ANALYSIS OF EXTERNAL AND INTERNAL FACTORS ON NON-PERFORMING FINANCING AT BANK SYARIAH ABC

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Abstract – *This study aims to identify external and internal factors that affect non-performing financing at ABC Sharia Bank and find out ABC's strategy in dealing with non-performing financing. The method used in this study is descriptive with a qualitative approach. Secondary data collection is obtained from documented sources in the company, namely financial statements, and primary data is obtained through survey research. The population in this study is in the placement work areas of Jakarta, Bogor, Depok, Tangerang and Bekasi and 126 parties involved in the process of providing and monitoring financing and from this number 116 samples were obtained. The results of the study show that internal factors have a significant influence on determining financing strategies to reduce NPF. Weaknesses in bank management such as Human Resources (HR) Weaknesses of banks such as Bank Officers are involved in personal interests and provide financing to businesses whose cycles are declining and weaknesses in financing documents related to the fulfillment of documents that do not comply with the terms and/or requirements lead to poor financing strategies that increase the risk of non-performing financing. External factors, especially customer factors, have a significant impact on the provision of financing strategies. There are weaknesses in customer capabilities caused by problematic customer businesses so that they are unable to meet financing obligations due to internal customer errors, disease outbreaks, pandemic impacts, difficulty competing in business competition, and business bankruptcy. Financing strategies have a significant effect on non-performing financing, weaknesses in the analysis of financing strategies by banks that are not based on accurate data/low data quality/not well verified have an effect on the increase in the risk of non-performing financing.*

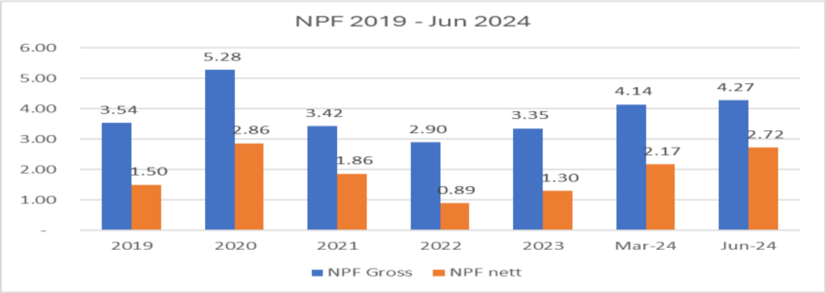
Keywords: *NPF, Non-Performing Financing, Structure Equation Models*

I. INTRODUCTION

In connection with the function of Islamic banks as an intermediary institution in relation to the distribution of public funds or financing facilities based on sharia principles, Islamic banks bear credit risk or financing risk. The risk for Islamic banks in providing financing facilities is that there is no return of the principal financing and not receiving rewards, ujrah, or profit sharing as agreed in the financing contract between the Islamic bank and the customer receiving the facility. Financing that has been distributed by Islamic banks to the public also has the potential to arise loans or non-performing financing which in the Islamic banking world is known as Non-Performing Financing (NPF).

This is also experienced by Bank Syariah ABC throughout 2019 to June 2024. The following is data on the trend of increasing Non-Performing Financing (NPF) at Bank Syariah ABC.

Figure 1. NPF Rate 2019 – June 2024



Source : Data processed 2025

From the table of the Gross NPF Ratio (Exclude Bank Financing) position in June 2024 (Quarter II) of 4.27%, a percentage worsening of 0.13% compared to the position in March 2024 (Quarter I) of 4.14%. NPF Gross on an outstanding basis worsened by Rp. 24.93 billion. NPF Nett (Exclude Bank Financing) position in June 2024 (Quarter II) deteriorated in percentage compared to March 2024 position (Quarter I) where NPF Net position in June 2024 (Quarter II) was 2.72% and NPF Net position in March 2024 (Quarter I) was 2.17%.

Meanwhile, according to Suhaimi & Asnaini (2018), the realization of financing alone is not fully the final stage of the financing distribution process. Banks also need to monitor and supervise the financing disbursed to maintain the quality of the financing so that it does not become problematic financing and can harm the bank. The factors that cause problematic financing are internal factors (from the bank) and internal customer factors as well as external factors. According to Yanti (2020), internal bank factors are factors that come from banks which include personal interests, unhealthy credit policies, lack of mastery of credit techniques, lending that exceeds limits, etc. There are two elements of external factors, namely intentional and unintentional factors. An element of intentionality, e.g. the debtor deliberately does not make payments to creditors, the use of the credit is contrary to the original plan of the financing purpose. Meanwhile, accidental elements such as the debtor's business are unable to face market competition, rising raw material prices, as well as natural disasters, deaths, and accidents so that the business does not develop. Sakila (2021) explained that the factors that cause non-performing loans are declining character, capacity, capital, economic conditions and collateral which have a significant influence on non-performing loans and among these variables, collateral is the variable that has a greater influence on non-performing loans.

II. LITERATURE REVIEW

According to Law No. 7 of 1992 concerning banking, it has been amended into Law No. 10 of 1998 concerning banking in article 1 number (12): financing based on sharia principles is the provision of money or bills that are equivalent to it based on an agreement or agreement between the bank and other parties that oblige the financed party to return the money or bill after a period of time with a reward or profit sharing.

Financing based on sharia principles is the provision of money or other bills based on an agreement or agreement between banks with other parties that obliges the financed party to return the money or bill after a certain period of time in exchange for profit sharing. The financing provided by Islamic banks has five main forms, including mudharabah financing, musyarakah financing, murabahah financing, salam financing, and ijarah financing. Financing in the form of buying and selling (ba'i) generally uses murabahah, salam, and istishna financing contracts. While in the form of profit & loss sharing using Mudharabah financing contracts and Musyarakah contracts and generally in the service sector, financing contracts such as ijarah, wakalah, kafalah, hawalah, and rahn can be used. (Supriyatni and Nurjamil, 2021).

Financing Strategy The bank in distributing financing must first know how the condition of the prospective customer who submits a financing application, to make this assessment, the marketing department must pay attention to several main principles related to the overall condition of the prospective customer, in the world of Islamic banking the assessment principle is known as 5 C + 1 S and 7 P (Kasmir, 2009).

- **Character**
  It is a method carried out by the bank in assessing the character or personality of prospective financing recipients with the aim of estimating whether the financing recipient is able to fulfill his obligations.
- **Capacity**
  This assessment method is carried out in a subjective way, how the customer's ability to make payments. The ability of prospective customers is measured by examining and analyzing past

performance records supported by field observations of their business facilities such as stores, employees, tools, factories, and activity methods.

- **Capital**
  It is an assessment that is carried out by looking at the ability or capital strength of the prospective customer as measured by the company's overall position as directed by financial ratios and emphasis on its capital composition.
- **Collateral**
  It is an assessment of the guarantee owned by the prospective customer. This assessment aims to be more convincing that if there is a risk of default occurring, then this guarantee can be used as a substitute for obligations.
- **Condition**
  It is a process in which Islamic banks see and analyze how economic conditions occur in the community specifically and see the relationship with the type of business that will be run by prospective customers. This is because external conditions play a big role in the business process carried out by prospective customers.
- **Sharia**
  It is an assessment carried out to supervise the business that is financed and does not violate sharia provisions. In accordance with the DSN fatwa "the manager must not violate Islamic Sharia law in his actions related to mudharabah".

Non-Performing Financing
Wangsawidjaja, 2012 in Reza Mahkota Iqbal Fauza Aunies 2020 From various regulations issued by Bank Indonesia, there is no definition of non-performing financing which is translated as Non-Performing Financing or Amwal Mustamirah Ghairu Najihah. However, in the Sharia Banking Statistics published by the Directorate of Sharia Bank Bank Indonesia, the term Non-Performing Financing (NPF) or in the Sharia Banking dictionary is found to be Duyunun ma'dumah which is interpreted as non-current financing, ranging from less current to stuck.

Non-Performing Financing (NPF) functions as a bank measurement tool in covering the risk of failure to take out financing by customers. Non-Performing Financing also reflects financing risk if the higher the level of Non-Performing Financing, the greater the financing risk that will be borne by the bank, and the magnitude of the level of Non-Performing Financing shows that the bank is not professional in financing management, as set by Bank Indonesia with a maximum of 5% non-performing financing (NPF).
The following is the formula for calculating Non-Performing Financing (NPF):

$$\text{NPF} = \frac{\text{Substandard + Doubtful + Losss}}{\text{Total Financing}} \text{ X } 100\%$$

From the description of some of the above, there are several factors that cause the occurrence of non-performing financing (NPF) so that the following framework of thinking and hypotheses are prepared:

III. METHODS

The type of research used is a type of descriptive quantitative research, which is a type of method that is carried out by collecting data and research results or describing the data that has been collected, then discussed and analyzed to be able to provide actual, rational and systematic information by using a scientific mindset. The population in this study is all parties involved in the process of providing financing to Bank Syariah ABC in the Jakarta area. Bogor. Depok, Tangerang and Bekasi (Jabodetabek). The total number of populations in this study is 126, with the following details:

Table 1. Number of Research Population

Territory	Account Officer	Field Collection/P3	Financing Risks	Business Manager/ Sub-Branch Manager/ Branch Manager	Sum
Jakarta	8	3	6	5	19
Bogor	14	4	3	8	29
Depok	8	3	2	4	20
Tangerang	10	3	2	6	21
Bekasi	20	4	2	11	37
Sum	60	17	15	34	126

Source : Data processed 2025

In this study, the sample determination technique uses the Slovin formula, as follows:
$n = N/1+N(e)2 = 96 = 126/1+126(0.05)^2$
where: n = sample size, N = Population, e = standard error

IV. RESULTS AND DISCUSSION

The analysis of research data was carried out using the PLS-SEM statistical method with the help of the SmartPLS 3.0 application. PLS-SEM does not require any specific distribution assumptions or is distribution-free (Ghozali & Latan, 2015). The PLS-SEM evaluation model is carried out by assessing the measurement model (outer model) and structural model (inner model).

Evaluation of Measurement Models (Outer Model)
Validity Test
Convergent validity testing of the Average Variance Extracted (AVE) value that describes how well the indicator variable represents the constructed being measured. The standard AVE value must be more than 0.5, meaning that the indicator variable is able to explain at least 50% of the construct variants measured (Hair, et al., 2021). The results of the test in Table 4.7 show that after re-specifying the Average Variance Extracted (AVE) value, each construct indicator has met the standard value, which is above 0.50 so that it can be declared a valid indicator.

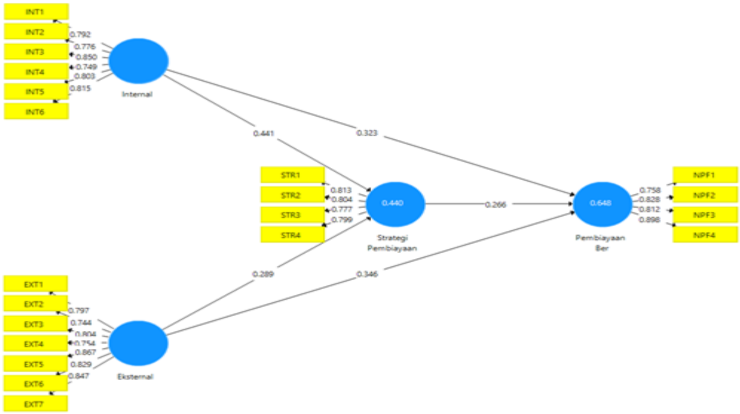
Tabel 2. AVE Value Convergent Validity Test

	Average Variance Extracted (AVE)
Internal	0,637
Eksternal	0,651
Financing Strategy	0,637
Problematic Financing	0,681

Source : Data processed 2025

After the loading factor and AVE values in each indicator have met the standard or are valid, the research model as shown by Figure 2 below :

Figure 2. Convergent Validity Test Model Drawing



Source : Data processed 2025

Discriminating Validity Test

Table 3 Discriminatory Validity Test

	Eksternal	Internal	Non-Performing Financing	Financing Strategy
Eksternal	0,807			
Internal	0,634	0,798		
Non-Performing Financing	0,702	0,708	0,826	
Financing Strategy	0,569	0,625	0,665	0,798

Source : Data processed 2025

Table 3 shows the square root of AVE and the correlation below it, the discriminant level is achieved because the square root of AVE is more significant at each diagonal value than the correlation below. After the convergent and discriminant validity tests were obtained from the loading factor, Average Variance Extracted (AVE) and Fornell–Larcker Test, all indicators have met the required threshold values so that it can be concluded that the instrument is valid.

Reliability Test

Tabel 4. Reliability Test

	Cronbach's Alpha	**Composite Reliability**
Internal	0,886	0,913
Eksternal	0,910	0,929
Problematic Financing	0,811	0,817
Financing Strategy	0,843	0,855

Source : Data processed 2025

Table 4. shows that the entire construct has a Cronbach's Alpha value and Composite Reliability greater than 0.7, this means that the indicator variables used have consistently measured the same construct. From these results, it was concluded that the research questionnaire as a measuring tool has shown accuracy, consistency and accuracy.

Structural Model Evaluation (Inner Model)
Model Feasibility Test

Table 5. Model Feasibility Test

	R Square	**R Square Adjusted**
Problematic Financing	0,648	0,639
Financing Strategy	0,440	0,430

Source : Data processed 2025

Based on the table above, it can be seen that internal, external variables and financing strategies affect 64.8% of the variance in the value of problematic financing. Meanwhile, Internal and External variables contribute 44% to the variation in the value of the financing strategy. Meanwhile, the remaining factors outside the model contributed to 35.2% of the variance in the value of non-performing financing, and 56% to the variance in the value of the financing strategy.

Predictive Relevance (Q2) Predictive relevance aims to be able to measure how well the results are produced by the research model used. Here are the Q2 calculations

Tabel 6. Predictive Relevance

	SSO	SSE	Q^2 (=1-SSE/SSO)
Eksternal	812,000	812,000	
Internal	696,000	696,000	
Problematic Financing	464,000	268,175	0,422
Financing Strategy	464,000	340,974	0,265

Source : Data processed 2025

Based on the results of the Q2 calculation above, it shows that the research model has a Q2 value of 0.422 and 0.265. A value of Q2 > 0 indicates that the model has predictive relevance and if Q2 < 0 indicates that the model lacks predictive relevance. Score Q2>0 so that the model is fit and can be used

Hypothesis Test Analysis

Tabel 7. Hypothesis Test Results

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
Internal ⇨ Financing strategy`	0,441	0,439	0,101	4,350	**0,000**
Eksternal ⇨ Financing strategy	0,289	0,293	0,101	2,857	**0,004**
Strategi pembiayaan ⇨ Problematic financing	0,266	0,254	0,075	3,558	**0,000**
Internal ⇨ Problematic financing	0,323	0,328	0,070	4,580	**0,000**
Eksternal ⇨ Problematic financing	0,346	0,347	0,078	4,430	**0,000**

Source : Data processed 2025

Based on table 7, it is shown that all hypotheses submitted in this study are accepted because they have a path coefficient value of less than 1.96, with the following details:

- H1: Internal Factors have a significant impact on financing strategies. The test value of the path coefficient showed that the value of p<0.001 (below 0.05) and the t-statistical value of 4.350 (above 1.96) so that the hypothesis was accepted.
- H2: External Factors have a significant impact on financing strategy. The test value of the path coefficient showed that the p<0.001 value (below 0.05) and the t-statistical value was 2.857 (above 1.96) so that the hypothesis was accepted.
- H3: Financing strategies have a significant impact on non-performing financing. The test value of the path coefficient showed that the value of p<0.001 (below 0.05) and the t-statistical value of 3.558 (above 1.96) so that the hypothesis was accepted.
- H4: Internal Factors have a significant impact on non-performing financing. The test value of the path coefficient showed that the value of p<0.001 (below 0.05) and the t-statistical value of 4.580 (above 1.96) so that the hypothesis was accepted.

- H5: External factors have a significant impact on problem financing. The path coefficient test value shows a p-value of <0.001 (below 0.05) and a t-statistic value of 4.430 (above 1.96), thus the hypothesis is accepted..

V. CONCLUSION

Based on the description above, it can be concluded that:

- Internal factors have a significant influence on determining financing strategies to reduce NPF. Weaknesses in bank management such as Human Resources (HR) Weaknesses of banks such as Bank Officers are involved in personal interests and provide financing to businesses whose cycles are declining and weaknesses in financing documents related to the fulfillment of documents that do not comply with the terms and/or requirements lead to poor financing strategies that increase the risk of problematic financing.
- External factors, especially customer factors, have a significant impact on the provision of financing strategies. There are weaknesses in customer capabilities caused by problematic customer businesses so that they are unable to meet financing obligations due to internal customer errors, disease outbreaks, pandemic impacts, difficulty competing in business competition, and business bankruptcy.
- Financing strategies have a significant effect on non-performing financing. Weaknesses in the analysis of financing strategies by banks that are not based on accurate data/low data quality/not well verified have an effect on the increased risk of non-performing financing.
- The handling of non-Performing financing carried out by Bank Syariah ABC through the collection staff by means of a combination of regular collection and margin discounts has the greatest success rate. In the regular collection way, the collection staff visits the customer directly, then the customer is offered a margin discount on the condition that the customer has the criteria that have been set by the board of directors.
- In order to improve non-performing financing (NPF) and improve compliance with regulatory requirements, it is recommended to carry out the following mitigation:
    1. Internal factors at ABC Syariah Bank, including weaknesses in financing analysis, financing supervision, and negligence by bank officers, can be addressed through strengthening the integrity of all employees, improving the quality of decision-makers and financing analysts, conducting regular and procedural oversight and monitoring of customer performance, avoiding financing sectors outside their expertise, and optimizing periodic and comprehensive post-mortem reviews.
    2. Customer-related factors, including weaknesses in customer character and capabilities, should be mitigated, including by adhering to the 5C and 7P principles and implementing preventive measures.
- For further research, the author recommends using a larger sample size with more diverse regional characteristics and using other methods to obtain results with a broader impact on the development of Islamic banking in Indonesia.

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