



International Journal of Applied Business and Economic Research

ISSN : 0972-7302

available at <http://www.serialsjournal.com>

© Serials Publications Pvt. Ltd.

Volume 15 • Number 19 • 2017

Recognition of Margin *Murabahah* in Islamic Perspective: Analysis of Risks, Soundness of Bank and *Maslahah*

Muhamad Nadratuzzaman Hosen¹, Fithrah Kamaliyah¹, Fitriyani Lathifah^{1*}

¹State Islamic University of Syarif Hidayatullah Jakarta.

*E-mail: enezhosen@gmail.com, nadratuzzaman@uinjkt.ac.id

Abstract: The purpose of this study was to analyze the influence of the method of calculation *murabahah* margin between proportional and annuity methods, on risks and soundness of Islamic bank. The object of this research is Bank Muamalat Indonesia (BMI) according to its annual financial statements in the periods 2001-2014. Researchers using SEM (Structure Equation Modeling) analysis to analyze the influence of both methods on the risks and soundness of Islamic banks. The results of the analysis in this study, suggesting that both methods have no influence on the increased risks of Islamic banks, but the proportional method has a positive effect on the soundness of bank and the annuity method has a negative effect on the soundness of bank. Regarding with *Maslahah*, proportional method is better than annuity method, although almost all Islamic bank in Indonesia used to annuity method.

Keywords: *Murabahah*, Proportional, Annuity, *Maslahah*, Islamic Banks.

JEL Classification: D63, E49, E59, G32.

1. INTRODUCTION

Islamic banks have an obligation to maintain good performance in order to survive in financial industries and to manage the level of risk in efficiently of Islamic banks. Weaknesses of Islamic banking performance in the side of profitability, efficiency and liquidity can be caused by several factors. Hanif (2011) argue that in general the management of Islamic banks still use the pattern of conventional management.

Marston and Sundararajan (2006) argue that management of bank needs to create several prospects to products and services which increase profitable of bank. That prospects must be taken into Asset Liability Management (ALMA) and managing much risks to achieve expected of profitability.

Basically, the management patterns of Islamic bank such as regulations which issued by Financial Services Authority (Otoritas Jasa Keuangan or OJK) refers to conventional bank policy. Determination of margin, fee, and ratio of Islamic banks has been using the interest rate as a comparative indicator for management of Islamic banks in making economic decisions. In addition, the implementation of Islamic Accounting Standards (Standar Akuntansi Syariah or SAS) in Islamic banks is follows the conventional method. Mostly, calculating of *murabahab* margin in Islamic banks has been applied with annuity method.

The usage of annuity method has been ratified in Fatwa of Indonesia Council of Ulama (Majelis Ulama Indonesia or MUI) number of 84/DSN-MUI/XII/2012 about *tamwil bi al-murabahab* (Calculation Method of *Al-Murabahab* Product). Background issuance of fatwa is to maintain the stability of Islamic banks and to maintain levels of soundness of Islamic banks. With the issuance of fatwa, current Islamic banks are allowed to choose between proportional method or annuity method in calculating of *murabahab* margin which accordance with the prevailing *urf* (habit) in Islamic banks.

Implementation of profit margin method which recognition by banks is certainly affect to income who received by the bank and its performance. Furthermore, in ordering to create soundness of Islamic banks, Islamic banks must be supported by professional risk management, especially in facing the risks based on contract of *murabahab* financing. Mason (1995) states that a good risk management will create financial efficiency and will increase the value of profitability of the bank.

Annuity method is one concept which developed by conventional economics. This method has a basic principle to used time value of money. This principle is very contrary to concept of Islamic economics. Supriyanto (2014) states that concept of Islamic economics recognize the principle of economic value of time. However time value of money is different with economic value of time. Even though some Islamic scholars state these principle are the same. Thus, still debatable among Islamic scholars.

Therefore, this research tries to fill in the gap between previous studies on implementation of proportional method and annuity method. This research is also focusing on the comparison of methods in terms of the weakness, strength, threat and opportunity of each method and the identification of *maslahab* (benefit or advantage) concepts of both methods. Purposes of this study are: firstly, to analyze the effect on applying proportional and annuity methods regarding with risk and soundness of Islamic bank, secondly, to analyze the strengths, weaknesses, opportunities and threats of the proportional and annuity methods, and thirdly, to analyze the points of view of the application of proportional and annuity methods

2. LITERATUR RIVIEW

2.1. Annuity and Proportional Methods

There are four methods which can be used to recognition of profits margin in Islamic banks, such as effective, annuity, proportional and flat methods. Annuity and effective methods are similar, just slightly difference. Proportional and flat methods are slightly difference too.

Annuity method is a method of recognizing profits which adaptation of the effective interest method (Herianingrum and Widiastuti, 2015). This method provides tactics to the seller for the number of principal installments and margins which are same paid in each month. Basically, calculation using annuity method is referring to concept of time value of money, Brigham and Ehrhardt (2002) was stated that:

“a dollar in hand today is worth more than a dollar to be received in the future, because if you had it now, you could invest it, earn interest, and end up with more than one dollar in the future.”

The different of annuity and effective methods is the composition of amount of principal installment and installment of margin. In effective method, calculation of interest is based on the final principal balance at each month, so the interest paid will decrease further. However, in annuity method, the composition of principal payments will grow larger at each month and interest payments will decrease at each month although the monthly installments are the same value. This indicates that bank as a seller will charge a larger interest at the beginning payment to get more profit if the buyer repay the earlier payment (Bastian and Fuad, 2015). Nevertheless, proportional method defined that calculation in *murabahab* financing, which the principal portion and margin are fixed (same) during installment periods (Yahya, *et al.*, 2009).

Meanwhile, according to Islamic concept shows that the time preference in money is not appropriate. Zarqa argues that the theory of positive time preference in money cannot be assumed simply. Rationally, the money has two possibilities namely positive time preference or negative time preference. Possible positive or negative or even zero time preference are due to uncertainty in the future (Rahmawati, 2014).

Akhyar (1996) focuses to analyze on the investigation and the criticism evaluation of accounting concepts and practices which adopted by Bank Malaysia Berhad (BIMB) and BMI. The study examined standards issued by accounting standards from the Financial Accounting Organization for Islamic Banks and Financial Institutions (FAO-IBFI). The findings on BIMB show that the calculations of profit margin of *murabahab* which using Sum of Digit (SOD) method are resembles to annuity method and Constant Rate of Return (CRR) method which are resembles to flat rate method. Similarly, which encountered in BMI shows that the effective rate similar to flat rate method in BIMB. After analyzing, the result shows that the percentage of profit which using the CRR method recognized more equitably because CRR method has the same percentage of profit from the beginning to the end installment periods. CRR method can cover the costs which incurred by the Bank on *murabahab* to be better.

Supriyanto (2014), explains the fact of application rate of profit in Islamic banks both macro and micro level. In addition he discusses the Islamic economic concept of the rate of profit which is studied comprehensively through literature review. Methods of data collection is done through documentation method (see the financial report and profit distribution report) and through surveys on Bank Syariah Mandiri (BSM) and Bank Syariah Danamon (BSD).

The result of Supriyanto research (2014) shows that *murabahab* financing with proportional method is accordance with the Islamic principles. This method is based on economic value of time. This happens because Islamic banks do not recognize the principal installment and interest or margin. The customer only pays the remaining debt of trade without distinction between principal and margin. In annuity method, revenue trends have decreased in over time, so as customers will be more disadvantaged. Meanwhile the proportional method shows that income will increase, especially if the bank is expanding then customers will increase to get an ever-increasing of income.

Rosmiati *et al.* (2014) focus to analyze and to compare performance of Islamic banking on annuity and proportional methods in *murabahab* financing transactions at Brach Office of Bank Jabar Banten in Singaparna. The comparison of performance of both methods are measured by four indicators, namely, 1) receivables/unsecured receivables, 2) principal installment, 3) installment of margin, and 4) installment of value. The results show that the performance of annuity method have a good performance at the beginning

installment period and its performance continued to decline as the decreases amount of margin who is received by the bank. At the same time, the proportional method showing stable performance from the beginning period until the end of installment periods. Thus, the performance of *murabahah* which using proportional method is better and more stable than annuity method.

Mukhlisin and Hudaib (2014) give a critical conclusion to the method of income recognition in *murabahah*. The result shows that the application of annuity method in Indonesia which adopted from IFRS (International Financial Recognition Standard) has not accordance with Islamic principle. Annuity method creates economic liberalization which demonstrated by a particular interest for stakeholders in Islamic financial institutions and inventors, especially in accelerating gains.

Amir *et. al.* (2015) shows that the annuity method has provide a positive value for the bank, namely, to maintain value of liquidity and capital adequacy of banks. The positive value can be show from the profits which obtained by the bank at the beginning period. On the other hand, application of annuity method can be make their customers as the bearer risks of bank.

Waluyo (2006) examines the effect of recognition of margin *murabahah* on profitability and income distribution in Islamic banks. This study focused on the effect of Regulation of Financial Accounting Standard (Peraturan Standar Akuntansi Keuangan or PSAK) number of 59 about Accounting of Islamic Banking which raises the pros cons of various circles, like practitioners or academics especially in recognition of margin *murabahah*, *istishna* and *ijarah* which the first time Islamic banks are used to cash base and change to accrual base today.

The result of Waluyo (2006) shows that accrual basis method has given average value of main operating income is higher than cash base method. According to level of profitability, accrual basis shows the average ratio of ROA (Return on Asset), ROE (Return on Equity), NPM (Net Performing of Margin) is higher than cash basis meanwhile the average ratio of BOPO (Operational Cost/Operational Income) in accrual base is more low than the case base. Meanwile in distributions of profit sharing which used by accrual basis is will be higher than cash basis. Accrual basis can show more benefits to shareholders because the earnings per share become to increase as the increase in net profits. However, the accrual basis method can also creates constraints such as tax burden. The tax must be paid by banks. At the same time the cash flow which received by banks does not increase. The increase of income it happen because the future earnings have been recognized today.

Gunawan's (2010) shows that the application of annuity method has impact to company performance especially in terms of income and short-term of profit. The recognition of revenues with an annuity method which embraced by Islamic banks system is not fully in accordance with the principles of PSAK number of 102. Look at from the Islamic perception shows that the recognition of margin *murabahah* with proportional scheme is more better than the annuity scheme.

2.2. Concept of *Maslahah* in Application of Proportional and Annuity Methods

Islamic provisions based on welfare have a purpose to uphold justice and Islamic law by avoiding damage and benefiting to welfare of society (Laldin, 2013). Decision making which accordin to *maslahah* has not worldly orientation. Moreover, *maslahah* has a main aim to give goodness hereafter (Putra *et al.*, 2014).

Muslim figures have been pointing out about management of Islamic finance based on concept of *maslahah*. Imam Al-Gozali (in Tawfiqie Al-Mubarak, 2010), Imam Asy-Syatibi (in Hurayra, 2015), and

Wahbah Zuhaily (2013) who are agree that the purpose of human are divided into two parts, namely, the purpose of religion and the purpose of the world. The purpose of religion (*hifdzu diin*) is to achieve prosperity in hereafter. Meanwhile the purpose of worldly divided into four parts, namely, the protection of soul (*hifdzu nafs*), the protection of descendants (*hifdzu nasl*), the protection of sense (*hifdzu 'aql*), and the pottection of treasure (*hifdzu maal*). These four purposes in the world are meant to achieve the purpose of religion or goodness hereafter.

Jasser Auda (2007) defines Islamic *maqashid* (main aims of Islamic law) in four meanings, namely:

- a) the wisdom behind a law,
- b) a good goal which to be achieved by law,
- c) the divine purpose and the/moral concept which becomes the basis of law and
- d) *maslahah* or goodness for the people universally.

3. HYPOTHESIS

In testing the objectivity of result study, hence can be formed hypothesis as follows:

1. Proportional Method

H_0 : There is no significant correlation between proportional margin and risks

H_1 : There is a significant correlation between proportional margin and risks

H_0 : There is no significant correlation between risks and soundness of bank

H_2 : There is a significant correlation between risk and soundness of bank

H_0 : There is no significant correlation between the proportional margin and the soundness of bank

H_3 : There is a significant correlation between the proportional margin and the soundness of bank

2. Annuity Method

H_0 : There is no significant correlation between annuity margin and risks

H_1 : There is a significant correlation between annuity margin and risks

H_0 : There is no significant correlation between risks and soundness of bank

H_2 : There is a significant correlation between risk and soundness of bank

H_0 : There is no significant correlation between the annuity margin and the soundness of bank

H_3 : There is a significant correlation between the annuity margin and the soundness of bank

4. RESEARCH METHOD

4.1. Research Objects

The sample of research used to annual financial report of BMI during periods 2001 - 2014. The financial reports divided by two periods, namely, year of 2001-2007 as the proportional period and year of 2008-2014 as the annuity period.

4.2. Research Variables and Analysis Approach

This study used to two analytical approaches, namely quantitative and qualitative approaches. Quantitative approach used to analyze the effect of margin of annuity and proportional methods on risk and soundness of the bank through SEM (AMOS 21 software). Indicators of risk are measure by ratio of NPF (Net Performing of Financing), FDR (Financing Debt to Ratio), and BOPO. Meanwhile the indicators level of soundness of bank are measure by ratio of ROA, ROE, NIM (Net Income of Margin), and CAR (Capital Adequacy Ratio).

A qualitative approach used to analysis strengths, weaknesses, threats and opportunities of proportional and annuity methods. This approach to be analyzed by SWOT analysis method and the viewpoint of *maslahah*. Indicators analysis of both methods are accordance with those expressed by Muslim scholars, namely, fulfill the needs of *dharuriyah* (Al-Ghazali, 2010), economic morals and justice (Dusuki and Abozaid, 2007), realization of public interest (Nashrullah and Noor, 2014), orders and restrictions in Holy Qur'an, certainty (*qathiyah*), risks, wisdom, good ending, and divine purposes (Mohd Noor, 2012).

5. RESULTS AND DISCUSSION

5.1 Conventional Views on the Recognition of Margin Murabahah

The conventional view states that recognition of annuity margin has a significant impact on the management and sustainability of the bank. The recognition of margin *murabahah* in annuity method is the recognition of margin which taking higher at the installments beginning period and decreasing at the installments ending period. Meanwhile the proportional method is recognition of margin which flat installments in each periods.

Annuity method used to present value approach. The permissibility of Fatwa of National Sharia Council (DSN or Dewan Syariah Nasional) in using annuity method indicates that the recognition of acquisition of margin at beginning period is more required by Islamic banks rather than at ending period.

The recognition benefit of annuity method in short-terms is that the Islamic banks more guarantee to be paid the percentage of profit-sharing in *mudharabah* or *wadi'ah* (saving accounts) with a higher percentage rather than proportional method. In contrast, the recognition of annuity method does not guaranteed in long terms. This means that the used of annuity method, the management can provide a high guarantee to third parties to be paid for these profit sharing or bonuses, so that these customers do not transfer their funds to other banks. In other words, directors of bank's may to raise rate of profit-sharing which higher than level of interest rate because the margin of *murabahah* has been taken at the beginning period.

In other hand, recognizing of margin *murabahah* with proportional method does not use present value approach. Therefore, in the short terms the bank will distress to provide a high rate of profit-sharing to customers because of its flat nature.

The advantage of annuity method in terms of financial management is banks will be better to keep the third party. In addition, annuity method will make it possible for banks to deliver a good value of profit sharing. However, the lack of annuity method is that in the long terms where annuities will give burden to next boards to provide high returns to third party funds but, the large margins have been used in early leadership of previous boards.

Basically, the recognition of margin *murabahah* with annuity method does not matter for Islamic banks as long as the level of trust which provided by Islamic banks to new customers who open *mudharabah* or wadiah savings is high. Furthermore, the annuity method does not matter to Islamic banks as long as new customers are increasing every year and liquidity of Islamic bank in good condition.

In conclusion, the proportional method does not provide incentives to new saver of customers. Although in long terms, proportional method will have a positive impact on secure levels of liquidity of bank.

In economically now the annuity method which chosen by Islamic banks to recognition of margin *murabahah* is very rational. Annuity method is applied by Islamic banks in order to provide incentives to savers and to build high trust to customers. Meanwhile the proportional method cannot as it because the recognition of *murabahah* margin is flat installments.

5.2 Correlation of Margin of Annuity and Proportional Methods to Risk and Soundness of BMI

Table 1 and Table 2 are results of calculation influence of proportional and annuity methods to risk of bank and soundness of bank.

Table 1
Correlations of Proportional Margin with The Level of Risk and Soundness of BMI, (Data Processed)

<i>Correlations of Variables</i>	<i>Estimated</i>	<i>Probability</i>
Proportional Margin → Risk	0,45	0,129
Risk → Soundness of Bank	-0,35	0,051
Proportional Margin → Soundness of Bank	0,23	0,049*

Note: * (sig).

Table 1 shows that the recognition of margin *murabahah* with proportional method has not significant correlation with the level of risk of the bank. This is indicated by the probability value at $0.129 > 0.05$, H_0 is accepted and H_1 is rejected. This means that application of proportional margin and emergence of risk levels in Islamic banks have not relationship. Then, the proportional margin and soundness level of bank have a probability value at $0.049 < 0.05$. H_3 is accepted and H_0 is rejected. The proportional margin has a positive relation with soundness level of bank at 23%. The positive relations of the proportional method and the soundness of bank shows that this study is in line with the findings revealed by Gunawan (2010), Supriyadi (2014), Amir *et al.* (2015), and Rosmiati *et al.* (2014).

Table 2
Correlations of Annuity Margin with The Level of Risk and Soundness of BMI, (Data Processed)

<i>Correlations of Variables</i>	<i>Estimated</i>	<i>Probability</i>
Annuity Margin → Risk	0,47	0,181
Risk → Soundness of Bank	-0,36	0,009*
Annuity Margin → Soundness of Bank	-0,73	0,000*

Note: * (sig)

Table 2 shows that the annuity margin has not a significant relationship with the risk level in Islamic bank. This is indicated by probability value at $0.181 > 0.05$, H_0 accepted and H_1 rejected. This means that margin annuity and soundness of bank of the bank have a significant value and negative results at -0.73 , meaning that the use of margin annuity has a strong relationship in reducing the soundness of the bank.

5.3 Comparison Influence of Annuity and Proportional Methods on Risk and Soundness of BMI

Table 3 shows that the average value of application of annuity and proportional methods. In terms soundness of banks, the gain of average value of soundness of BMI shows that both methods have still provide in the good category. The annuity method has been advantage to increase capital of BMI. This value can be reflected by CAR which increased at 0.69%. This means that through the application of annuity method, BMI is faster in providing the reserve capital which it obtained from the paid-off margin installments at the beginning period. Annuity applied by BMI in order to cover the risk in decreasing assets due to losses incurred.

Table 3
Average Value of Risk and Soundness of Bank on Proportional and Annuity Methods, BMI 2001-2014.

<i>Indicator</i>	<i>Proportional Periods</i>	<i>Annuity Periods</i>	<i>Gain</i>
% NPF	4,11	4,19	Annuity increased 0,08%
% FDR	86,93	92,16	Annuity increased 5,23%
% BOPO	85,80	89,06	Annuity increased 3,26%
% ROA	2,29	1,29	Annuity decreased 1,00%
% ROE	20,86	20,56	Annuity decreased 0,30%
% NIM	6,60	5,07	Annuity decreased 1,53%
% CAR	12,35	13,04	Annuity increased 0,69%

In fact, annuity method has a negative impact to decrease level on asset (ROA), level on capital (ROE) and level on interest margin (NIM) of BMI. However, the above value in Table 3 does not show significant differences. The result of this study is in line with research which conducted by Gunawan (2010), Supriyanto (2014), Amir *et al.* (2015), and Rosmiati *et al.* (2014).

Furthermore, in terms of risk level of BMI, annuity method has a deficiency compared to proportional method. Annuity method has been increased the risk of NPF around of 0.08%, operational risk (BOPO) around of 3.26% and liquidity risk around of 5.32%.

In liquidity matter, proportional method has a lower risk rather than annuity method. Even though in annuity the value of FDR is higher than proportional, but FDR has still a positive impact on BMI. The calculations of Islamic banks which are more convinced that will not happen of rush money in retail and Small Medium Enterprise (SMEs) area, then with a high ratio of FDR, any Islamic banks can be continued to grow.

This is also reason why Islamic banks more focus on depositors. If the Islamic banks used to proportional method in recognizing its margin, banks will be worried if the profit is not taken at the

beginning period then the bank will be difficult to share bonuses to their customers. Then, these customers confidence will be reduced to Islamic banks. This problem will be occurred because the equity of Islamic banks is small until the risk of Islamic banks cannot be covered and the percentage of FDR is high and NPF shows a downward trend. Then, so that many Islamic banks prefer used to annuity method in recognizing profit margin rather than proportional method.

5.4 SWOT Analysis in Implementation of Proportional and Annuity Methods

SWOT analysis aim to analyze strengths, weaknesses, opportunities and threats of both methods in order to be a consideration in the right decision making in Islamic banks. Asher and Gale (2007) argue that appropriate of decision making is very important to prevent various risks which adversely affect the performance of Islamic banks.

Table 4
The Impact of Total Proportional and Annuity Margins on Soundness of BMI,
(Data Processed)

<i>Method/ Soundness of Bank</i>	<i>Annuity</i>	<i>Proportional</i>
ROA	-0,78	0,07
ROE	-0,29	0,44
NIM	-0,72	0,00
CAR	0,45	0,03

Overall, impact in using proportional method to soundness of BMI is better rather than annuity method. This indicated by the positive and negative signs in Table 4.

In using proportional method, it has a positive impact on all indicators research to measure soundness of BMI. The greatest influence is shows by increase of ROE value at 44%. Meanwhile, annuity method shows negative impact to almost all indicators of research on soundness of BMI. Annuity method has a positive impact to increase the value of CAR.

Basically, the selection of method by the Islamic banks is influence by unavoidable external factors such as inflation and interest rate risk. In fact of inflation which affects to the value of money is influence to management decisions in determining the margin and in minimizing the risks to be faced by BMI.

The tendency of more banks to recognize *murabahah* margin are greater at the beginning installment period. The principle shows that a money in hand today is worth more than a money to be receive in future. In contrast, the tendency of customers of recognize *murabahah* margin is more important at the end of installment period. In fact, the perspective of consumers is opposite with perspective of banks. Meanwhile in perspective of *fiqh* (the set of Islamic law) there is not matters on inflation and time of money.

In addition, the recognition of margin annuity and margin proportional have some positive and negative impacts in terms of bank management. If the bank uses proportional method then, there is fairness for management leadership of banks in every periods. If the recognition of *murabahah* margin is made larger at the beginning period of installment then, the bank will be difficult to share bonuses and profit sharing to their customers or investors at the end of each year. This problem could have happened because it is

possible the interests of directors in playing the benefits who are received. In other words that the proportional method in actually is better for both parties.

The strength of proportional method is the justice of margin acquisition which has received by the bank. Furthermore, the amount of *murabahah* margin which received by bank from year to year has a same value, therefore there is no income inequality early at the payment period. In addition, by obtaining a uniform margin, the bank will be able to cover its operational costs evenly so it is more efficient. Adnan (1996) argues that the uniform margins of each period can also increase liquidity of banks in order to meet in short-terms and in long-terms obligations, especially in case of inflation.

Meanwhile the strength of annuity method is banks will be accumulated profits early in beginning period. Surely, the balance sheets and profitability of banks in the initial period will look good with large amounts of profits of *murabahah*. Amir *et al.* (2015) argue that with the faster profits by the bank will be able to fulfill its obligations, especially in short-terms liabilities.

One of the weakness in proportional method certainty that proportional method is not be better rather than annuity method in term of rapidly accumulating profits. Moreover the weakness of annuity method is less able to fulfill obligations in long-terms due because the margin which received by the bank at the end periods is the smaller than at the beginning period. Similarly, in the face of rising inflation which the banks will be less efficient in covering the costs which arise over of these factors.

From the customer perspective in relating to debt repayment, customers who used to *murabahah* contract with annuity method will be longer in installment principal debt and more lead to exploitation. Supriyanto (2014) argues that the problem its happen because the portion who they paid at the beginning period is more given for the bank's profit than to pay off its debts.

The opportunity of proportional method is its forward the principle of justice. Adebayo (2010) states that proportional method is considered with Islamic value . The Islamic economic system is accentuate the principle of justice, and the principle of justice will be lead to *maslahah*. Meanwhile, the opportunity of Islamic bank in applying of annuity methods is the speed of bank in collecting of margins at the beginning period. In addition, the application of annuity method, Islamic banks can more compete with conventional banks.

The threat of proportional method is less competitive between Islamic banking and conventional banking. Meanwhile, the threat of annuity method is poor society assessment to Islamic banking where these society considers that Islamic banks and conventional banks have the same concept in determining profit of banks (Bashir, 2015). Moreover, the threat of annuity method, Rosmiati *et al.* (2014) argues that annuity method will lead to bad performance of Islamic banking in the long-terms, then will incriminate the next boards.

A strategy to minimize the risks from application of annuity method would be better if the Islamic banks giving choice to their customers of both methods in margin recognition. The purpose of this strategy is that the bank does not necessarily to exploit their customers.

Annuity method has a positive point in accelerating profitability. This is certainly good for the soundness of banks to maintained liabilities of bank in short-terms. Annuity method is more recommended for customers who have a smooth financing profile. Wherein, profit margin can be receive is large in beginning period on a continuous basis. Amira *et al.* (2014) argues that to maintain financial stability, selective in analyzing customers' ability is very important as a prudent form of the bank.

Proportional method is indeed a method in accordance with Islamic principle. Even though the annuity method gives more advantages to compete with conventional banking. Proportional methods must be defended to maintain reputation of Islamic banks in the view of public. Haroon *et al.* (2015) states that the loss of public confidence will have a significant affect in accumulation of public funds, especially for Indonesian Muslim community as the Muslim majority.

5.4 The *Maslahah* Assumption on the Application of Proportional and Annuity Methods

The desire of Islamic banks to compete with conventional banks is a great expectations still in accordance with the Islamic principle which has been ordered with Al-Qur'an and Hadith. Uphold justice, prosperity and fighting for the purpose of the world and the hereafter is a command of Allah SWT in realizing the life of mankind for prosperity in the world and in the hereafter.

Based on the opinion of scholars about the concept of *maslahah*, researchers try to do a mapping of both methods.

Table 5
Mapping of *Maslahah* and *Mafsadat* (Disadvantage) Method of Proportional and Annuity

No. Criteria	Proportional		Annuity	
	<i>Maslahah</i>	<i>Mafsadat</i>	<i>Maslahah</i>	<i>Mafsadat</i>
1. Fulfill the need of <i>dharuriyah</i>	Fulfill <i>hifdzu diin, hifdzu maal, and hifdzu nafs</i>	–	–	Not yet to fulfill <i>hifdzu diin, hifdzu maal, and hifdzu nafs</i>
2. Moral of Economic	The interests of banks and customers are same	–	–	– The interest of bank is prefer rather than interests of customers – Customers exploitation
3. Justice	– The portion of margin and installments of customer debt is balanced – Equity gains for each board of directors and management	–	–	– The portion of margin and installments of customer debt is unbalanced – Imbalancing the share of profits in each board of director and banking management
4. Realization of public interest	The interests of customers and banks are the same	–	–	– The interest of bank is prefer rather than interests of customers
5. Orders and restriction in the Qur'an and Sunnah	The order of justice has been fulfilled	–	–	The bank does not fulfill the command in the Qur'an about upholding justice
6. Certainty (<i>Qathiyah</i>)	The command to do justice is definitely the law in the Qur'an to create <i>maslahah</i>	–	–	Injustice is inevitably the law in the Qur'an and will lead to discord

Contd. table 5

No. Criteria	Proportional		Annuity	
	Maslahah	Mafsadat	Maslahah	Mafsadat
7. Risks	<ul style="list-style-type: none"> – Credit risk, liquidity risk and operational risk still exist but the value is less than the annuity method – Has a positive influence to soundness of Islamic banks 	<ul style="list-style-type: none"> The ratio of CAR in the proportional method is lower than the annuity method 	<ul style="list-style-type: none"> The CAR ratio is higher than the proportional method 	<ul style="list-style-type: none"> – Credit risk, liquidity risk and operational risk are greater than the proportional method – Annuity method has a negative effect to soundness of Islamic banks
8. Wisdom	<ul style="list-style-type: none"> Be fair and apply the principle of debt repayment in accordance with the hadith of the Prophet 	–	–	<ul style="list-style-type: none"> Just fulfill the passions in collecting treasures
9. Goodness ending	<ul style="list-style-type: none"> – Banks can apply sharia principles with perfectly – Provide a good impact for banks in meeting soundness levels and can meet short-term and long-term obligations – Good impact for customers because customers are not treated exploitatively 	–	–	<ul style="list-style-type: none"> – The final payment of the annuity method is incriminating the customer in settling the debt – Soundness level of Islamic bank is declining
10. Divine Purpose of <i>Ilahiyah</i>	<ul style="list-style-type: none"> – obey what has been commanded and forbidden by religion be fair – falah 	–	–	<ul style="list-style-type: none"> The principle of shari'a is neglected, and it only satisfies worldly desires.

6. CONCLUSIONS

This study provides some findings, firstly, both methods of either margin annuity or proportional not have effect on BMI risk. The proportional method has a positive impact on the soundness of bank at 23% and the annuity method has a negative impact on the soundness of bank at 73%. The total impact received from the application of annuity method to soundness of the bank that is ROA at -78%, ROE at -29% and NIM at -72%, but has a positive impact on CAR at 45%. It can be said that with the application of annuity method, will have a negative impact on the soundness of Islamic banks and the proportional method will have a positive impact.

Secondly, the results show that the motive of applying annuity method is the liquidity motive. BMI has been using the annuity method is to meet short-term obligations. This is due to the source of financing in Islamic banks comes more from short-term funds, so that banks have to pay a profits-sharing on customers at maturity. Unfortunately, the application of this annuity method ignores the profitability of banks, so that the profitability of Islamic banking is decreases. The decreases in the level of profitability of Islamic banks can lead to loss of investor confidence to invest their funds in Islamic banks.

Thirdly, the SWOT analysis proves that both methods have different strengths, weaknesses, opportunities and threats. However, the threat which posed by the annuity method is more dangerous. Because the Islamic banks will lose their values and reputation of Islam. In addition, the application of annuity method will reduce the performance of Islamic banks in the long terms. The solution in this issue is to give preference to customers to choose which methods when their will transaction using *murabahah* contract. In addition, this is intended in order to educate the public about the differences and benefits of both methods, especially in terms of the value of justice for customers.

Fourth, the results show that proportional method has more *maslahah* value than annuity method. The results of this study are expected to provide an evaluation for Islamic banks in order to determine the right policy to improve the soundness of Islamic banking to be more stable. In addition, the results of this study are also expected to provide education for customers about the advantages and disadvantages of both methods and the value of *maslahah* and *mafsadat* of both methods too. Finally, the authors expect that Islamic banks can minimize the risk that will occur and can improve the level of soundness of Islamic banks in the future.

REFERENCES

- Adebayo, Rafiu Ibrahim. (2010), Adl as The Bedrock of Islamic Financial Service Delivery: *Journal of Islamic Economics, Banking and Finance*, Vol. 6 No. 2. Nigeria: Univ. of Ilorin.
- Adnan, Muhammad Akhyar. (1996), *An Investigation of Accounting Concepts and Practices in Islamic Banks: The Cases of Bank Islam Malaysia Berhad and Bank Muamalat Indonesia: Thesis University of Wollongong*. Sydney: Wollongong.
- Amir *et al.* (2015), Criticism of Annuities in *Murabahah* Transaction: Allowing Riba Through Fatwa? (A case study of Islamich Banking in Indonesia): *Kuala Lumpur International Business, Economics and Law Conference 6*, Vol. 1. Kuala Lumpur.
- Amira *et al.* (2014), Islamic Credit Risk Management in *Murabahah* Financing-The Study of Islamic Banking in Malaysia: *Australian Journal of Basic and Applied Science*, 8(6). Australi: ASENSI.
- Asher, Anthony dan Gale, Andrew. (2007), Strategic Risk Management Mapping the Commanding Heights and Hazards: *Paper of Institute of Actuaries of Australia's Biennial Convention*. New Zaland: Institute of Actuaries of Australia.
- Auda, Jasser. (2007), Maqashid Al-Islamich as Philosophy of Islamic Law a System Approach: *Journal of Philosophy The International Institute of Islamic Thought*. London: The International Institute of Islamic Thought.
- Bashir, Mohamed Sharif *et. al.* (2015), Reputation Risk in Islamic Financial Institutions: *SSRG International Journal of Economic and Management Studies*, Vol. 2 Issue 3. SSRG Publishing.
- Bastian, Novan dan Fuad, Aulia. (2015), Analisis Perlakuan Akuntansi *Murabahah* pada PT Bank Rakyat Indonesia Syariah Cabang Kota Malang: *Jurnal Universitas Barawijaya*. Malang: Univ. Barawijaya.
- Brigham, Eugene F. dan C. Ehrhardt, Michael. (2002), *Financial Management: theory and Practice Tenth Edition*. USA: Harcourt College Publishers.
- Dusuki, Asyraf Wajdi dan Abozaid, Abdulazeem. (2007), A Critical Appraisal on The Challenges of Realizing Maqashid Al-Islamich in Islamic Banking and Finance: *IJUM Journal of Economics and Management* 15, No. 2. Malaysia: The International Univ. Malaysia.
- G., Sehrish dalam Irshad, Faiza dan Zaman, Khalid. (2011), Factors Affecting bank profitability in Pakistan: *The Romanian Economic Journal Year XIV*, No. 30 March 2011. Pakistan.
- Ghazali. T.th. *Shifa al-Ghalil*, dalam Tawfique Al-Mubarak dan Noor Mohmmad Osmani, Aplication of Maqashid Shari'ah and *Maslahah* in Islamic Banking Practices: *Journal of Islamic Banking*. Qatar: Qatar Foundation.

- Gunawan, Aang. (2010), Analisis Perlakuan Pendapatan Skim *Murabahah*: Tesis Universitas Trisakti. Jakarta: Universitas Trisakti.
- Hanif, Muhammad. (2011), Differences and Similarities in Islamic and Conventional Banking: *International Journal of Business and Social Science* Vol. 2 No. 2. Islamabad: NUCES.
- Haron, Mohamad Sabri *et al.* (2015), Reputation Risk and Its Impact on The Islamic Banks-Case of *Murabahah*: *International Journal of Economic and Financial Issues*. Malaysia: Ejournal.
- Herianingrum, Sri dan Widiastuti, Tika. (2015), Theoretical Overview *Murabahah* Financing in Islamic Banking: *Journal of Sydney International Research Conference*. Australia: University of Western Sydney Campbelltown.
- Hurayra, Mohammad Abu. (2015), Achievement of Maqasid-al-Shari'ah in Islamic Banking: An Evaluation of Islamic Bank Bangladesh Limited: *Global Journal of Computer Science and Technology a Hardware and Computation*, Vol.15 Issue 1. USA: Global Journal Inc.
- K., Staikouras C. and E., Wood G. (2004), The determinants of European Bank Profitability: *International Business & Economics Research Journal*, Vol. 3 No. 6. IBER.
- Laldin, Mohamad Akram. (2013), Understanding The Concept of *Maslahah* and Its Parameters when Used in Financial Transaction: *Journal of Islamic Business and Management*, Vol. 3 No. 2. Malaysia: ISRA.
- M., Nashrullah K. Galuh dan Noor, Hasni. 2014. Konsep Maqashid Al-Syariah dalam Menentukan Hukum Islam: *Jurnal Ekonomi Syariah dan Hukum Ekonomi Syariah Al-Iqtishadiyah Vol1 Issue1*. Banjarmasin: Univ. Islam Kalimantan MAB.
- Marston, David dan Sundararajan, V. (2006), Unique Risk of Islamic Banks: Implication for Systemic Stability. Jeddah: IRTI.
- Mason, S. P. (1995), The Allocation of Risk: *Working Paper Harvard Business School*. Boston: Harvard Business School.
- Mukhlisin dan Hudaib. (2014), Is there a political economy of accounting in financial reporting standardization for the Islamic financial institutions?: *10th International Conference on Islamic Economic and Finance*. United Kingdom: University of Glasgow.
- Nor, Amir Husain Mohd *et. al.* (2012), Application of The Principle of Maqashid Islamich in Administration of The Islamic Countries: *Advances in Natural and Applied Sciences 6(6)*. Malaysia: Univ. Kebangsaan Malaysia.
- Putra, Elvan Syah *et al.* (2014), *Maslahah* as an Islamic Source and Its Application in Financial Transactions: *Journal of Research in Humanities and Social Science*, Vol. 2 Issue 5. Malaysia: Univ. Sains Islam Malaysia.
- Rahmawati, Naili. (2014), Konsep *Time Value of Money* perspektif Islam: *Jurnal Ekonomi Islam Iqtishoduna* Vol. 5. Mataram: IAIN Mataram.
- Rosmiati *et al.* (2014), Comparative Analysis Annuity Method and The Method of Proportion in Performance Assessment in Financing Transaction on *Murabahah*: *Jurnal Universitas Siliwangi* No. 157. Tasikmalaya: Univ. Siliwangi.
- Supriyanto, Trisiladi. (2014), *Konsep Rate of Profit dalam Perspektif Ekonomi Islam: Disertasi SPS UIN Jakarta*. Jakarta: Pasca Sarjana UIN.
- Waluyo. (2006), The Effect of The Changes of Recognizing *Murabahah* Margin Revenue to Main Revenue, Profitability, and Profit Distribution: Tesis Universitas Indonesia. Depok: PSTTI UI.
- Yahya, Rizal *et al.* (2009), *Akuntansi Perbankan Syari'ah: Teori dan Praktik Kontemporer*. Jakarta: Salemba Empat.
- Zuhaily, Wahbah. (2013), *Maqashid Syari'ah dalam Bidang Ekonomi dan Keuangan Islam*. Jakarta: Forum Riset Ekonomi Syari'ah II.