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DIFFERENCE TEST OF POTENTIAL LOSS FROM PROFIT SHARING FINANCING ISLAMIC BANKING IN INDONESIA

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Abstract: Common problem with Islamic bank in Indonesia is the rate of return from financing business activities. Profit sharing financing is a type of business activity that still requires certainty in the distribution of profits and risks. The aim of this research is to conduct a different test analysis of potential loss for Islamic Bank in Indonesia from profit-sharing financing business activities during and after the Covid-19 pandemic. This research method uses a quantitative approach with a population of 14 Sharia Commercial Banks as the research sample. Saturated samples are used as a research sampling technique considering the small population size. The data analysis technique used in this research is Paired Sample t-test with Jamovi as an analysis tool. Findings of this research show that there is significant difference in potential losses in profit sharing financing during and after the Covid-19 pandemic with a tendency to be greater after the Covid-19 pandemic.

Keywords: profit sharing, islamic banking, potential loss, *mudharabah*, *musyarakah*, covid-19

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1. Introduction

Profitability is one measure of the financial performance of Islamic banks in Indonesia to show the ability to earn profits during a certain period. However, this does not rule out the possibility of potential losses resulting from Islamic bank business activities from distributing financing to customers, as was predicted during the Covid-19 pandemic that Islamic banks were predicted to experience losses (Afkar & Fauziyah, 2021). It is because basically there is a financing risk that occurs when Islamic banks distribute financing, namely in the form of non-performing financing (Bautista et al., 2022). Of course, the Covid-19 pandemic had an impact on customers' ability to pay loan to sharia banks.

Potential losses in profit sharing financing can be seen from several things regarding non-performing financing, operational cost efficiency, liquidity, and so on. Profit sharing financing can be seen from *mudharabah* and *musyarakah*. *Mudharabah* is profit sharing which is fully financed by sharia banks, while *musyarakah* is profit sharing with scheme for each partner to deposit capital (Afkar, 2015b). Potential loss form profit sharing seen from the *mudharabah* scheme shows significant difference with downward trend during the Covid-19 pandemic, whereas with the *musyarakah* scheme it has increased (Afkar & Purwanto, 2021b). It means that full financing from sharia bank can reduce the risk of loss, whereas a mutual capital deposit scheme creates higher risk of loss.

Potential loss is related to the sustainability of sharia bank business activities in distributing financing. Previous research shows that profit sharing financing has no effect on the level of profitability (Nuha & Mulazid, 2018). As in other research, it also shows that the financial sustainability ratio of Islamic banks is very high when compared to before the Covid-19 pandemic (Trisnowati et al., 2021). It is supported by predictions of the financial performance of Islamic banks which are influenced by inflation (Fakhri et al., 2019) so that they will likely always experience movements in their financial valuations. However, when viewed from the customer's perspective, it turns out that financial literacy is one of the factors that can influence interest in saving at sharia bank with profit sharing scheme (Afriani & Asandimitra, 2020). It means that Islamic banks have financial risks from distributing financing but there is still hope in customers' interest in saving with profit sharing scheme.

The financing provided by Islamic banks through this profit sharing scheme is indeed full of risks because this type of financing is financing that requires trust with the uncertainty of the income obtained, only ensuring the portion that is shared (Afkar et al., 2020). So there is definitely a risk of loss, but in reality Islamic banks are still able to make a profit from their ability to manage the capital they have (Afkar & Fauziyah, 2021). Apart from that, if we look at the distribution of funds using guaranteed payment schemes such as *murabahah* and *istishna'*, there has been an increase, while with the *ijarah* scheme it has decreased during the Covid-19 pandemic (Afkar & Purwanto, 2021a).

Other research shows that during the Covid-19 pandemic the level of efficiency of operational costs and non-performing financing decreased, meaning that Islamic banks have the opportunity to earn higher profits (Afkar et al., 2024). It is also supported by research from (Daru et al., 2021) which explains that the average non-performing financing of Islamic banks is 3.89% or still below the tolerable requirement of 5%. It means that Islamic banks still have the ability to maintain the risk of losses resulting from customers who fail to pay, but of course there is still a risk of losses occurring. Even though various ways have been implemented to manage the risks of profit sharing financing schemes through *mudharabah* and *musyarakah* (Febianto, 2012), there are still risks in every financing.

Inconsistent results of previous studies regarding the potential losses experienced by sharia banks in Indonesia make it interesting to carry out research again regarding the potential losses from *mudharabah* and m*usyarakah* schemes from Islamic bank in Indonesia. Previously, it was shown that losses were predicted with a tendency for the amount of non-performing financing to improve during the Covid-19 pandemic (Afkar & Fauziyah, 2021). However, at the same time, other research explains that the risk of problematic financing seen from non-performing financing is still in a safe or tolerable condition (Daru et al., 2021).Although the actual problem that occurred during the Covid-19 pandemic was the decline in customers' ability to pay their loans.

Hypothesis

Financing provided by Islamic banks in Indonesia to customers certainly has a risk in terms of the rate of return, this risk is referred to as non-performing financing. This non-performing financing has a negative impact on decreasing profitability (Almunawwaroh & Marliana, 2018). It will of course have an impact on potential losses, as previously predicted by (Afkar & Fauziyah, 2021) that in the fourth quarter of 2021 Islamic banks experienced losses due to the increase in non-performing financing during the Covid-19 pandemic. It is not completely true because if more data is taken then what happened was that during the Covid-19 pandemic it showed a tendency to decrease non-performing financing so that they did not experience large losses (Afkar et al., 2024). On the other hand, it shows that potential losses with the profit sharing scheme are shown by *mudharabah* decreasing, while with *musyarakah* it has increased during the Covid-19 pandemic (Afkar & Purwanto, 2021b). It means that there is a significant difference in risk of loss between before and after the Covid-19 pandemic.

Hypothesis: Potential losses from profit sharing financing occur differently during and after Covid-19 pandemic

2. Research Method

This research uses a quantitative approach because it carries out a different test analysis of potential loss from profit sharing financing Islamic banks during and after the Covid-19 pandemic. There are 14 sharia commercial banks as the population in this research and also used as samples because the population is small (Sugiyono, 2017). with the sampling technique using saturated samples. This research does not use variables, but uses the term paired samples, namely potential loss from profit sharing financing during and after Covid-19 pandemic. Data collection technique uses documentation from the Indonesian financial services authority, 2020 - 2021 is data during Covid-19 pandemic, while data for 2022 - 2023 is data after Covid-19 pandemic. The calculation of potential losses in profit sharing financing is as follows:

$$\text{Potential loss from profit sharing ratio} = \frac{\text{Potential loss from profit sharing}}{\text{Total Mudharabah and Musyarakah Financing}}$$

Data analysis technique used in this research is the Difference Test via paired sample t-test with the condition that the p-value is < 0.05 then there is a difference, whereas if the p value is > 0.05 then there is no difference. The tool used to carry out the analysis is JAMOVI. Before carrying out data analysis, the data that has been collected needs to be tested for data normality to get good and unbiased research results. The condition for the normality test is that if the p-value is > 0.05 then the data is normally distributed so it can be used in data analysis, whereas if the p-value < 0.05 then the data is not normal.

3. Results and Discussion

3.1. Results

Table 1. Data Research

Year	Month	Potential Loss from profit Sharing During Covid-19 Pandemic (%)	Year	Month	Potential Loss from profit Sharing After Covid-19 Pandemic (%)
2020	January	2.67	2022	January	4.76
	February	2.70		February	4.55
	March	2.66		March	4.56
	April	2.61		April	4.51
	May	2.73		May	4.29
	June	2.79		June	4.12

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	July	2.85		July	4.16
	August	3.00		August	4.08
	September	3.20		September	4.05
	October	3.26		October	4.29
	November	3.34		November	4.38
	December	3.46		December	4.45
2021	January	3.61	2023	January	4.56
	February	3.92		February	4.51
	March	3.79		March	4.38
	April	4.00		April	4.31
	May	4.19		May	4.22
	June	4.05		June	4.31
	July	4.26		July	4.19
	August	4.34		August	4.09
	September	4.28		September	3.98
	October	4.24		October	3.87
	November	4.67		November	3.74
	December	4.65		December	3.67

Source: Financial Services Authority of Indonesia 2024

Table 1 shows research data obtained in 2020 – 2021 as data during the Covid-19 pandemic and in 2022 – 2023 as data after the Covid-19 pandemic. As can be seen in the table, from 2020 to 2021 there tends to be an increase in potential losses, while from 2022 to 2023 there tends to be a decrease in potential losses. This condition shows that the Covid-19 pandemic had an impact on the potential for high losses at that time, but after the Covid-19 pandemic subsided, the potential losses also decreased slowly.

Table 2. Test of Normality Result

Tests of Normality

			statistic	**p-value**
During Pandemic	After Pandemic	Shapiro-Wilk	0.961	0.454
		Kolmogorov-Smirnov	0.112	0.926
		Anderson-Darling	0.285	0.596

Note. Additional results provided by *moretests*

Table 2 shows the results of the normality test of the data collected. It can be seen in the table that from the three methods (Shapiro-Wilk, Kolmogorov-Smirnov, and Anderson-Darling) the normality test shows a p-value > 0.05, meaning that all data collected in this research is normally distributed. so that it can be used in data analysis at the next stage.

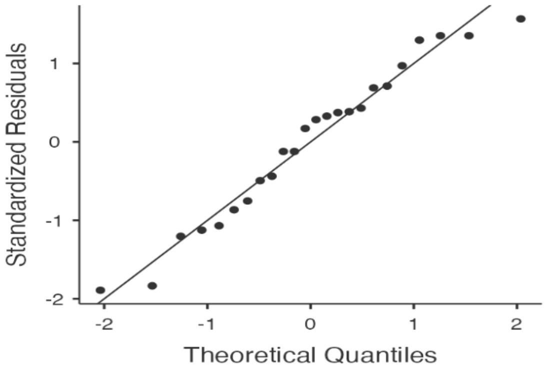

Figure 1. Distribution of Research Data

Figure 1 shows the distribution of data graphically by measuring data normality through residuals. It can be seen in the graph that the data collected is distributed in straight line and not spread to various angles, so it can be said that the data for this research is normally distributed.

Table 3. Descriptives Statistics

Descriptives

	N	Mean	Median	SD	SE
During Pandemic	24	3.55	3.54	0.696	0.1420
After Pandemic	24	4.25	4.29	0.272	0.0555

Table 3 shows descriptive statistics from the data collected in this research. The total data is 24 from each condition, namely during and after the Covid-19 pandemic. Median obtained from this data during the pandemic was 3.54, while after the Covid-19 pandemic it was 4.29, meaning that there was an increase in potential losses seen from the middle value (median). Meanwhile, mean during the Covid-19 pandemic showed 3.55 and after the Covid-19 pandemic it showed a value of 4.25. It means that the average potential loss has increased after the Covid-19 pandemic.

Table 4. Paired Sampel T-Test Result

Paired Samples T-Test

			Statistic	df	p-value	Mean difference	SE difference
During Pandemic	After Pandemic	Student's t	-3.85	23.0	< .001	-0.698	0.181
		Wilcoxon W	41.0		0.002	-0.742	0.181

Note. H_a $\mu_{\text{Measure 1 - Measure 2}} \neq 0$

Table 4 shows the results of different tests using paired sample t-test on data on potential loss from profit sharing financing during and after the Covid-19 pandemic. The difference test was carried out in two ways, namely using Student's t and Wilcoxon W at the degree of freedom (df) level, namely n-1, so 24 – 1 = 23. The results of the research using Student's t showed that there was mean difference of - 0.698 at significance level of p-value <.001, while with Wilcoxon W there is mean difference of -0.742 at significance level of 0.002. It means that potential loss from profit sharing financing during and after the Covid-19 pandemic is significantly different, thus it can be said that the Covid-19 pandemic has had an impact on Islamic Bank's ability to manage the risk of losses from profit sharing financing.

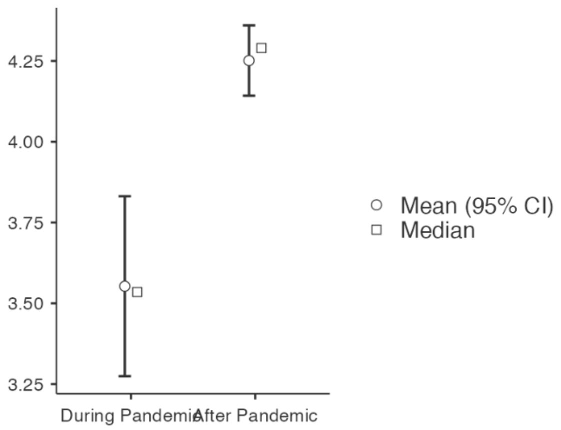

Figure 2. Confidence Interval Potential Loss from Profit Sharing

Figure 2 shows the confidence level index measuring potential financing losses for Islamic bank profits in Indonesia during and after the Covid-19 pandemic. It shows that the average level of potential loss in profit sharing financing during the pandemic is between 3.50 and 3.75, whereas after the Covid-19 pandemic it is at around 4.25. It means that there was an increase after Covid-19 began to subside, this shows a significant level of difference in potential losses in profit sharing financing.

3.2. Discussion

Profit sharing financing is a type of financing that provides a profit and risk sharing scheme that has been agreed upon by each party. Profit sharing financing is a type of investment that can be carried out with *mudharabah* and *musyarakah* contracts (Afkar, 2015b). *Mudharabah* financing is carried out by providing profits through an agreement, but the risk of loss is borne by the capital owner. Meanwhile, *musyarakah* financing can be carried out by each party depositing capital, then profits are shared according to the agreement, but losses are borne by each party according to the portion of capital paid in (Nurhayati & Wasilah, 2016).This profit-sharing financing requires high trust because it does not rule out the possibility of fraud in its implementation, for example deliberately delaying payments, deliberately causing business losses, and so on.

Potential losses in profit sharing financing are of course a special concern because this type of financing is a type that still requires certainty in the level of income, therefore this financing includes a Natural Uncertainty Contract (NUC) (Milzam & Siswanto, 2019), as stated (Alfie & Khanifah, 2018) that profit sharing financing requires high trust. The measure of potential loss in this case can be non-performing financing (NPF). Previously, it was predicted that Islamic banks in Indonesia would experience losses at the end of 2021 with the NPF increasing during the Covid-19 pandemic (Afkar & Fauziyah, 2021). However, the results of this research show that potential losses in profit sharing financing with *mudharabah* and *musyarakah* agreements during the Covid-19 pandemic continued to increase until the end of

2022 and early 2023, but after that until the end of 2023 they tended to decrease to the level of 3%. These results show that there is a significant difference in potential losses in profit sharing financing during and after the Covid-19 pandemic. Even though the potential loss in profit sharing financing shows a significant difference, in fact, when non-performing financing is relatively small in value, it will not affect Islamic banks in making profits (Afkar, 2018)so that potential losses can be controlled.

Potential losses in profit sharing financing are actually not only caused by poor financial management but are also caused by other things such as customers choosing safer financial performance, so that when financial pressure occurs they can make the decision to invest their money in other forms or in banks. Conventional (Afkar, 2015a).This is supported by research (Cahyono et al., 2021) that customers choose a more attractive income level when financial pressure occurs. Thus, when a customer who fails to pay the proceeds of the financing will also increase the NPF, resulting in potential losses from the financing, because basically the NPF will affect the level of profitability of the Islamic bank (Synatrya & Pramono, 2022).

4. Conclusion

Potential loss from profit sharing financing for Islamic banks show significant differences during and after the Covid-19 pandemic. It shows an upward trend when the Covid-19 pandemic begins to subside, meaning that this increase shows that the impact of the Covid-19 pandemic on the ability of Islamic banks to earn profits is very significant. The difference in potential losses from profit sharing financing during and after the Covid-19 pandemic actually shows a downward trend, in other words, after the Covid-19 pandemic, the level of losses from profit sharing financing began to show improvement by decreasing potential losses.

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