The Influence Of Third-Party Funds; Asset Quality, Profit, And Lost Sharing To The Islamic Bank Liquidity In Indonesia

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Abstract.

During the COVID-19 pandemic, Islamic commercial banks experienced liquidity excess due to the third-party funds that increased and the weak distribution of financing by Islamic banks. In addition, the asset quality of Islamic banks is showing good development, this will affect the bank's ability to meet sufficient liquidity. This study uses 7 Islamic commercial banks as a sample from a population of 14 Islamic commercial banks registered in the Financial Services Authority (OJK) from March 2012 to December 2020 (quarterly data) period. This research method uses a fixed-effect model, with a GLS weight approach, Cross-section SUR. The results of this study are third party funds, asset quality (Non-Performing Financing), and Capital Adequacy Ratio have a significant effect on the liquidity of Islamic banks, while Profit and Loss Sharing and Return on Assets do not affect the liquidity of Islamic banks.

Keywords: *Liquidity, Third Party Funds, Asset Quality, Profit and Loss Sharing.*

I. INTRODUCTION

In 2020 Indonesian economy, experienced gradual growth due to the pandemic of the covid 19 virus. It occurred in March 2020. According to the Report of the Indonesian Bank (2020), Indonesia's economy is slowdown which is proofed by the decline of the economic growth that can be seen in Table 1 as follows:

Table 1. Economic Growth Value (Percent y0y)

Economic Growth	Tahun				
	2018	2019	2020 Quarterly I	2020 Quarterly II	2020 Quarterly III
	5,17	5,02	2,97	-5,32	-3,49

Source: Report of BI Indonesian Economic (2020)

Based on the table above, it can be seen that the economic growth decreased by 2.05% yoy from 2019 to the first quarter of 2020, even in the second quarter, the economic growth was 5.32% yoy.There is a bank's role as a financial institution in the economic growth of a country. According to Sunardi (2020), a bank is a financial institution that aims to improve people's living standards by collecting from the community and distributing money by giving loans to them. The Indonesian world banking has developed, which is indicated that today there are not only conventional banks, but also there is the first Islamic bank in Indonesia that is established in 1991, it is Muamalat Bank of Indonesia. Islamic banking is part of the banking world in Indonesia, which has the same role as conventional banking, since by different principles.According to the name, Islamic banking uses sharia principles, which there are in accordance with the guidelines or laws that apply in Islam.Islamic banking in Indonesia also was affected during the pandemic covid 19 viruses.

The resulted impact was on the Islamic bank’s liquidity. Liquidity according to Yustina et al (2021) is a bank's ability to meet the possibility of funds withdrawal by depositors/custodians. In this study, the variables that can affect the liquidity (LIQ) of Islamic banks are Third Party Funds (TPF), Asset quality which is measured by non-performing financing (NPF) proxy, Profit and loss sharing (PLS) is measured using profit-loss sharing investment (PLSinv) proxy. then there is the variable of capital adequacy ratio (CAR) and return on assets (ROA).Based on the news in Republika.co.id (2020, August 27), reported that

Islamic banks during the COVID-19 pandemic experienced an excess of liquidity due to the increase of third-party funds (TPF). This is caused by the people that hold their consumption so they prefer to save their money.

Table 2. Third Party Fund of Private Islamic bank in 2020 (billion Rp)

Years	The Total of Third-Party Fund
January 2020	286.485
February 2020	291.069
March 2020	289.362
April 2020	289.046
May 2020	285.751
June 2020	293.374
July 2020	289.646
August 2020	295.936
September 2020	312.102
October 2020	314.741
November 2020	316.460
December 2020	322.853

Source: Islamic Bank Statistics, OJK (2020)

Based on table 2 above, the third-party funds are increasing continuously from July to December 2020, this will affect the liquidity of Islamic banks. According to Utami and Muslikhati (2019), third-party funds are a very important source of funds for banks, which are entrusted by the public to them with fund deposit agreements of current account savings, and tome deposits based on the sharia principles. Minarni (2020) states that when the management of third-party funds is good by using liquid assets as a way to fulfill the obligations of Islamic banks, especially their short-term obligations, it will affect the value of a bank's liquidity level.In addition, the third-party funds increase and the excess liquidity was also caused by the weak of loan/financing during the COVID-19 pandemic, especially in mudharabah financing. Based on the news from news.Limadetik (2021, June 29) reported that the mudharabah-based financing has decreased that as proofed by the decrease of the mudhorobah financing amount, where the average ratio of mudharabah financing in 2019 was IDR 13.38 trillion, while in 2020 the average was IDR 12.27 trillion per month. Mudharabah financing is a profit-sharing based (profit and loss sharing based) financing. In addition to mudharabah financing, another profit and loss sharing-based financing is musyarakah financing.

Jedidia (2020) states that in business activities of the Islamic banks utilize the profit and loss sharing (PLS) on the asset side (musyarakah and mudharabah) and the liabilities of the (investment deposit accounts).Based on the news above, it can be concluded that liquidity should not be too loose and too low. The liquidity of Islamic banks must be sufficient or does not less, so it does not interfere with the needs of the banking activities and the liquidity must not be too loose or large, so resulting a decrease in efficiency and will affect the obtained bank profits. Liquidity management in Islamic banks is more difficult than in conventional banks because most of the used instruments for it, liquidity management are interest-based, where the interest is something that is not allowed in Islamic law. In addition, affecting the liquidity of Islamic banks, by the existence the COVID-19 pandemic also influences the value of asset quality. The quality of assets in Islamic banks during the COVID-19 pandemic is getting better. Nugroho and Anisa (2018) state that asset quality is the total assets owned by a bank that is used in getting the expected income. One of the media in measuring the asset quality in accordance with SEBI/No.7/10/DPNP on March 13, 2005, regarding the Rating and Rating Agencies recognized by Bank Indonesia, using NPF. The better asset quality in the 2020 period is proven by the value of non-performing financing (NPF) in Islamic banks which is still under the value that is set by Bank Indonesia, which is 5%. It can be seen in Table 3 below:

Table 3. NPF Value of Islamic Commercial Bank 2020 Period

Year	NPF Value
January 2020	3,00%
February 2020	3,03%
March 2020	3,05%
April 2020	3,08%
May 2020	3,24%
June 2020	3,42%

July 2020	3,38%
August 2020	3,33%
September 2020	3,17%
October 2020	3,10%
November 2020	3,10%
December 2020	3,01%

Source: Statistic of Islamic Bank, OJK (2020, December)

Based on table 3 above, the NPF value of Islamic commercial banks is under 5%, even the NPF value shows the improvement started from July until the end of December 2020 when the NPF value is getting decreased. The small NPF value indicates that the asset quality is getting better and vice versa when the NPF value is large, the asset quality is low. Asset quality will affect the liquidity of Islamic banks because when the quality of assets is good, the bank's liquidity will always be fulfilled because of the financing problems or the value of NPF is small.In addition, the value of non-performing financing (NPF) can affect the liquidity of Islamic banks, the CAR variable can also affect the liquidity of Islamic banks, according to Pertiwi and Prijanto (2020) state that the composition of capital owned by banks will affect the value of its liquidity. If the owned liquidity of the bank is too high, it will cause the settled cash only.

Then there is the ROA variable, which according to Afkar (2017) states that when a bank can generate return or profit and can provide sufficient liquidity, such as in providing financing for people who need funds.From the description above, it is important to conduct research on the liquidity of Islamic banks since the liquidity of Islamic banks is very important for the Islamic bank's health. Then this study will provide information about the liquidity of Islamic banks that can be used by its management of it in making decisions regarding liquidity problems of Islamic banks. In addition, it can provide information to Islamic bank customers so they or the public who want to save their funds in the Islamic bank feel safe by looking at the level of liquidity of the Islamic bank. Based on this background, the researcher will conduct research entitled "The Influence of Third-Party Funds, Asset Quality, Profit and Loss Sharing on the Liquidity of Islamic Banking in Indonesia".

II. LITERATURE REVIEW

Islamic Bank

According to law number 21 of 2008, Islamic banks are banks that are based on sharia principles in carrying out their business activities. The sharia principles referred in the law are sharia bank activities that are in accordance with the principles of Islamic law. The sharia principle is based on the provisions made by the agency/institution that has the authority to issue and stipulate fatwas in the sharia sector.

Liquidity

Fitrianingsih and Siregar (2020) state that the overall banks' liquidity is used to carry out daily transactions, meet customer demands and fulfill customer interest for progress and provide the ability to take advantage of profitable speculations. Gayatri et al. (2019) state that when a company or bank experiences difficulties or fails to meet its obligations, especially short-term liabilities, the bank will be at risk of being exposed to liquidity. Abdul Ganiy and Abdul Kareem (2020) identified the causes of liquidity risk as follows:

a. Sudden or unexpected cash flow through the withdrawal of large deposits.
b. large credit disbursement.
c. unexpected market movements or crystallization of contingent liabilities.
d. other events to prevent the counterpart from trading activity or lending to the bank.
e. If the market, which the bank relies on a subject that causes the loss of liquidity.

According to Jedidia (2020), liquidity is proxied by comparing cash to total assets. The formula is as follows:

$$LIQ = \frac{\text{Cash}}{\text{Total Assets}}$$

Third-Party Fund

According to the regulation Bank Indonesia number 17/11/PBI/2015 Third Party Funds bank, abbreviated as TPF, are bank obligations for residents and non-residents of rupiah or foreign currency. Third-party funds are the most important funds in bank activities, with these funds can fulfill the operational activities and become a bank's success that can meet the needs of this funds source. Third-party funds come from the public that trust put their funds to the banks with deposit agreements of demand deposits, savings, and deposits based on sharia principles. The formula is as follows:

Thrid-Party Funds = Giro + Deposits + Savings

Asset Quality

One of the asset quality calculations used is SEBI/No.7/10/DPNP on March 13, 2005, regarding Rating and Rating Agencies registered by Bank Indonesia, which is Non-Performing Financing. Jannah and Gunarso (2020) define NPF (non-performing financing) as financing that is not in accordance with the portion plan, causing unpaid debt. NPF is a risk obtained from financing directed by banks to customers. The formula is as follows:

$$NPF = \frac{\text{Problematic Financing}}{\text{Total Financing}} X\ 100$$

Profit and Loss Sharing

Sholikha (2018) explains that *profit and loss sharing* means sharing the profits and losses that may emerge from shared financial/business activities. Characteristics of the proportion of profit-sharing, there is no definite return such as interest, but the distribution of profits and losses is carried out depending on the actual efficiency of the goods. *Profit and loss sharing* consists of *musyarakah* and *mudharabah* financing, on the asset side and investment deposit accounts on the liability side. According to Jedidia (2020) *Profit and loss sharing* are proxied by *profit-loss sharing investment*, as for the formula as follows:

$$PLSinv = \frac{Profit\ Loss\ Sharing\ nvestment}{Total\ Aset}$$

Capital Adequacy Ratio

Almunawwaroh and Marliana (2018) state that CAR is the banks' ability to maintain capital adequacy and also has the ability of the management to recognize, measure, direct, and control emerging risks that can affect the size of capital. The formula is as follows:

$$CAR = \frac{\text{Tier 1 Capital} + \text{Tier 2 Capital}}{\text{Risk Weighted Assets}}$$

Return On Aset

Yuniari and Badjra (2019) *ROA* is a productivity ratio used to compare the benefits before tax and total bank assets, this ratio shows the level of profitability of bank assets to management to create profits. The formula is as follows:

$$\text{ROA} = \frac{profit\ after\ tax}{\text{Total assets}}$$

III. METHODS

This research uses quantitative research. Quantitative research according to Sugiyono (2018) explains that quantitative research strategies can be interpreted as exploratory techniques that rely on positivist thinking, used to investigate certain populations or samples, various information using research instruments, investigation of quantitative/measured information, to test the -pre-established theory. The population used in this study was 14 Islamic commercial banks registered in the Financial Services Authority (OJK). Then for the sample the researcher only used 7 Islamic commercial banks obtained by using the purposive sampling technique with the following criteria:

a. Islamic commercial banks in Indonesia are registered in the Financial Services Authority.
b. Islamic commercial banks that publish quarterly financial data from March 2012 to December 2020.
c. Islamic commercial banks that have complete data related to the variables needed in the research.

The data source used in this study is a quarterly financial report obtained from each Islamic commercial bank and the Financial Services Authority (OJK) website. In addition, other data from journals, financial statements of Bank Indonesia, and books.

The Technique of Data Analysis

To see the effect of the independent variable on the dependent variable in this study, using panel data regression analysis. To explain the influence between the independent and dependent variables in this study, the panel data regression model is as follows:

$LIQ_{it}=\beta_0+ß_1TPF_{it}+ ß_2NPF_{it} + ß_3PLSinv_{it} +ß_4CAR_{it}+ß_5ROA_{it} +e_{it}$..... (1)

Description:
LIQ= Likuidity
TPF= Third Party Fund
NPF= Non-Performing Financing
PLSinv= Profit Loss Sharing Investment
CAR= Capital Adequacy Ratio
ROA= Return on Asset
β_0 = constant coefficient
$ß_1$-β_6= independent variable regression coefficient
t= Time
i= Company
e= Standart error

In addition, this study uses 3 models of panel data regression analysis, they are the common effect model, fixed effect, and random effect. In deciding the panel data regression estimation technique, this study utilizes two tests, that consist of a significance test of the fixed-effect model and the Hausman test. To test the feasibility of this study using 4 classical assumption tests, they are normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test. Then to test the hypothesis using the T-test, F test, and R2.

IV. RESULT AND DISCUSSION

Descriptive Analysis

Table 4. The result of the Descriptive Analysis

	LIQ	TPF	NPF	PLSINV	CAR	ROA
Mean	0.008682	24699167	2.673968	0.324011	0.161230	0.003324
Maximum	0.023799	1.13E+08	7.110000	0.742687	0.452593	0.016408
Minimum	0.000478	506215.0	0.010000	0.112717	0.053718	-0.112275
Std. Dev.	0.006037	24848653	1.685567	0.153748	0.082901	0.007973
Observations	252	252	252	252	252	252

Source: The data analyzed by the writer, Eviews (2022)

Based on the table above, this study uses 252 observations, this data is taken from the Financial Services Authority (OJK) and the website of each Islamic commercial bank. The LIQ variable has a lower standard deviation than the mean value, so the LIQ variable has homogeneous data, then the maximum value is obtained from Bank Syariah Mandiri in 2015 second quarter (June), while the minimum value is obtained from BCA Syariah Bank in 2020 fourth quarter (December). The TPF variable has a bigger standard deviation value than the mean value, so the TPF variable has Heterogeneous data, then the maximum value is obtained from Bank Syariah Mandiri in 2020 quarter IV (December) while the minimum value is obtained from Bank Panin Dubai Syariah in 2012 quarter I (March). The NPF variable has a smaller standard deviation value than the mean value, so the NPF variable has homogeneous data, then the maximum value is obtained from Bank Muamalat Indonesia in 2015 quarter IV (December) while the minimum value is obtained from Bank BCA Syariah in 2020 Quarter III (September) and IV (December).

The PLSinv variable has a smaller standard deviation value than the mean value, the PLSinv variable has homogeneous data, then the maximum value is obtained from Bank Panin Dubai Syariah in 2019 quarter III (September) while the minimum value is obtained from BNI Syariah in 2012 Quarter II (June). The CAR variable has a smaller standard deviation value than the mean value, so the CAR variable has homogeneous data, then the maximum value is obtained from Bank BCA Syariah in 2020 quarter IV (December) while the minimum value is obtained from Bank Syariah Bukopin in 2014 Quarter II (June). The ROA variable has a higher standard deviation value than the mean value, the ROA variable has heterogeneous data, then the maximum value is obtained from Panin Dubai Syariah Bank in 2012 quarter IV (December) while the minimum value is obtained from Panin Dubai Syariah Bank in 2017 Quarter IV (December).

Result of Panel Data Regression Analysis

In the panel data regression process using existing data, the classical assumption test cannot be fulfilled. To overcome the problem of the classical assumption test, the researchers used the transformation data of the natural logarithm. Besides, the model approach uses GLS Weight, cross-section SUR. For the regression results of the three models, it can be seen in the following discussion:

Common Effect Model

Table 5. Common Effect Model

Dependent Variable: LNLIQ

Method: Panel EGLS (Cross-section SUR)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-12.17731	0.258197	-47.16289	0.0000
LNTPF	0.333736	0.014161	23.56680	0.0000
LNNPF	0.149230	0.027897	5.349302	0.0000
LNPLSINV	-0.392829	0.044204	-8.886773	0.0000
LNCAR	-0.547779	0.046874	-11.68618	0.0000
LNROA	-2.241558	3.384000	-0.662399	0.5083

Source: The data analyzed by the writer, Eviews (2022)

In the table above, it can be explained that the TPF, NPF, PLSinv, and CAR variables affect Liq because the probability is less than the alpha value of 0.1, while the ROA variable does not affect Liq because the probability is more than the alpha value of 0.1.

Fixed Effect Model

Table 6. Fixed effect Model

Dependent Variable: LNLIQ

Method: Panel EGLS (Cross-section SUR)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-2.927320	0.866483	-3.378392	0.0009
LNTPF	-0.157033	0.046449	-3.380722	0.0008
LNNPF	0.087437	0.023100	3.785127	0.0002
LNPLSINV	-0.041158	0.094847	-0.433942	0.6647
LNCAR	-0.146250	0.048128	-3.038771	0.0026
LNROA	1.220902	1.940506	0.629167	0.5298

Source: The data analyzed by the writer, Eviews (2022)

In the table above, it can be explained that the TPF, NPF, and CAR variables affect Liq because the probability is less than an alpha value of 0.1, while the PLSinv and ROA variables do not affect Liq because the probability is more than an alpha value of 0.1.

Random Effect Model

Table 7. Random Effect Model

Dependent Variable: LNLIQ

Method: Panel EGLS (Cross-section SUR)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-5.791134	1.000768	-5.786688	0.0000
LNTPF	-0.013847	0.053568	-0.258500	0.7962
LNNPF	0.099640	0.035411	2.813850	0.0053
LNPLSINV	-0.281160	0.120237	-2.338383	0.0202

LNCAR	-0.253432	0.057906	-4.376584	0.0000
LNROA	1.774272	2.969870	0.597424	0.5508

Source: The data analyzed by the writer, Eviews (2022)

In the table above it can be explained that the variables NPF, PLSinv, and CAR affect Liq because the probability is less than the alpha value of 0.1, while the TPF and ROA variables do not affect Liq because the probability is more than the alpha value of 0.1.

The Technique Selection of Panel Data Regression Estimation

Significance Fixed Effect Test

Table 8. Significance fixed effect Test

Redundant Fixed Effects Tests
Equation: FEM
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	85.161971	(6,240)	0.0000

Source: The data analyzed by the writer, Eviews (2022)

The table above shows that the probability of cross-section F is 0.0 which is less than alpha 0.1, so the model chosen is a fixed effect that is compared to a random effect.

Hausman Test

Table 9. Hausman Test

Correlated Random Effects - Hausman Test
Equation: REM
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	28.282782	5	0.0000

Source: The data analyzed by the writer, Eviews (2022)

The table above shows the probability of a random cross-section of 0.0 which is smaller than alpha 0.1, so the model chosen is a fixed effect compared to the random effect. After the two tests were carried out, it can be concluded that the model chosen in this study was using the fixed effect model.

The Discussion of Panel Data Analysis

This research used a fixed-effect model as follows:

Table 10. The discussion of the fixed effect model

Dependent Variable: LNLIQ
Method: Panel EGLS (Cross-section SUR)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-2.927320	0.866483	-3.378392	0.0009
LNTPF	-0.157033	0.046449	-3.380722	0.0008
LNNPF	0.087437	0.023100	3.785127	0.0002
LNPLSINV	-0.041158	0.094847	-0.433942	0.6647
LNCAR	-0.146250	0.048128	-3.038771	0.0026
LNROA	1.220902	1.940506	0.629167	0.5298
R-Squared				0.949361
Adjustd R-Squared				0.947040
S.E of regression				1.019873
F-statistic				409.0362
Prob(F-statistic)				0,000000
Mean dependent var				-15.20008
S.D dependent var				8.307448
Sum square resid				249.6337
Durbin Watson stat				1.050999

Source: The data analyzed by the writer, Eviews (2022)

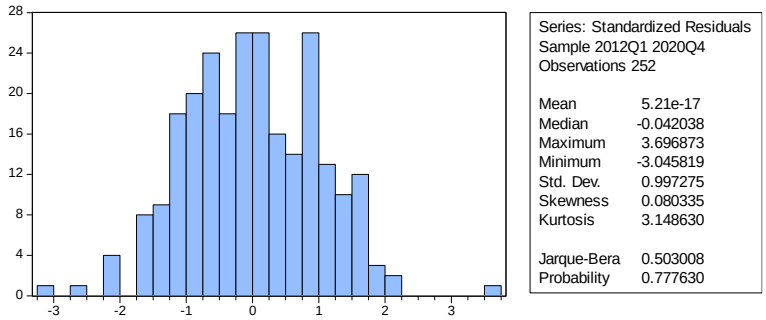
The regression aquation as follows:

LNLIQ=-2,927320-0,157033*LNTPF+0,087437*LNNPF-0,041158*LNPLSINV-
0,146250*LNCAR+1,220902*LNROA

The above equation shows that the increasing value of TPF, PLSinv, and CAR will reduce the value of Islamic bank liquidity while the increase of NPF value and ROA will increase the value of Islamic bank liquidity. The value of R squared indicates that the influence of the TPF, NPF, PLSinv, CAR, and ROA variables on Liq is 95.1% while about 4.9% is influenced by other variables, outside the model.

Classic Assumption Test

a. Normality Test



Source: The data analyzed by the writer, Eviews (2022)

Fig 2. Normality Test

The picture above shows that the fixed effect model does not occur the symptoms of normality because the probability value is more than alpha 0.1.

b. Heteroscedasticity Test

In this study, the model uses Generalized Linear Square (GLS) with the Cross-Section SUR method so it is automatically free from heteroscedasticity problems.

c. Multicollinearity Test

Table 12. Multicollinearity Test

	LNLIQ	LNTPF	LNNPF	LNPLSINV	LNCAR	LNROA
LNLIQ	1.000000	0.681501	0.663728	-0.502788	-0.581624	-0.024387
LNTPF	0.681501	1.000000	0.473054	-0.368272	-0.181622	-0.039173
LNNPF	0.663728	0.473054	1.000000	-0.160500	-0.431896	0.178615
LNPLSINV	-0.502788	-0.368272	-0.160500	1.000000	0.319788	0.209730
LNCAR	-0.581624	-0.181622	-0.431896	0.319788	1.000000	0.001713
LNROA	-0.024387	-0.039173	0.178615	0.209730	0.001713	1.000000

Source: The data analyzed by the writer, Eviews (2022)

The table above shows that all variable coefficient values are below 0.8, so the model does not have multicollinearity problems.

d. Autocorrelation Test

The Durbin Watson value in the fixed effect model is 1.050999, this value is between -2 to +2, so according to Santoso (2012), there is no autocorrelation.

Discussion

In this research model, the results show that the Third-Party Fund (TPF) variable affects the liquidity of Islamic banks in a negative direction correlation. Third-party funds are obtained from the public through demand deposits, savings, and time deposits. In this study, when third party funds increase, it will reduce the liquidity of Islamic banks, so the bank will be at risk that they cannot fulfil its obligations because many third-party funds collected by banks, the bank must also be able to return the third-party funds to the customer at any time. This study has the same results as the research conducted by Wildaniyati (2021) which states that third party funds affect the liquidity of Islamic banks, then for the measured asset quality by using the Non-Performing Financing (NPF) method, the results show that the NPF has a positive effect on the liquidity of Islamic banks. This happens when the NPF increases, it will increase the liquidity of Islamic banks. An increased NPF indicates low asset quality, when it occurs, the bank will be at risk of being exposed to Islamic bank liquidity. Even though the quality of the assets is low, the income owned by the bank increases, and the bank's liquidity will be fulfilled since the bank's income does not only come from financing but also from third-party funds. The results are in accordance with research conducted by Tho'in

and Heliawan (2020), states that NPF influences the liquidity of Islamic banks. The next variable is the Profit and loss sharing (PLS) variable measured by profit-loss sharing investment (PLSinv) shows the results that PLSinv cannot affect the liquidity of Islamic banks.

It is possible that Islamic banks do not do much profit-sharing-based financing compared to non-PLS financings such as murabahah and ijarah. When the bank does not do a lot of profit-sharing financing, the profits obtained by the bank from the financing carried out will be small so the bank uses more profits from non-PLS financing to fulfil its obligations. The results of this study are in line with research conducted by Jeddia (2020) which states that PLSinv does not affect the liquidity of Islamic banks. Then the variable capital adequacy ratio (CAR) in this study shows that CAR affects the liquidity of Islamic banks in a negative direction. When the CAR increases, it will reduce the liquidity value of Islamic banks. This is because when the bank can increase its capital capacity, the bank will be able to overcome the risk of fulfilling its obligations using the capital owned by Islamic banks. This study is in accordance with research conducted by Shamas et al. (2018) which states that CAR affects the liquidity of Islamic banks. Furthermore, the return on assets (ROA) variable does not affect the liquidity of Islamic banks, this may occur in the period March 2012 to December 2020, Islamic banks do not use much of their liquid assets to meet their short-term obligations. The results of this study are in accordance with research conducted by Susantun et al. (2019) which states that ROA does not affect the liquidity of Islamic banks.

It is possible that Islamic banks do not provide much profit-sharing-based financing as provide non-PLS financings such as Murabahah and ijarah. When the bank does not provide a lot of profit-sharing financing, caused the bank profits obtained from the financing are less, so the bank will use non-PLS financing to gain more profit to fulfil its obligations. The results of this study are in line with research conducted by Jeddia (2020) which states that PLSinv does not affect the liquidity of Islamic banks. Then the variable capital adequacy ratio (CAR) in this study shows that CAR affects the liquidity of Islamic banks in a negative direction correlation. When CAR increases, it will reduce the liquidity value of Islamic banks. This is because when the bank can increase its capital capacity, the bank will be able to overcome the risk of fulfilling its obligations using the owned capital by Islamic banks. This study is in accordance with the research conducted by Shamas et al. (2018) which states that CAR affects the liquidity of Islamic banks. Furthermore, the return on assets (ROA) variable does not affect the liquidity of Islamic banks, this may occur in the period March 2012 to December 2020, Islamic banks do not use much of their liquid assets to meet their short-term obligations. The results of this study are in accordance with the research conducted by Susantun et al. (2019) which states that ROA does not affect the liquidity of Islamic banks.

V. CONCLUSION

1. Third-Party Funds affect the liquidity of Islamic banks in Indonesia.
2. Asset quality that is measured by non-performing financing affects the liquidity of Islamic banks in Indonesia
3. Profit and loss sharing which is measured using profit-loss sharing investment does not affect the liquidity of Islamic banks in Indonesia.
4. The capital Adequacy Ratio affects the liquidity of Islamic banks in Indonesia.
5. Return on assets does not affect the liquidity of Islamic banks in Indonesia.

VI. ACKNOWLEDGMENTS

The authors are grateful to lecturers in econometrics courses, class mates, especially friends majoring on financial management.

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