than 0.05.

   The results of this research indicate that the RR coefficient is positive, if there is an increase in RR variable, it will raise the variable of NPF. Briefly, these conditions indicate the existence of moral hazard. Moral hazard can occur on the business entrepreneurs (Mudharib) which tend to maximize profits, so the return to be gained by the bank as *Shahibul Mal* can be reduced. The rising of NPF may also happen because the client is not able to repay the loan to the bank. While on the Islamic banks, the increase of NPF may also occur because the banks are less cautious in monitoring the distribution of the third-party funds.

   Particularly, banks should be more careful in choosing candidates for the debtor of financing, because the system of *mudharabah* financing is based on trust. So, the higher the return value obtained, the higher the fraud committed by *mudharib*, as a result it will increase the value of NPF on Islamic banking.
3. *The Return Ratio of murabaha receivables allocation compared with the Return of Total Financing (RF)* has a regression coefficient of 0.617 with a negative direction. If we assume that the other independent variables are constant, it means that every 1 percent increase from the *RF* variable will cause the increase of *NPF* by 0.617.

   The results show a significance value of (0.835)> α = 0.05, then the hypothesis that *RF* has an influence on the NPF is rejected. Based on the partial results of the statistical test, it is shown that the RF has a positive but not significant influence on the NPF. Briefly, it is figured out by the significance of regression coefficient with probability value which is less than 0.05.

   The results of this study indicate that the RF coefficient is positive but not significant to the NPF. It means that there is no influence of RR variables on the value of NPF. The RF insignificant variable means that the RF variable as the return ratio of *murabaha* receivables allocation compared with the return of total financing is not enough to figure out whether there is any indication of moral hazard in Islamic banking or not. This because the nature of murabaha financing is based on collateral, so that when the customer is no longer able to pay debts, for goods that serve as collateral will be taken by the bank.

   Murabahah financing is a financing provided to the community for the purpose of purchasing goods in working capital requirements, investment or consumptive. The basic principle of Murabahah is sale and purchase. Thus, the profit obtained is in the form of margin of sales including the sale price. These benefits can be negotiated between the parties to a transaction, namely the Islamic banks and customers. Murabaha financing also allows the guarantee because the nature of murabaha financing is a sale with a not cash payment. Because it is not paid in cash, then the dependents of such payment is payable to be paid by the customer.

5. Conclusion

From the research and discussion explained above, it can be concluded as follows:

1. In the GDP growth variable, there is no indication of moral hazard, because in this study the coefficient of GDP has a negative and significant correlation to NPF on the statistical test. This negative correlation demonstrates that there is **no*indication of moral hazard*** in the Islamic Banking in the macroeconomic side, because the higher the GDP, the lower the value of the NPF.
2. In RR variables (return ratio), it is found the indications of moral hazard, because in this study the RR coefficient has a positive and significant influence on the NPF on the test statistic. The positive correlation indicates that there is an ***indication ofthemoral hazard*** of financing in Islamic banking. Where every 1% increase in the return ratio of *mudharabah* financing compared with the return of total financing will increase the value of the NPF.
3. In RF variable (return financing) the finding is not significant to the NPF. It means that the RF variable does not influence the NPF, because the RF variable is the *murabaha* financing which has already guaranteed, so that, the responsibility of payment is a debt that must be paid by the customer.

6. Recommendation

Based on the research and discussion described above, the recommendations for future research are as follows:

1. Further researches on moral hazard in Islamic banks by adding the other financing agreement such as *Ijara, Musharaka, Istishna* financing, etc; or any other conventional variables influencing such case are needed.
2. The studies can be extended not only by samples of BMI, BSM, BMSI Bank but also with other Islamic Banks, such as BNI Syariah, BTN Syariah, or Islamic Business Unit such as BCA Syariah and others by using the panel model analysis.
3. The observation period could be extended, so that it can indicate conditions or trends in the long term. We can insert some dummy variables to separate when the economy is good or bad. So that, the longer the period of research, the better the findings obtained will be.

4. Banks should be more careful in selecting prospective borrowers, because *mudhrabah* financing system is based on trust, so the banks have to be more careful in assessing the feasibility of the prospective borrower.

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