

THE ANALYSIS OF LOAN REPAYMENT BEHAVIOR ON SHARIA BANKS' DEBTORS

Imron Soleh

Graduate Student of Economics of Trisakti University

Abstract

The aim of this study is to analyze the debtors' behavior of sharia banks. The analysis is based on literature review from various studies related to the case study of sharia banks debtors' behavior in Indonesia. The result shows that there are four main aspects of banking behavior, e.g., asymmetric information, character of customer, content of the contract, and monitoring. The customers have high awareness to pay their debt to the bank, unfortunately they need continuous supports from the banks such as intensive monitoring and supervision. Beside these two kinds of support, the banks also need to socialize and warn customers to read the contract carefully. Understanding the contract ('Aqd) is the most important aspect to ensure the financing is repaid well by the customers.

Keywords: *Bank Financing, Non-Performing Financing, Customer Behavior on lending*

1. Introduction

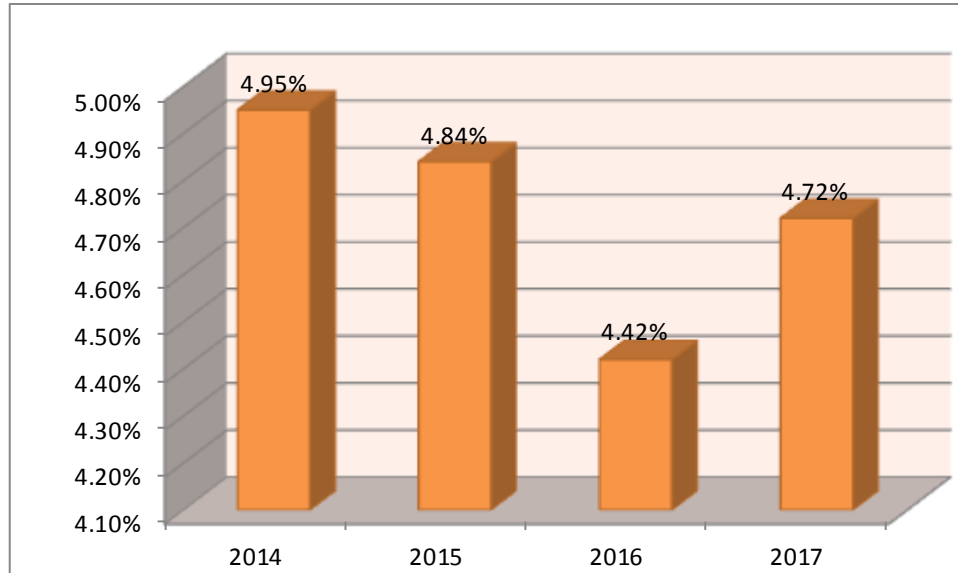
Today, the society's need for financial institutions is increasing. They needs financial institutions especially in terms of loan/credit not only to meet their primary needs but also to meet the secondary and tertiary needs. One example that indicates the increasingly *high society demand* of financial institutions is the proliferation of KPR products (Housing Credit). Most developers offer the financial products to the prospective customers by cooperating with several banks. It is commonly known that owning decent housing is a primary need for society, the products offered by financial institutions, the bank in this case, is considered very helpful to the society for the reason of primary need fulfillment. Not only about housing, vehicle ownership loans also become the bank's major product in helping those who want to own a vehicle but not having enough money to afford. Buying houses, vehicles, and some other valuable tools that can be repaid in installments is not only as a mere consumption, but also as capital. People may buy houses and vehicles for rent or doing business.

Not only used to buy household needs, bank loans are also used by society to increase business capital. Customers who have been running business for at least 2 (two) years can propose loans to the banks to expand their business and increase capital base. Sharia banks

offer business financing products such as in the form of sale and purchase (*murabahah*) and profit sharing (*mudharabah & musyarakah*). Siamat (2005) explains that 70% -80% of the volume of banking business is in the form of financing (credit). Financing is one of the important banking products because through financing the bank can earn revenue. According to Indonesian banking statistics, the total of national banking credits in January 2017 reached 6,557 trillion, an increase of 0.203% compared to December 2016 of 6.570 trillion. While the total credit of BPR (Bank Perkreditan Rakyat) in January 2017 reached 109 trillion. It is, however, still far from the conventional banks, the total financing of sharia banks in January 2017 reached 246 trillion. Since it is the majority of business volume in banking, financing customer needs good arrangement and management. Otherwise, it will result in a risk to the banks, e.g., non-performing loans indicated by NPF (Non Performing Financing) ratio in the sharia bank or Non-Performing Loan (NPL) in conventional banks.

NPL is one of the health indicators of banks and also as an evaluation of bank performance. High NPLs are indicative of bank failure in managing banking business. According to Gandapraja (2004) NPL is the ratio that compares the total of non-performing loans to the total loans disbursed in the form of percentages. Based on the report of Indonesian Banking Statistics, there are 4 (four) classifications of credit collectibles namely current, substandard, doubtful, and loss. NPF level with particular concern can be seen in table 1 below. Table 1 shows the trend of NPF level in sharia banking whose performance is good indicated by the decrease of NPF level. The latest data in January 2017 showed the NPF level of Sharia banking of 4.72%, an increase from the previous year of 4.42% in 2016. This increase occurred but not significant compared to the year 2014 which had reached 4.95%.

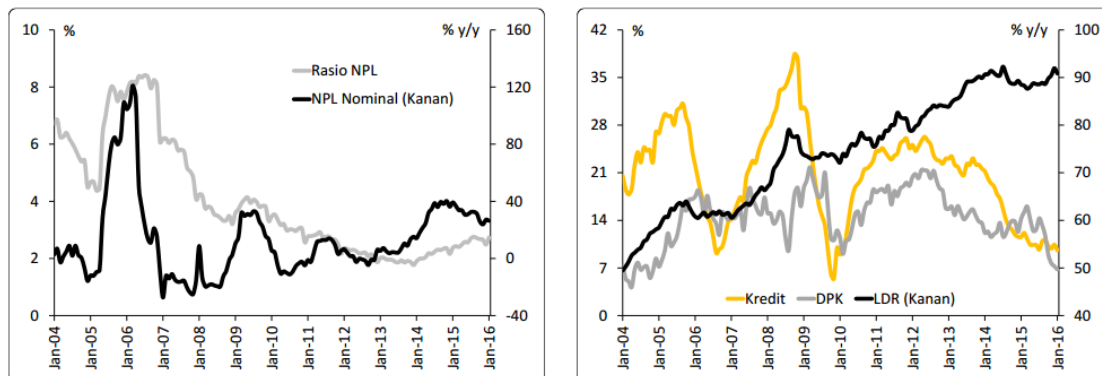
Table 1: Non Performing Financing Ratio of Sharia Banks 2014-2017



Source: Sharia Banking Statistics (2017)

Non-Performing Loan (NPL) ratio of conventional banks can be seen in table 2 below. It shows the ratio of NPL to conventional banks fluctuated but increased at the end of the period 2015-2016. However, this increase is not significant and is below 4%. NPL fluctuation of conventional banks is in line with fluctuation in the value of bank credit in Indonesia. In the end of the period 2015-2016, the number of loans decreased significantly compared to 2007-2008 which increased significantly. Yet, the level of LDR (Loan to Deposit Ratio) of commercial banks increased significantly. That means that commercial banks consistently perform their duties and functions in distributing credit to the public.

Table 2: The Ratio of NPL, Credit, DPK, and LDR of conventional Banks



Source: Indonesia Deposit Insurance Cooperation (2016)

The main basic banking activity is trust (Susilo, et al, 2000). Therefore, the level of NPL and NPF in conventional and sharia banks depends on their customers' behavior. Beside the society's trust to the bank in managing the deposited money, they also need to gain trust from the bank in terms of maintaining the frequency of their credit/loans repayment to the bank in order to avoid bad credit and moral hazard by customers. Muslim (2012) mentions that there are several factors that cause the occurrence of non-performing loans such as inability of the debtor, mismanagement, lack of knowledge and experience of the debtor in doing business, the fraud of the debtor, and other external factors such as economic condition of the country & business sector, natural disasters (floods, earthquakes, etc.). Kasmir (2008) explains that bad credit may due to intentional and unintentional elements. The intentional element is where the customers are intentionally not willing to do their obligations to the bank, while unintentional element is where the customers have the willingness do their obligations but they cannot afford it because of a disaster to the financed business.

Considering the strong relationship between customers' behavior related to the success or failure of loan and financing repayment by debtors, this paper tries to study sharia bank debtors' behavior and extract the factors that influence the level of customers' obedience to the existing credit transaction. The limited time in this paper writing leads to the literature review-based only through the number of accurate and scientifically credible references, not a survey-based to respondents.

2. Theoretical Background

2.1 Consumer Behavior Theory

Humans are economic beings who always try to maximize their satisfaction and always act rationally. Consumers will seek to maximize their satisfaction as long as they have possible financial capabilities. Satisfaction becomes very important and seems to be the main thing to be fulfilled.

Consumer behavior is closely related to the issue of one's decision making in competition and decision in obtaining and using goods and services. Consumers take many kinds of considerations to make decisions in purchasing. Most large corporations examine consumer buying decisions in great detail to answer questions about what, where, how, how much, and why they buy something.

Zaldman and Wallendorf (1979) define that consumer behavior is the actions, processes and social relationships of individuals, groups and organizations in obtaining, using a product or others as a result of their experience with some products, services and other resources. Other opinion is expressed by Schiffman and Kanuk (1994) that consumer behavior can be interpreted as behavior that consumers show in searching, buying, using, evaluating and spending products and services they expect will satisfy their needs. According to Kotler and Keller (2008) consumer behavior is the study of how individuals, groups and organizations choose, buy, use, and place goods, services, ideas or experiences to satisfy their desires and needs.

From the above definitions it can be concluded that consumer behavior is a study examining individuals and organizations in terms of choosing, determining and establishing goods, services or ideas that will be used to meet the desires and needs of life based on the economic ability of each individual and organization.

2.2 Consumer Behavior In Islam

In the analysis of conventional consumption, it is said that one's consumption behavior is an effort to meet the needs in order to achieve optimal satisfaction. Whereas in the analysis of Islamic consumption, the consumption behavior of a Muslim is not merely to satisfy the physical needs, but also to meet the spiritual needs. Thus, consumption behavior of

a Muslim is always aware of Islamic Sharia. For example, in term of whether the goods and services consumed are halal or haram, the purpose of a consumption activity, the ethics and morals of consumption, the form of consumption behavior associated with the environment, and so forth.

Consumer behavior theory in Islamic Sharia has a fundamental difference from the conventional one. This difference is concerning about the basic values that serve as theoretical foundation, motive and purpose of consumption, technique of choosing and budget allocation for consumption. There are three basic values as the foundation of Muslim consumption behavior:

- 1) Belief in the day of resurrection and the hereafter life; this principle directs a consumer to prioritize consumption for the hereafter rather than this world, prioritize consumption for worship rather than world consumption. Hereafter consumption is the future consumption, while world consumption is the present consumption;
- 2) The concept of success in Muslim life is measured by religious morals of Islam, and not by the amount of wealth possessed. The higher the morality, the higher the success achieved. Virtue, truth and devotion to Allah SWT are the key to Islamic morality. Virtue and truth can be achieved *with* good behavior and useful for life and keep away from crime;
- 3) Property is the Allah's grace and not something which is in itself bad (excessive should be shunned).

In the perspective of Islamic economics. Consumer behavior of a Muslim is based on several assumptions as stated by Monzer Kahf, namely:

1. Islam is a religion applied in society.
2. Zakat is obligatory.
3. There is no usury (riba) in society.
4. Mudharabah principle is applied in business activity.
5. Consumer behaves rationally, i.e. trying to optimize satisfaction

According to Manan, in addition to the three basic foundations above, there are still five consumption principles in Islam: first, the principle of justice. This principle has a double

meaning about seeking halal and lawful sustenance. Allah SWT says in Qur'an Surah Al-Baqarah verse 173:

“He has only forbidden you what dies of itself (carrion) and blood and the flesh of swine, and that which is slaughtered as a sacrifice for others than Allah. But if one is forced by necessity without willful disobedience nor transgressing due limits, then there is no sin on them. Truly, Allah is Oft-Forgiving, Most Merciful.”

Second, the principle of hygiene. The point here is that the food should be good and suitable to eat, not dirty or disgusting that spoils appetite. Third, the principle of modesty. This principle governs human behavior about eating and drinking not be extravagant. Word of Allah SWT in Surah al-A'raf verse 31:

“O Children of Adam! Have your embellishments at every place of worship. Eat and drink, but do not be extravagant. Surely He does not love the extravagant.”

Fourth, the principle of generosity, with obeying the rules of Islam, there is neither danger nor sin when we eat and drink halal things provided by God, like the Word of Allah SWT in Surah Al-Maidah verse 96:

“Lawful to you is the game of the sea and its food, a provision for you and for the travelers, and the game of the land is forbidden to you so long as you are on pilgrimage, and be careful of (your duty to) Allah, to Whom you shall be gathered.”

Fifth, the principle of morality, a Muslim is taught to mention Allah's name before and after eating when expressing gratitude. While the consumption principle according to Ali Sakti, there are four main principles in Islamic economic system hinted in the Qur'an: 1) to *save, not lavish* lifestyle. This means that economic action is only to meet *needs* rather than *wants*; 2) to implement zakat, infak, and shadaqah; 3) prohibition of usury. It makes profit sharing system with mudaraba and musharaka instruments as credit system and interest instrument; 4) to run halal business; such as product or commodity, production process, and distribution.

2.3 Sharia Bank Financing

According to Muhammad (2002), financing or funding issued is to support self-planned investments or by others. Funding allocations in form of financing have several objectives to achieve a sufficient level of profitability and low risk level and to maintain public trust by keeping liquidation position safe. As stated in article 1 (12) No. 10 of 1988 concerning banking, it is explained that financing based on sharia principles is the provision of money or equivalent claims on the basis of an agreement between the bank and another party requiring the financed party to repay the loan after a specified period with fee or profit share. Karim (2008) explains that financing is one of the main tasks of the bank, e.g. to provide facilities, namely providing funding facilities to meet the needs of the deficit party.

Provision of credit in conventional banks or financing in Sharia banks is a major activity and becomes a major source of bank income; however, credit or financing also becomes a major source of bank failure, because the provision of credit or financing can affect the level of *health and viability of the bank*. The fundamental difference of lending in conventional banks and sharia banks is on the principle of loan repayment accompanied by profit sharing in sharia banks and interest systems in conventional banks. Because of the profit-sharing principle (as described in the previous sub-chapter), it indicates that the risks faced by sharia banks are greater because of their very fluctuating characteristics. This means that if the financed customers make profit on their business, consequently sharia banks will also gain profit; conversely, if the customers make a loss, the sharia banks also bear the loss on material invested for the business. Therefore, fund distribution activities in sharia principles must be done so carefully through careful judgment that sharia banks have confidence in customers' willingness and ability in settling their obligations according to the agreement and belief in accordance with sharia principles (as stated in article 23 of Law Number 21 of 2008 concerning Sharia Banking).

3. Methodology

This study is a scientific study of a phenomenon, e.g. the customer behavior in terms of financing repayment in Sharia Bank with qualitative descriptive approach. Qualitative research, often referred to as naturalistic inquiry (natural research), is a part of research in the

field of social science that is basically very relevant conducted through an observation in a region and has a relationship with the subject as well as the language and terms used (Kirk & Miller, 1986). Therefore, qualitative research is a process in obtaining data in the form of written or oral descriptive data sources as well as some observed behaviors. Qualitative research leads to the background of the subject as a whole.

Method of data collection in this qualitative study is by conducting literature study through secondary data. Secondary data used are written sources of books and previous studies from some journals relating customer behavior in financing repayment to Sharia Bank. This written source also serves as a reinforcement of the events in the scope of study.

The method of data analysis in this study is content analysis. Krippendorff (1981) argues that content analysis is a method of research using replicative conclusion and proved based on the original data and basic context. While Weber (1885) explains that content analysis is a way of conducting research by utilizing the process of correct concluding series through books as well as related documents. Thus, it is in line with the purpose of this paper that is to know and examine customer behavior of Sharia Bank. With the consideration of the time limitations of this writing, the present writer uses content analysis and descriptive qualitative approach.

4. Customer Behavior of Sharia Bank in Financing Repayment

Islam organizes transaction between human beings very well. Financing provision of sharia bank customer has different concept from that of conventional ones. Conventional bank determines customer's reward in form of interest, while sharia bank uses sale and purchase principle and profit sharing. By using sale and purchase principle, sharia bank will get a margin, whereas with the profit sharing principle, sharia banks are entitled to the percentage of profits given in accordance with akad (agreement) at the beginning of the contract, and also obliged on the percentage of loss on customer's business. As it is well organized and guided by the Qur'an and Sunnah, akad becomes very important at the beginning of transaction in explaining the rights and obligations of each party.

Akad is an engagement between the two parties in the appropriate rules that do not violate the sharia of Islam and it creates rights and obligations to each parties (Kristiyanto,

2008). Ibdalsyah and Tanjung (2014) affirm that akad may have legal consequences. As the Word of Allah SWT:

“O you who have believed, fulfill [all] contracts (Akad).” (Al-Maidah verse 1)

Considering the very important akad in financing transaction of sharia bank, in her research Kirana (2013) conducted a survey to a number of sharia banks' debtors relating to factors affecting customers' financing repayment to sharia banks. In her research, Kirana (2013) uses four assessment indicators on debtor repayment commitment, e.g.: (a) asymmetric information; (B) the character of customer; (C) the scope of contract contents; And (d) monitoring. Asymmetric information is debtors' frequency in terms of providing loss and profit reports to the bank. Reports given to the bank should be ensured there is no financial manipulation and free of lies. The indicator of customer's character is intended to know the extent to which customers have the ability to manage the business they run, as well as the ability to make financial statements without manipulation. In addition, the aspect of customer's character also includes an assessment on the understanding about Islamic business ethics, by ensuring that customers do not have moral hazard, and always feel guilty if they deviate from a predetermined akad or contract. Debtors are also required to know and understand the entire scope of the contract contents without exception. This is to avoid the occurrence of deviant behavior by the debtors. Monitoring is the bank responsibility for financing given to debtors. Monitoring in sharia bank becomes one of the supervisions to ensure that the financing is used in accordance with the predetermined contract and to minimize big losses on customer business.

The results shown by Kirana (2013) provide some important conclusions related to the debtors' behavior of Sharia bank:

- a. Based on the aspect of asymmetric information, debtors of sharia banks will always strive to communicate the bank if there is a loss on their business. In addition, communication also occurs if the customers have difficulty in their business. However, customers do not routinely provide financial statements to the bank. This has an impact on the occurrence of asymmetric information between debtor and bank.

- b. Based on the aspect of customer character, sharia bank debtors have a high level of confidence in the ability to build business. Besides, the customers will convincingly feel guilty if they violate agreement made with sharia bank. Nevertheless, there are still some weaknesses in the customers' character where they do not fully understand the ethics of doing business in Islam. This is in line with the results of interview to one of the head of sharia bank branch in Bogor that there is still moral hazard possibility of sharia banks debtor though they are fully aware that deviant behavior is a big sin. One example is when an akad that has been contracted to finance a swimming pool business, in fact, however, it is not used to finance the business, but for other businesses. It must have deviated from the proper contract.

In addition, debtors' behaviors that need to be taken into account is the lack of understanding about the contract made between the customer and the bank. It is commonly known that one of the weaknesses of society (especially in Indonesia) is unwilling and reluctant to read the proposed contracts. This of course affects to the lack of knowledge and information of debtor on the contracts made with sharia banks.

- c. Based on the scope of the contract contents, the debtors also have a high level of confidence in the absence of potential deviations in the contract.
- d. Based on the monitoring aspect, it is found that the debtors of sharia bank feel comfortable and happy for the monitoring activities conducted by sharia bank officers. They assume that with the monitoring, they feel watched and cared for. The form of banking attention is to take control of their business. This becomes an encouragement for debtors to entrepreneurship. However, one problem that should be of concern to the banks is that the frequency of monitoring which is still rare. Thus, customers still assume that the monitoring officer cannot be relied upon because of the irregular frequency.

Based on the above analysis, the debtors of Sharia banks should know their obligation well to repay loan within specified time. Debtors, in addition, should also know well the accompanying sin if they delay repayment of a debt. As affirmed from Abu Hurairah Radhiyallahu'anhu, Prophet Muhammad SAW said:

"Procrastination (delay) in paying debts by a wealthy man is injustice. So, if your debt is transferred from your debtor to a rich debtor, you should agree." (HR Malik, Ahmad, Al-Bukhari, Muslim)

However, the factors that cause delay or procrastination in paying debts by debtor to the banks are due to the following both internal (the debtor) and external factors (the bank). Debtors still have a low awareness to intensively read the contract rules made before the enactment of the contract. The lack of awareness of reading contracts leads to the lack of information held by debtors and the lack of good knowledge about the contracts. Therefore moral hazard is still possible to happen. Deviations can, therefore, occur either intentionally or unintentionally. Based on the external aspect, bank's role in providing intensive supervision and monitoring is still needed and expected by debtors. Regular and intensive supervision should be a prioritized program especially in terms of financing. This can be one of strategies in minimizing the high failure rate of customer's business and avoiding bad debtor.

5. Conclusions and Recommendation

Based on the description above it can be concluded that loan repayment behavior on sharia banks' debtors is that customers have full awareness that the repayment becomes their obligation that must be fulfilled. The existence of any intentional elements of not repaying loan, whereas they have the ability to it, is then a sin. However, to achieve this, debtors need intensive supervision and monitoring from sharia banks. Intensive monitoring is expected to minimize any moral hazard of customers so that the potential for non-performing loans can also be minimized. Another behavior that can also impact on the occurrence of deviant behavior is the lack of debtors' understanding about the scope of content in the contract / akad.

The present writer's recommendation to sharia banks is that to increase supervision and monitoring activities to customers. Supervision and monitoring activities should be conducted regularly to keep maintaining good communication between debtors and the bank. In addition, sharia banks also need to socialize customers to get used to read the contents of

the contract before signed. This is to avoid any potential deviations in the future. The present writer's recommendation to society is that to start the habit of careful reading to the contract/akad before signed. It is important to prevent the occurrence of potential deviations and always uphold the value of honesty when dealing with people. For further research, the present writer suggests any researcher to conduct a survey in order to obtain accurate and representative data regarding debtors' behavior in sharia banks.

Reference

- Gandapraja, P. (2004). *Dasar dan Prinsip Pengawasan Bank*. Jakarta: PT Gramedia Pustaka Utama.
- Karim, A. A. (2008). *Bank Islam: Analisis Fiqh dan Keuangan*. Edisi 3, Jakarta: PT Raja Grafindo Persada.
- Kasmir. (2008). *Bank dan Lembaga Keuangan Lainnya*. Jakarta: PT Raja Grafindo Persada.
- Kirana, M. (2013). "Analisis Pengaruh Komitmen Akad terhadap Pengembalian Pembiayaan pada Bank Syariah: Studi Kasus Bank Syariah di Kota Bogor". Tesis Program Magister Ilmu Ekonomi Syariah, Universitas Ibn Khaldun Bogor.
- Kirk, J., & Marc, L. (1986). *Miller, Reliability & Validity in Qualitative Research*, Vol 1. Beverly Hills: Sage Publications.
- Kotler, P., & Kevin, K. L. (2008). *Marketing Management*, 12th Edition, Prentice Hall, International Inc, New Jersey.
- Krippendorff, K. (1981). *Content Analysis An Introduction to Its Methodology*. Beverly Hills: Sage Publications.
- Kristiyanto, R. (2008). "Konsep Pembiayaan dengan Prinsip Syariah dan Aspek Hukum dalam Pemberian Pembiayaan pada PT Bank Rakyat Indonesia (Persero) Tbk. Kantor Cabang Syariah Semarang". Tesis Program Magister Ilmu Hukum Universitas Diponegoro, Semarang.
- Muhammad. (2002). *Bank Syariah Analisis Kekuatan, Kelemahan, Peluang dan Ancaman*, Yogyakarta: Ekonosia.
- Rivai, V., Andria, P. V., & Ferry, N. I. (2007). *Bank and Financial Institution Managemet Conventional & Sharia System*. Jakarta: PT Raja Grafindo Persada.
- Schiffman, L. G., and Leslie, L. K. (1994). *Consumer Behavior: Sixth Edition*, Engelwoods Cliff, New Jersey, Prentice Hall.
- Siamat, D. (2005). *Manajemen Lembaga Keuangan*. Edisi Kelima. Jakarta: Lembaga Penerbit FEUI, hlm 21.
- Otoritas Jasa Keuangan, Republik Indonesia. (2017). Departemen Perizinan dan Informasi Perbankan, Statistik Perbankan Indonesia, Vol 15 No 2.
- Otoritas Jasa Keuangan, Republik Indonesia. (2017). Departemen Perizinan dan Informasi Perbankan, Statistik Perbankan Syariah.
- Susilo, Sri Y, et al. (2000). *Bank dan Lembaga Keuangan Lain*. Jakarta: Salemba Empat.
- Weber, R. P. (1885). *Basic Content Analysis*. Beverly Hills: Sage Publications.

Zaltman, G., & Melanie, W. (1979). *Consumer Behavior: Second Edition*, Englewood Cliff, New Jersey, Prentice Hall.