6th ASEAN UNIVERSITIES INTERNATIONAL CONFERENCE ON ISLAMIC FINANCE (6th AICIF)

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CONFERENCE PROCEEDING

SUB THEMES

1. CORPORATE GOVERNANCE
2. ISLAMIC BANKING AND CAPITAL MARKET
3. MONEY PAYMENT SYSTEM & FINANCIAL INNOVATION
4. TAKAFUL & RISK MANAGEMENT
5. ISLAMIC SOCIAL FINANCE
6. ARABIC PAPERS

ISLAMIC BANKING AND CAPITAL MARKET

Sub Theme	Islamic Banking and Capital Market			
No	**Paper ID**	**Paper Title**	**Author(s)**	**Affiliation**
1	6th AICIF: 011-003	Does Islamic Banking Promote Financial Inclusion among Women in OIC Member Countries?	T.A.R Tengku Humaira, S.Shahida, M.N. Shifa	Universiti Kebangsaan Malaysia
2	6th AICIF: 008-007	Potentiality of Islamic Deposit Insurance System in Nigeria: A Lesson from Malaysia	Shamsuddeen Muhammad Ahmad, Salisu Hamisu, Abuja	University Malaysia Perlis (UNIMAP)
3	6th AICIF: 021-012	The Islamic Banking Sectors Contribution towards Symbiotic Halal Ecosystem	Nurul Aini Muhamed, Nathasa Mazna Ramli, Hakimah Yaacob, Nurmaezah Omar	Universiti Sains Islam Malaysia
4	6th AICIF: 023-014	Potentials and Challenges of Sukuk as a Liquidity Management Instrument in Bangladesh	Md. Mizanur Rahman	Islamic Bank Bangladesh Limited
5	6th AICIF: 028-017	Does Islamic Finance Follow Financial Hierarchy? Evidence from the Sukuk Primary Market	Mamoru Nagano	Seikei University
6	6th AICIF: 044-035	The Potential of Islamic Syndicated Financing in Supporting Funding Needs of Green Infrastructure Projects	Aida Noraini Manap, Rusni Hassan	International Islamic University Malaysia
7	6th AICIF: 060-050	Adoption of Value-Based Intermediation through Integrated Reporting: Evidence from Islamic Banks in Malaysia	Nathasa Mazna Ramli, Nurul Aini Muhamed	Universiti Sains Islam Malaysia
8	6th AICIF: 168-163	Zero Waste Village as One of the Contributions of Islamic Banking in the Sustainable Development Goals Program	Rusdiana Priatna, Aisyah Assalafiah	Sekolah Tinggi Ekonomi Islam (STEI) Tazkia, Indonesia
9	6th AICIF: 167 - 162	Alternative Financing Modes for Higher Learning Institutions in Malaysia – Socially Responsible Investment (SRI) Sukuk & Social Impact Bonds (SIB)	Engku Rabiah Adawiah Engku Ali, Rusni Hassan, Salina Kassim, Syed Marwan Mujahid Syed Azman, Nor Razinah Mohd Zin	International Islamic University Malaysia
10	6th AICIF: 163-154	The Performance of Stocks Portfolio Based on Ethical Investment in Indonesia (Study On Islamic Index and Socially Responsible Index)	Lilis Renfiana, Syafiq M. Hanafi, Darmawan	UIN Sunan Kalijaga, Indonesia
11	6th AICIF: 166-157	Fiinancial Reporting Dimensions of Intangibles in the Context of Islamic Finance	Syed Musa Syed Jaafar Alhabshi, Sharifah Khadijah Syed Agil, Mezbah Uddin Ahmed	International Islamic University Malaysia
12	6th AICIF: 096-086	Virtual Currencies: Anaysis from Shariah Validity	Hakimah Yaacob	Universiti Islam Sultan Sharif Ali (UNISSA), Brunei Darussalam

13	6th AICIF: 067-056	The Strategy of Settlement of Murabahah Financing Issues	Maya Indriastuti, Indri Kartika	Universitas Islam Sultan Agung (UNISSULA), Indonesia
14	6th AICIF: 154-143	Measuring Intellectual Capital with Adjusted Residual Income Model (RIM) to Predict Firm Profitability	Prasojo, Sofyan Hadinata	UIN Sunan Kalijaga, Indonesia
15	6th AICIF: 157-148	A Study of Implementing Green Sukuk in Indonesia	Miftakhus Surur, Andi Sabrina	Sekolah Tinggi Ekonomi Islam (STEI) Tazkia, Indonesia
16	6th AICIF: 158-149	Trust-Loyalty Relationship Model in Islamic Banking: Evidence from Indonesia	Afif Zaerofi, Popy Rufaidah, Dwi Kartini, Faisal Afiff	Sekolah Tinggi Ekonomi Islam (STEI) Tazkia, Indonesia
17	6th AICIF: 153-150	Ijarah Maushufah fiz Zimmah (IMFZ) and it`s Application in Financial Transaction	Lailatis Syarifah, Muhfiatun	UIN Sunan Kalijaga, Indonesia
18	6th AICIF: 077-064	An Analysis of the Effect of Murabahah, Mudharabah, Musyarakah and Ijarah Financing on Profit	Osmad Muthaher, Tyas Amantha Kusumadewi	Universitas Islam Sultan Agung (UNISSULA), Indonesia
19	6th AICIF: 078-065	Islamic Social Reporting Holistic Approach on Sharia Banking in Indonesia	Luluk Muhimatul Ifada, Bedjo Santoso, Maya Indriastuti	Universitas Islam Sultan Agung (UNISSULA), Indonesia
20	6th AICIF: 080-067	Operational Risks Disclosure of Islamic Banks: Selected Cases from Indonesia	Hendri Setyawan	Universitas Islam Sultan Agung (UNISSULA), Indonesia
21	6th AICIF: 150-140	Transforming Marawi's Transactions to Islamic Finance	Minombao Ramos-Mayo	Mindanao State University
22	6th AICIF: 089-077	Role of Accounting Information and Principles of Sharia Financing Assessment in Financing Decisions	Devi Permatasari	Universitas Islam Sultan Agung (UNISSULA), Indonesia
23	6th AICIF: 049-041	The Internal and External Challenges and the way forward to conversion of Islamic Banking in Libya	Mahmoud A S Abusloum, Khaliq Ahmad, Nabel Bello	International Islamic University Malaysia
24	6th AICIF: 066-057	Interest-Free Banking and Finance in Brunei Darussalam:Present Realities and Future Prospects	Jibrail Bin Yusuf, Hassan Shakeel Shah, Mohammad Ayaz, Jabal Muhammad Buaben	University of Cape Coast
25	6th AICIF: 015-115	Factors Affecting Earning Management in Indonesian Islamic Banking (Empirical Studies on Islamic banks In Indonesia period 2013-2016)	Prima Shofiani	Universitas 'Aisyiyah Yogyakarta, Indonesia
26	6th AICIF: 139-134	Risks Management and Performance of Indonesian Islamic and Conventional Banks	Saiful	Bengkulu University, Indonesia

27	6th AICIF: 018-009	Islamic Juristic Analysis of Default ukk: A Case of Dana Gas Court Judgments Abstract	Saheed Abdullahi Busari, Akhtarzaite bint Abdul Aziz, Luqman Zakariyah, Muhammad Amanullah	International Islamic University Malaysia
28	6th AICIF: 085-083	The Impact of Islamic Social Reporting on Financial Performance of Sharia Banks in Indonesia	Sutapa, Hendri S, Puji Harto	Universitas Islam Sultan Agung (UNISSULA), Indonesia
29	6th AICIF: 102-089	Islamic Banking in Iraq: An Overview	Zeiad Amjad Abdulrazzak Aghwan	Universiti Islam Sultan Sharif Ali (UNISSA), Brunei Darussalam
30	6th AICIF: 103-090	Analysis Relation Between Service Quality with Post Purchase Behavior: Empirical Study in Bank Syariah Mandiri Depok, Indonesia	Reny Fitriana Kaban, Puji Hadiyati	Perbanas Institute
31	6th AICIF: 109-100	Why do Indonesian Islamic Banks Take The Risk?	Yaser Taufik Syamlan, Ar-Rizal Azinuddin	Sekolah Tinggi Ekonomi Islam (STEI) Tazkia, Indonesia
32	6th AICIF: 115-104	Earning Quality and Potential Bankruptcy of Islamic Banks: Indonesia versus Malaysia	Grandis Imama Hendra	Sekolah Tinggi Ekonomi Islam (STEI) Tazkia, Indonesia
33	6th AICIF: 113-113	The Interconnections between Islamic Wealth Management and Sustanaible Finance	Nurizal Ismail, Siti Aisyah	Sekolah Tinggi Ekonomi Islam (STEI) Tazkia, Indonesia
34	6th AICIF: 132-119	Micro-finance in Islamic Banking: Theories and Practices Pakistan a Case in Point	Bashir Ahmad, Ms Maawra Salam	Bahria University, Karachi Campus, Pakistan
35	6th AICIF: 161-158	Musharakah Sukuk Documentation Defects and Its Default Implications: Case Study of Villamar Sukuk	Ahmed Mohamed Mokhtar, Aznan Hasan	International Islamic University Malaysia
36	6th AICIF: 161-152	Sukuk Issuance for Meeting Basel III Capital Adequacy Requirements: A Shariah Analysis of Maybank Tier 1 sukuk	Nabil Bello, Aznan Hasan	International Islamic University Malaysia
37	6th AICIF: 135-123	Islamic home financing instruments in Malaysia: The emerging issue of financial (un)affordability	Mohd Zaidi Md Zabri, Razali Haron	Universiti Sains Malaysia
38	6th AICIF: 073-124	Malaysian Stock Market Analysis on Conventional and Shariah-based Equity Unit Trusts Performances	Lalua Rahsiad, Aqilah Nur Safiah Zainal, Ayesha Abdul Khalid	Management & Science University, Malaysia
39	6th AICIF: 140-130	The Effect of Corporate Governance on Islamic Banking Performance using Maqasid Index Approach in Indonesia	Audia Syafaatur Rahman, Razali Haron	International Islamic University Malaysia
40	6th AICIF: 142-133	Source of Procyclicality in Dual Banking System: The Case of Indonesia	Naahilah Hunafaa Al-Qudsy, Khoirul Umam Atika Rukminastiti Masrifah	University of Darussalam (UNIDA) Gontor, Indonesia

41	6th AICIF: 130-122	Do Islamic Banking Really Benefit from Foreign Direct Investment?	Siti Lulu Hayati	University of Darussalam (UNIDA) Gontor, Indonesia
42	6th AICIF: 014-006	Relationship Between Service Quality and Customer Satisfaction	Dzuljastri Abdul Razak, Fodol Mohamed Zakaria, Ali Ahmad Burhan Ahmed Abdilahi Jama	International Islamic University Malaysia
43	6th AICIF: 149-141	A Shari'ah Appraisal of the Ijarah Sukuk Structure as Implemented in Islamic Capital Markets	Auwal Adam Sa'ad	International Islamic University Malaysia

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The Strategy of Settlement of Murabahah Financing Issues

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Abstract

This study aims to analyze the causative factors of problematic financing, especially in murabahah financing and policies which are taken to solve the financing problem at *Bank Muamalat Indonesia*. The data collection was collected through documentation which was then analyzed qualitatively. The results showed that the causative factors of murabahah financing come from customers, internal banks, and fictitious factors. The policies implemented very comprehensively since prevention to completion. The technical settlement was done by using on the spot method, summons, billing, restructuring, sale of collateral, and write off as well as the determination of the fine. In addition, BMI also has internal policy patterns that are not directly regulated in detail by financial services authorities such as the formation of remedial teams that deal specifically with problem financing.

Keywords: non performing financing, murabahah financing, internal policies, *Bank Muamalat Indonesia*, Financial Service Quality

1. Introduction

Financing is one of the company's productive assets which are products of syaria bank business that are able to generate profits (Undang-undang No. 21, 2008). Investment products in Islamic banks have tendency to always bring risks, financing also gets uncertainty on the profits return from funds that have been distributed by banks to finance plans or projects that have been agreed by the bank and the customer. This uncertainty brings a high risk for sharia banks as the distributor of funds for the financing (Usanti, 2014). Financing disbursed by the bank for customers, if it is not done carefully, it will result the emergence of non-performing financing (NPF). NPF occurs due to bank failure in managing the financing that has been distributed. The Non-Performing Financing (NPF) rate can be calculated by comparing the number of non-performing financing (NPF) with the total amount of financing. Distributed financing by sharia banks can be classified according to the level of financing collectibility. By observing the level of financing collectability, it will get information about the quality of financing provided so that will be obtained the value of non-performance financing. Financing at *Bank Muamalat*, which are classified as a non-performing financing and become financing risk or Non-Performing Financing where the collectability is substandard, doubtful, and stuck.

Data of (Bank Indonesia, 2015) indicates that the amount of Indonesian bank payment arrears in the first semester of 2015 is 11.58%. Such arrears impacts on the decreasing profitability so that the demand for financing in the business expansion becomes limited. Not only slowing growth in financing, but it also has an implication on increasing the number of Non-Performing Financing (NPF) from 2.16% to 2.56%. The magnitude of NPF is the impact of the large allocation provided by banks for financing without good risk management in almost all provinces in Indonesia. The size of the financing will affect the size of the risk to the quality of financing in the banking sector. Especially for sharia banking at *Bank Muamalat Indonesia*, on 2015, the ratio of non-performing financing toward the total financing is 4.2%, it is under the safe limit set by the financial services authority that is 5%.

(Arisandi, 2011; and Padmantyo, 2011) said that the rising trend of non-performing financing affects the decrease of BMI's health rating from stable to negative. This condition becomes the impact of the large allocation of financing without adequate risk management support. The previous research indicates that BMI allocates 49.56% of total assets for financing. According to BMI internal data, 34% of the funds are allocated for murabahah financing. Theoretically, the greater of the percentage allocated for a financing, it will be more susceptible to the emergence of non-performance financing. ((OJK), 2015) Data show that the percentage of non-performance financing in BMI is equal to 7.05% which is accumulated from 3 (non-current) to 3 (stagnant) collectibility. For murabahah, the total of non-performance financing reached 5.17%, exceeding the 5% safe limit that is set by the government.

2. Literature Review

2.1 Murabahah financing

Murabahah is a contract of sale of certain goods, where the seller clearly mentions the goods in the traded seller, including the purchase price of goods to the buyer, and then the seller requires the profit in a certain number. In other words, murabahah defines as a contract of sale and purchase of goods at the original price with an additional profit agreed (Muhammad, 2009). *Murabahah* is generally applicable to financing products for the purchase of investment goods, both domestic and abroad. This contract is a form of natural certainty contracts because murabahah determined some of the benefits to be gained (Hasbi and Tendi, 2011; Sudiyatno, B. dan Suroso, 2010).

2.2 Non-performing financing

Non-performing financing is an illustration of a situation where loan repayment approval gets risk of failure and even leads to a potential loss (Muhammad, 2009). In general, the definition of non-performing financing is the financing which is caused by customers who do not occupy the installment payment schedule and do not meet the requirements contained in the contract (Muhammad, 2009). He is also defines non-performance financing in more specific. Non-performing financing defines as a substandard financing, where customers do not meet the requirements set in the contract, financing that does not occupy the installment schedule, so that it emerge arrears, non-performing financing is the financing that does not occupy the promise of payment, thus requiring legal action to insist. (Djamil, 2014) explained that non-performing financing is financing whose quality of payments is in substandard, doubtful, and stuck.

Bank Indonesia determines the non-performing financing ratio of 5%, which is obtained by comparing the total number of non-performing financing with total financing disbursed. The increase of non-performing financing resulted banks having to provide a substantial allowance for write-off of 1% for financing; 25% for financing in special attention; 50% for less financially financed; 75% for doubtful financing and 100% for non-performing financing, so that financing disbursement capability becomes very limited (Bank Indonesia, 2016).

3. Research Methodology

This research used a quantitative approach with descriptive method. The data used are derived from secondary data obtained from the documentary study by studying written data from *Bank Muamalat Indonesia*, books, fatwa of *DSN-MUI*, brochures, notes, illustrations, *PSAK, PBI*, *OJK*, law of Banking and others regulations. The data analysis is done gradually starting from the review of all the data collection, data reduction and compilation in the units according to the research objectives. The data are then interpreted by raising the meaning of non-performing financing cases that occurred in BMI to examine the relevance between the case and the purpose of research.

4. RESULT AND DISCUSSION

4.1 Non performing financing criteria at BMI

Murabahah financing criteria at Bank Muamalat Indonesia can be classified as follows: a). Customer who has due date and does not pay his loan installments up to 90 days; b). Increasing the amount of financing from smooth to becomes problematic; 3). Recognition of the customer when payment is due date.

Based on these criteria, the bank then determines the appropriate approach to use, including by a) coaching, b) administrative observation, c) monitoring of the immediate space, d) obtaining information from other parties, and

e) negotiating. The purpose of conducting and monitoring such approaches is to obtain data on the prospect of the customer's business by paying attention to the development and cash flow so that it can survive in a certain period of time.

4.2 Factors cause occurrence of non-performing financing

Murabahah products in BMI indicate that Murabaha financing is caused by three factors, they are internal, external and fictitious.

1. Internal factors, factors contained in the internal BMI which is triggered by several things, they are:
   a) The Weakness of financing analysis BMI is not careful in analyzing and performing the feasibility assessment of financing so that it is not in accordance with the established procedure.
   b) The amount of realized financing is not balanced with the customer's real needs. In general, this condition is referred to as under-financing (financing under customers' needs) and over-financing (financing exceeds the customer's business expansion requirements). In the condition of under-financing, customers have difficulties in expanding their business so as to seek additional capital from other parties as a solution. The condition of over-financing, customers use it for purposes out of the business so that customers difficult to restore because the amount of capital is not balanced with the benefits obtained.
   c) Payment period.
   This means that there is a policy against the determination of payment terms that greatly affect the smoothness of the payment.
   d) Less optimal control of the bank and marketing.
   This is because of the lack of human resources compared with the number of customers is quite high. As a result, an early detection system is not running optimally so that there are arrears or late payment.
   e) Less optimal in risk screening
   This is due to the higher demand for murabahah compared to other products, but BMI does not create the risk scale that will occur in this contract.
   f) Lack of professionals in the relevant field
   The lack of human resources in the recovery financing is because this work requires high dedication to the company and a broad insight into the policy of non-performing financing.
2. External Factors
   External factors are derived from the weaknesses or errors of the customer, they are:
   a) There is bad faith from customers. In facts, the profit earned from the business should be set aside for installment payments, but it is used for other purposes.
   b) Declining customer income caused by the lack of business development. In facts, this is caused by various factors, including lack of promotion of sold products, lack of skill in managing the business, unstable economic factors, and so forth.
   c) Disasters experienced by customers, in the form of fraud by colleagues, the occurrence of the fireplace of business and death accident.
   d) The weakness of customer's business professionalism, the facts show that some customers go into a particular business is not based on their professional skills, but they only follow after seeing the successfulness of other people.
   e) Customer carelessness in the use of funds. However, in practice, when the funds have been disbursed, customers use them for other things, such as consumer needs (household appliances, food, and others).
3. Fictitious
   The forms of manipulation that have occurred in BMI are as follows:
   1) Fictitious financing, deliberate fraud committed by customers in taking financing.
   2) Fictitious guarantees, fraudulent guarantees required in the contract made by customer or bank. A fictitious guarantee factor occurs:
      a) When the customer submits a loan by attaching a guarantee or certificate of another person which is changed to the name of the customer. Based on the facts, the attached certificate usually belongs to one of his family members who were renamed for funding purposes only without the actual buying and selling process.
      b) When there is a customer who is not eligible to obtain financing can contact to certain persons in the internal bank.

4.3 Non performing financing policy murabahah products

Stages of non-performing financing, the BMI firstly perform some actions against customers who are considered having good business prospects. In the next stage is done to customers who have bad prospects. This stage is similar to the completion stage of the research of (Faozah, U., & Abdul_Fattah, 2015; Listanti, D., Dzulkirom, M., 2015; Wahyuni, K. T., & Werastuti, 2013). In addition, the policy of BMI on non-performing financing with collectability 3 to collectability 5 is:

1) Settlement through On the Spot (OTS) is conducted by observing in the field to see directly the guarantee and business prospects of customers. The goal is to see if the guarantee can be backed-up with the remaining installment payments. Next, it is to look at the business prospects and economic circumstances of the customer to determine whether it can cover the remaining installments or not.
2) Settlement through Billing, activities undertaken by BMI to recover funds already lent to customers as principal of overdue payments. The aim is to maintain discipline and order the implementation of payment obligations of customers in accordance with the repayment schedule set out in the contract. In addition, the settlement is also conducted as a form of bank anticipation of losses that is caused from customer liabilities delays.
3) Settlement through Warning Letters (Summons), the BMI party psychological pressure to the customer warning writtenly (summons), i.e. the bank set a deadline for repayment in accordance with the policy that has been determined. Furthermore, warnings against uncooperative clients will be processed in accordance with applicable law. The settlement is in accordance with the research of (Amnawaty dan Liana, 2014; Usanti, 2014).
4) Settlement through Restructuring, other efforts undertaken by BMI in order to assist customers in order to settle their obligations protected by PBI. No. 10/18 / PBI / 2008. In PBI, the policy is done by the bank in order to assist the customers to complete the non-performing financing. The restructuring policy is implemented by *BMI* through:
    a) Rescheduling, which the action is taken by the BMI toward the customer by changing the repayment schedule or extending the due date payment without changing the remaining installments;
    b) Reconditioning requirements, it changes in some or all of the terms of financing including changes to the repayment schedule, the number of installments (may be as low as looking at the customer's economic situation after on the spot), the term and installment deductions;
    c) Restructuring, it changes in the terms of financing that are not listed in rescheduling and reconditioning, it includes of additional funds and contract conversion. Especially for murabahah financing, BMI does not convert the contract because based on their murabahah agreement cannot be converted into another financing.
5) Settlement through Guarantee, as a legal certainty to the bank for the return of capital/ loan/credit that has been given to the customer, in the sense that the guarantee goods at all times are available for execution, if necessary, it can be cashed to repay the customer's debt. This condition is reinforced by fatwa of DSN No.47 / DSN-MUI / II / 2005 which explains that *LKS* may execute collateral. The purpose of the sale of the collateral on the BMI is to cover the remaining liabilities of the customer or the settlement of the receivables. If the price of the collateral exceeds the remaining amount of the client's installment then the residual difference shall be returned to the customer after deducting the auction fee and other costs associated with the process of selling the collateral. This regulation as stipulated in Article 40 section (1), (2), and (3) of Law no. 21/2008.
6) Completion through Write-off defines as removing to unproductive asset accounts from the books. The main purpose of write-offs is to improve the NPF ratio condition. The elimination of non-performing financing by BMI can be divided into two, they are
    a) Remove the book means the removal of a conditional or administrative with only limited to reporting requirements in *Bank Indonesia (BI)* or *OJK* only. Based on law, the customer of the write off in this part still has to pay the installment so as not to make the liability loss.
    b) Remove the claim. It defines as the exemption which is provided by the sharia bank to the customer for not paying his / her obligations to the bank, either the exemption of the entire debt or part of the bill.
7) Settlement through fine determination, compensation to be paid by the customer to the bank or often referred to as ta'wid. The designation is devoted to social funds rather than as bank income. The funds are placed on different accounts and should not be mixed with the bank income account in accordance with the fatwa of DSN-MUI Number 17 / DSN-MUI / IX / 2000. From the regulation, the BMI stipulates a late penalty of Rp. 100. 000

per month. Implementation of such fines in order to make customers more disciplined and timely in returning the financing installment.

8) Establishment of Remedial Team, a special team established by BMI that is engaged in non-performing financing settlement where the financing has experienced late payment installment more than 3 (three) months. The team then manages the billing and reports the billing results in accordance with the references set by the division. The benefits of this team are:
    a) Identifying financing assets that have the potential to become non-performing financing, and then managing the portfolio.
    b) Creating a list of clients categorized in non-performing financing for scheduled billing in accordance with instructions from BMI, then send warning letters, if in the monitoring of the party, the customer is not cooperative, it will be the sale of collateral.
    c) Making a report of visitation (call report) as well as reports in billing for as accountability to the head of marketing. In addition to the regulations implemented by *Bank Indonesia*, BMI also has various internal policies that support the bank's external policy.

4.4 The implimentation of murabahah non performing financing

The implementation of the policies toward non-performing financing above in BMI in 2015 shows a positive trend. Due to half of 2016, there was a significant decrease in NPF from Rp. 9.2 billion at 31 December 2015 to Rp. 5.2 billion in July 2016. The figure shows a decrease in NPF from 5.16% to 2.94%. In that period, the BMI has completed the non-performing financing for murabahah products of Rp. 3.9 billion or 2.22%.

It means, in that period, the BMI has succeeded in minimizing the NPF risk of 42.70% or almost half of the total initial NPF value. It shows the effectiveness of policies implemented by BMI in the effort to save the non-performing financing portfolio. On 2015, it shows an improvement in the quality of non-performing payments with 39.21% and 6.38% in 2016 so that the total quality of nonperforming payments becomes 32.83% in July 2016. Along with the BMI settlement policy, the quality of problem payments also shows improvement and decrease of 8.31% which means that BMI is able to decrease by 35.37% within that period. This figure indicates an improvement in 2016 which specifically the BMI make improvements in the field of management that concentrates on efforts to improve the quality of financing and rescue portfolio of non-performing financing, and improvement capabilities.

5. Conclusion

The results and analysis of research that have been done in BMI can be concluded that there are three factors causing non-performing financing of murabahah, they are customer factor, the internal factor of a bank, and fictitious factor. Policies implemented to improve the quality of payments and reduce NPF start from prevention efforts to solve non-performing financing. Specifically, the problem-solving policy on BMI is done through on the spot, billing, restructuring, collateral sale, write off and the establishment of fine and the formation of a special team that handle non-performing financing. In addition, BMI also has internal policy patterns that need to be adapted to the culture of customers and the surrounding community. The decrease in the NPF ratio can also be attributed to economic growth and an increase in overall community incomes. Economic growth can increase the cash flow of banks by increasing demand for financing by customers. As economic growth grows, there will be an increase in payments that will reduce NPF. In other words, economic growth plays an important role in the quality of loan payments provided by BMI.

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