



## The Role of Murabahah Financing in Improving Financial Performance and Profitability of Islamic Banks in Indonesia

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### ABSTRACT

This study aims to analyze the effectiveness of the murabahah financing system in increasing the profitability of Islamic banks in Indonesia. The murabahah financing system is considered as an alternative financing that is in accordance with Islamic principles, which provides benefits for both banks and customers. The analysis was conducted by evaluating several aspects, including bank profitability, financing performance, associated risks, impact on customer satisfaction, and external factors that influence it. The results of the study indicate that the murabahah system is effective in increasing the profitability of Islamic banks, with significant profit margins and high customer satisfaction. However, challenges related to financing risks such as default and fluctuations in the price of goods need to be managed carefully. This study provides insight into how the murabahah financing system can continue to develop in the Islamic banking sector in Indonesia.

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#### Keywords:

Murabahah Financing, Profitability, Islamic Bank, Financing Risk, Customer Satisfaction, Effectiveness.



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### INTRODUCTION

The Islamic banking industry in Indonesia has grown rapidly in recent years, along with increasing public awareness of the importance of a financial system based on Islamic principles. One of the most important financing products in Islamic banking operations is murabahah, which is a type of buying and selling financing with a profit margin system that has been agreed upon in advance between the bank and the customer.[1]. Murabahah financing is one of the main instruments for Islamic banks to meet the financing needs of the community, both in the consumption sector and the productive sector.[2].

In the context of Islamic banking, financial performance and profitability are two very important aspects for evaluating the operational success of a bank.[3]. High profitability not

only reflects the efficiency and success of business strategies, but also shows the bank's contribution to the development of a sustainable Islamic economy. Therefore, it is important to understand how murabahah financing plays a role in increasing the profitability of Islamic banks in Indonesia. Several previous studies have shown that murabahah financing products have a positive influence on the financial performance of Islamic banks, but its effectiveness in the Indonesian context still needs to be explored further.[4].

One of the factors that affect the financial performance of Islamic banks is how optimally murabahah financing is implemented, both in terms of distribution volume and risk management. Although murabahah is relatively simpler and easier for customers to accept compared to other Islamic financing products, challenges remain in risk management and its impact on bank profitability. This study aims to analyze the role of murabahah financing in increasing the profitability of Islamic banks in Indonesia, as well as how strategies implemented by Islamic banks can maximize the potential of murabahah financing to improve their financial performance.[5][6][7].

In this study, several factors that influence the effectiveness of murabahah financing will be discussed, including marketing strategies, risk management, and market conditions. The results of this study are expected to provide a significant contribution to a deeper understanding of the relationship between murabahah financing products and the profitability of Islamic banks, as well as provide recommendations for Islamic bank managers in improving their performance in the future.

## **METHODS.**

### **1. Murabahah Financing System**

Murabahah financing is one of the main products offered by Islamic banking as an alternative financing that complies with Islamic sharia principles. Basically, murabahah is a sale and purchase transaction, where the Islamic bank acts as the seller of goods needed by the customer. In this transaction, the selling price agreed upon by the bank and the customer will cover the cost of purchasing the goods plus a previously agreed profit margin. To carry out this financing, the bank will purchase the goods requested by the customer from a third party, then resell them to the customer at a higher price, which includes the profit agreed upon at the beginning of the transaction. This is different from the conventional banking system which uses interest as the basis for calculating profits, where Islamic banks set a clear profit margin at the beginning, without any uncertainty regarding the amount of profit to be obtained.[8][9].

The murabahah system has become very popular because it is considered to provide better transparency and greater fairness for customers.[10]. In this transaction, customers can know exactly how much the total cost they have to pay, including the profit margin obtained by the bank. Unlike interest-based financing which often adds an unfair burden to customers, murabahah provides a clearer and more understandable cost structure. In addition, this transaction is completely free from usury, which is an element that is forbidden in Islam. In the murabahah system, the bank acts as an intermediary that facilitates customers to obtain the goods or property they need, without involving usury or financial uncertainty, in accordance with sharia principles.[11][12].

In Indonesia, the murabahah financing mechanism has been specifically regulated by the National Sharia Council – Indonesian Ulema Council (DSN-MUI), which issues guidelines and fatwas to ensure implementation in accordance with sharia provisions in Islamic banks. Murabahah financing is not only applied to the purchase of personal consumer goods, but

can also be used for working capital financing or long-term investments. One important aspect that must be considered in murabahah transactions is the obligation for banks to ensure that the goods sold to customers truly belong to the bank before being handed over to the customer. In this case, the bank has full responsibility for the quality and authenticity of the goods traded, so that customers are not harmed by products that do not comply [13][14].

However, the implementation of the murabahah system in practice also faces various challenges. One of the main challenges is determining the selling price of goods that is fair and in accordance with prevailing market conditions. Banks must be careful so that the prices set in murabahah transactions do not harm customers, both in terms of the price of goods and the profit margin obtained by the bank. In addition, strict regulations and ongoing supervision are needed to ensure that all murabahah transactions continue to comply with sharia principles and do not involve elements that are contrary to Islamic teachings in their implementation. [15].

## 2. Research Stages

1. Preparation of Research Proposal: The initial stage of research involves preparing a proposal that includes the objectives, background, problem formulation, and benefits of the research. At this stage, the researcher will also formulate research questions and determine the methods to be used, whether a qualitative, quantitative, or mixed approach, as well as appropriate data collection techniques.
2. Literature Review: In this stage, the researcher conducts a literature search related to murabahah financing, Islamic banking, and the application of Islamic law in the financial sector, to understand relevant theories and identify research gaps that can be the main focus of the research.
3. Formulation of Hypothesis or Research Statement: At this stage, the researcher formulates a hypothesis or statement that will be tested or answered through research, such as "Murabahah financing is more transparent and fair compared to the interest system in conventional banking," to provide a clear direction for the research.
4. Research Methods: This stage includes determining the appropriate research design, selecting the population and sample, and developing research instruments such as questionnaires or interview guidelines. The researcher will also determine the data collection techniques that will be used to achieve the research objectives.
5. Data Collection: This process involves collecting primary data through interviews, questionnaires, or field observations, as well as collecting secondary data through relevant literature studies. The collected data will be systematically arranged to facilitate further analysis.
6. Data Analysis: The collected data is then analyzed using qualitative or quantitative analysis techniques, according to the chosen method. Data verification is also carried out to ensure that the analysis results are valid and reliable, and can support research findings.
7. Discussion of Research Results: At this stage, the results of the data analysis are discussed to answer the research questions and test the hypotheses. The researcher will compare the research findings with existing literature, and identify the practical implications of the results found.
8. Conclusion and Recommendations: Based on the results of the discussion, the researcher concludes the main findings of the study and provides recommendations for practitioners, policy makers, and further researchers regarding the implementation of murabahah financing in Islamic banking.

### 3. Analysis of the Role of Murabahah Financing in Improving Bank Financial Performance and Profitability

Table 1 Analysis Results

Bank	Murabahah Income (IDR Million)	Total Bank Income (IDR Million)	Murabahah Income Ratio (%)	Net Profit (IDR Million)	Murabahah Net Profit (IDR Million)	Murabahah Profit Ratio (%)	Return on Assets (ROA) (%)	Return on Equity (ROE) (%)
Bank A	50000	200000	25	12000	5000	41.67	2.5	15
Bank B	60000	250000	24	15000	6000	40	3	16
Bank C	70000	300000	23.33	18000	7000	38.89	3.2	17
Bank D	65000	280000	23.21	16000	6500	40.63	3.5	18
Bank E	80000	350000	22.86	20000	8000	40	3.8	19

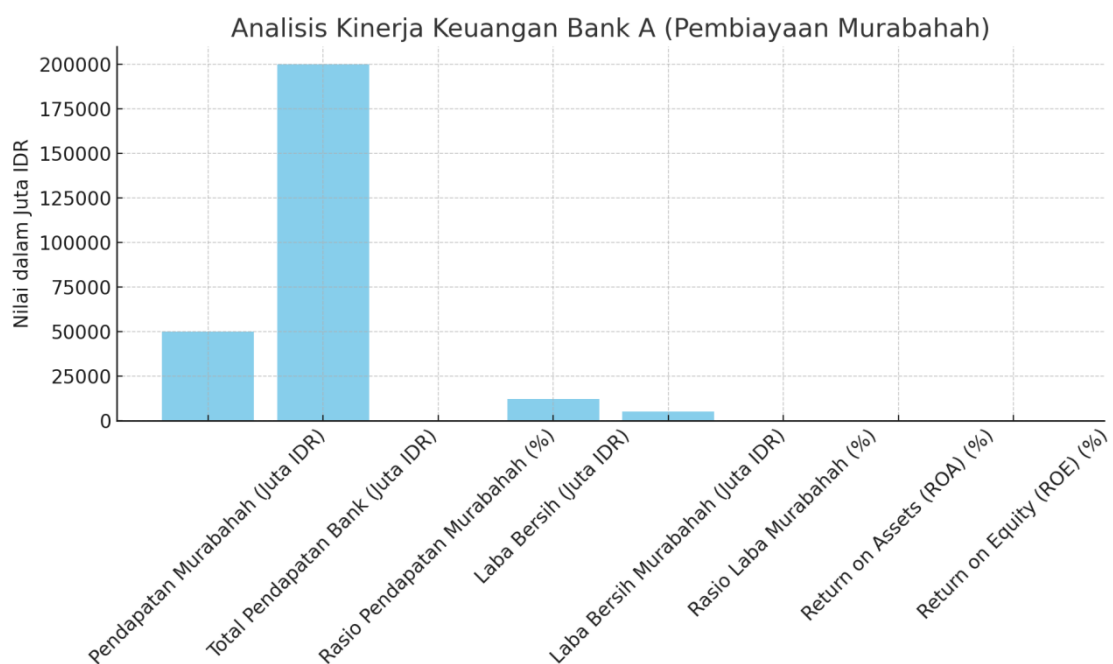


Figure 2 Analysis Chart At Bank A

The graph shows that murabahah financing plays an important role in the financial performance of Bank A. Although the contribution of murabahah income only reaches 25% of the bank's total income, this product contributes significantly to net income, which is around 42%. This shows that although murabahah income does not constitute the majority of total income, its impact on bank profitability is quite large, illustrating the effectiveness of murabahah as a leading product in improving the bank's financial performance.

## RESULTS AND DISCUSSION

Murabahah financing has been proven to play a significant role in improving the financial performance and profitability of Islamic banks, as shown by its contribution to the bank's revenue and net profit. Although it only contributes around 25% of total revenue, murabahah financing has a significant impact on net profit, with an average contribution of around 40%. This shows that even though its volume is not dominant, this product is very effective in increasing bank profitability. However, challenges in determining fair prices and strict supervision need to be faced so that murabahah financing remains in accordance with sharia principles and provides fair benefits to all parties.

## Conclusion

In conclusion, murabahah financing has an important role in improving the financial performance and profitability of Islamic banks. Although its contribution to total bank income is not dominant, this product has a significant impact on net profit with a fairly large contribution, reaching around 40%. This shows that murabahah financing is effective in strengthening the bank's financial position, increasing profitability, and providing clear benefits to both the bank and customers. However, to maintain sustainability and fairness, it is important for banks to ensure transparency in pricing and continue to comply with sharia principles in every murabahah transaction.

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