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THE EFFECT OF CAPITAL ADEQUACY RATIO AND GOOD CORPORATE GOVERNANCE ON NON-PERFORMING FINANCING WITH GROSS DOMESTIC PRODUCT AS MODERATION IN SHARIA BANKING IN INDONESIA

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Abstract

This study aims to analyze the effect of capital adequacy ratio (CAR) and good **co**rporate governance (GCG) on non-performing financing (NPF) with the gross domestic product (GDP) as a moderating variable in Islamic banking in Indonesia. The object of research is Islamic commercial banks in Indonesia with an observation period of 2016-2021, using a purposive sampling technique. The analytical method used is panel data regression analysis and moderate regression analysis (MRA), with the selected model testing being the fixed effect model (FEM). The analysis results show that CAR, GCG, and PDB simultaneously significantly affect NPF. The partial analysis results show that CAR has a negative and significant effect on NPF. However, GCG has a positive and significant effect on NPF. Furthermore, GDP is proven to have no effect in moderating the relationship between CAR and GCG on NPF. The presence or absence of GDP does not affect banking financing activities. GDP is only representative of the macroeconomic conditions of society.

Keywords: *Capital Adequacy Ratio, Good Corporate Governance, Gross Domestic Product, Non-Performing Financing, Islamic Banking*

INTRODUCTION

The development of the Sharia economic industry in several countries, especially in the Asian region, is increasingly showing positive growth. These developments can be reviewed based on the ranking from the Global Islamic Economy Indicator (GIEI) as follows:

Table 1. Global Islamic Economy Indicator

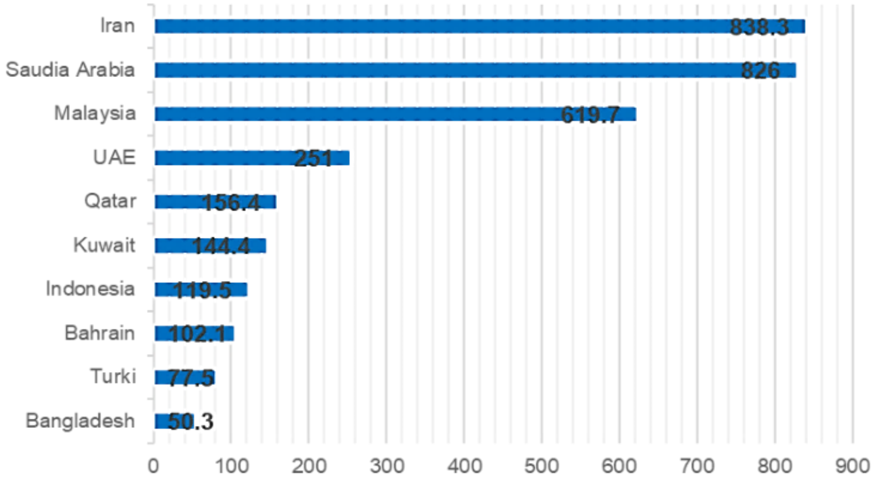
No	Country	GIEI
1	Malaysia	207.2
2	Saudi Arabia	97.8
3	UAE	90.2
4	Indonesia	68.5
5	Turkey	67.3
6	Bahrain	66.7
7	Singapore	65.0
8	Kuwait	62.1
9	Iran	56.0
10	Jordan	51.8

Source: SGIEI (processed data, 2022)

The global Islamic economics industry includes various things such as Islamic Finance, Halal Food, Halal Recreation & Tourism, etc. However, the data shows Indonesia is generally far below other Asian countries, even with neighboring Malaysia. In terms of the Islamic finance sector, Indonesia is also still far from other countries, as shown in the following data:

Figure 1

Value of Islamic Finance Assets (USD Billion)



Source: SGIEI (processed data, 2022)

In total, Islamic financial assets only reached $ 119.5 billion. This achievement was very different from other countries, such as neighboring Malaysia, with an asset value of $ 619.7 billion. This indicates a need for more complex efforts and solid cooperation to better achievement of the Sharia financial sector. This is quite interesting, primarily because among various other Asian countries, Indonesia has the largest Muslim population, so it is fitting that in the realm of Islamic economics, Indonesia can outperform other countries.(Umar & Haryono, 2022). The growth of Muslims in Indonesia over time will continue to increase according to PEW Research Center data projections, so this has the potential to increase the world of Islamic finance seen from aspects of domestic Islamic banking(Nurdiana, 2021; Umar & Haryono, 2022). In addition, there is great hope from the government through Bank Indonesia for Islamic banking to achieve a market share target of 20% (Nisaputra, 2017).

To achieve excellence in domestic Islamic banking, various kinds of support and other aspects are needed to maximize their performance. These aspects include the performance of Islamic banking as the primary foundation. The Financial Services Authority (OJK) assesses the importance of supervising the performance of Sharia banking through indicators of the soundness of Sharia banking, namely non-performing financing (NPF). NPF is non-performing financing consisting of substandard, doubtful, and loss financing, indicated as uncollectible(Fahmi, 2014; Indonesian Bankers Association, 2014). Non-performing financing is part of the financing risk, which, if not handled properly, will affect the performance of Islamic banking (Al Arif & Rahmawati, 2018). Compared to NPL, the movement in the NPF ratio is still relatively high, as shown in Table 2. In general, the movement of NPF shows a positive trend, but when compared to NPL (conventional banking), it is still quite high, with an average value of 3.57. In addition, in 2017, the NPF value almost reached the threshold set by Bank Indonesia, namely 5% (Indonesian Bankers Association, 2014).

Table 2. Financing Risk Comparison

Year	NPF (%)	NPL (%)	Difference (%)
2016	4.42	3.00	1.42
2017	4.77	2.59	2.18
2018	3.26	2.36	0.90
2019	3.23	2.52	0.71
2020	3.13	3.05	0.08
2021	2.59	3.00	-0.41
Average value	**3.57**	**2.75**	**0.82**

Source: OJK (processed data, 2023)

In the 2016-2020 period, it is clear that the value of the NPF ratio of Islamic banking is much higher than the NPL of conventional banking. Likewise, on average, over the last six years, the NPF value is still relatively high at 3.57% or a difference of 0.82% with the NPL. Meanwhile, in 2017 there was a gap in the value of the non-performing credit/financing ratio, which was relatively high, namely 2.18% between NPF and NPL—in addition, based on data released by the Financial Services Authority (OJK), from 2016-2018 an NPF value was recorded above 5%, where the highest point was at the level of 6.17% with an average NPF value still relatively high. Even though in 2019-2021, there was a downward trend, the NPF is still high compared to the NPL. Referring to the data above, the NPF value is not as safe as the NPL, which is entirely consistent in its movements. According to the OJK, the maximum threshold for non-performing financing is 5%. Conditions in 2017 show that the NPF level has almost reached this threshold. If it has passed this limit, it can be said that banks have experienced high financing risk (IBI, 2014).

In 2020, when Indonesia was hit by a relatively difficult economic situation caused by the Covid-19 pandemic, the NPF ratio still exceeded the NPL by a difference of 0.08%. Even though in 2020, the OJK issued an economic stimulus policy package related to credit. The program was not yet fully effective, even though there was a decrease in the non-performing financing ratio of Islamic banking at that time, but it was only temporary. These conditions indicate that Islamic banks are still less able to control non-performing financing. So, it is feared that it will impact the decline in the performance of Islamic banking in channeling funds to the public. Therefore, it is necessary to conduct in-depth research on the phenomenon of non-performing financing.

When banks channel funding in the form of credit or financing, banks will always be faced with inherent risks from that activity. Therefore, Bank Indonesia Regulation No. 12 of 2010 has regulated risk control mechanisms through financial performance in capital aspects. A good proxy for measuring this can be seen from the capital adequacy ratio (CAR) as a capital ratio (IBI, 2014). Capital is an urgent part because of its role in anticipating losses that may arise in dealing with risks that may occur (PBI No. 15 of 2013)

Research that has tested the relationship between CAR and NPF levels has been carried out by Astrini (2018), Nugrohowati & Bimo (2019), and Nasir et al. (2022) which show the results that CAR has a negative and significant effect on NPF. The capital ratio or CAR shows its role is crucial in bearing credit risk that can occur in problematic financing. Firdaus (2015), Rahmah & Armina (2020), and Supriani & Sudarsono (2018) found different results that CAR has a positive effect on NPF. The high CAR ratio cannot guarantee that the risk of low or uncollectible loans will be reduced.

Non-performing financing is part of the unavoidable financing risk. Role of good corporate governance (GCG) is urgently needed to mitigate the impacts (Ihsan, 2016). The existence of an adequate governance function in Islamic banking can play an essential role in risk management, especially in financing risk (Abu Hussain & Al-Ajmi, 2012). The implementation of GCG in Islamic banks has been regulated in detail in Bank Indonesia Circular Letter No. 12 of 2010, which is based on general and Sharia principles. These regulations were created to accommodate the increasingly rapid developments in the internal and external banking environment and the increasing complexity of banking business risks. This will directly impact the increasing need for good governance practices, identification, monitoring, measurement, and risk control (Permatasari & Novitasary, 2014).

Research conducted by Siswanti (2016) and Budiman (2016) states that the role of GCG can hurt NPF. Implementation of good corporate governance can minimize the risk of bad financing. This is because financing risk is one of the assessment aspects in the self-assessment work paper. So that if GCG has been appropriately implemented, it can have positive implications for financing risk as seen by a trim NPF level. In addition, the GCG implementation factors developed by Bank Indonesia have paid close attention to prudential principles. The role of internal and external audits in implementing good governance also contributes to reducing financing risk (NPF). However, these results are not supported by Mukhibad & Khafid (2018) and Septiani et al. (2022), who state that GCG has no significant effect on NPF. It is suspected that risk management aspects are not always the main focus in GCG assessment but instead cover various aspects of overall management so that they do not significantly affect NPF.

This study adds gross domestic product as a moderating variable. This is based on research suggestions by Supriani & Sudarsono (2018) and Fauzukhaq et al. (2021). The study states that the NPF issue is vital to GDP as a reference in viewing business actors' income and economic level, in this case, the community. The pandemic conditions between 2020-2021 had quite an impact on the economic situation, which was marked by a drastic decline in economic growth, thus affecting indicators of bank financing (Dinhi et al., 2021). The novelty in this study is that there are moderating variables and the use of financial intermediation theory which have not previously been discussed in previous studies.

Based on the above study, there are still significant differences in research results. So, there is a need for further research related to NPF. This study aims to analyze the effect of CAR and GCG on the NPF of Islamic banking in Indonesia, with GDP as a moderating variable. The contribution of this research is expected to be a suggestion for interested parties, such as internal banking and regulators, in monitoring and evaluating the performance of Islamic banking, especially in financing management. In addition, it is hoped that this will serve as a stimulus to create even better cooperation between Sharia banking and the government, represented by the Financial Services Authority and Bank Indonesia as the policyholder in formulating every decision regarding banking institutions. This will also have a specific impact on the Islamic banking system and general economic progress, which will be better in the future.

LITERATURE REVIEW

Financial Intermediaries Theory

Gurley & Shaw (1956) states that financial intermediaries’ theory is a discussion that explains the essential function of banking institutions as financial intermediaries between parties with a deficit and a surplus of funds. The parties involved include the government, business people, investors, households, and other interested parties. The theory of financial intermediation states that banking aims to be a bridge in accommodating economic needs to achieve financial stability or balance in various groups. Scholtens & van Wensveen (2003) state that the theory of financial intermediation is a theory that explains that banking has a huge role in increasing economic wealth and welfare in most countries in terms of GDP and labor. The presence of banks is another option for implementing general economic objectives through financing provided by banks from surplus units to deficit units to support economic activity to run as optimally as possible. The theory of financial intermediation also shows that capital in banks also influences bank security, the ability of banks to refinance, and the ability of banks to attract repayments from borrowers or to provide liquidation in the financing process (Scholtens & van Wensveen, 2003).

Agency Theory

According to agency theory, company management is considered an agent of shareholders, acting by considering their interests, not as an objective and fair entity towards shareholders (Jensen & Meckling, 1976). Agency theory describes the relationship between principals and agents (Jensen & Meckling, 1976). Principals give the agent the mandate to act on the principal's behalf. At the same time, the agent becomes the party receiving the mandate to act on behalf of the principal. Therefore, the agent must be responsible to the principal for every action.

Agency theory is used in banking research for two main reasons (Demsetz et al., 1997). First, the existence of governance increases the sense of security. It protects customers, reducing the opportunities for banks to be involved in risky financing and reducing shareholders' motivation to control and limit the risks taken. Second, the separation between principals and agents can encourage managers to achieve their goals at the expense of shareholder interests.

According to agency theory, good corporate governance is vital to avoid conflicts of interest between principals and agents that can harm company performance. Preventive measures can be taken in various ways, such as adjusting structures, systems, processes, regulations, and values that aim to achieve harmony between the interests of principals and agents so that the company's best interests can be achieved in the long term. By taking the proper precautions, conflicts of interest that can harm the company can be avoided (Utama et al., 2022)

Sharia Bank Financing

Financing is one of the main tasks of the bank, namely providing funding facilities to meet the needs of deficit unit parties (Antonio, 2001). In financing activities, Islamic banks will carry out various techniques and methods, the application of which depends on the objectives and activities required. The decision of Islamic banking in Indonesia to provide financing is influenced by various internal and external factors that determine the main objective of banking, namely to obtain halal profits according to sharia and maintain a good level of liquidity so that public trust is maintained. These factors influence the size of the financing ratio provided.

Non-Performing Financing

From a productivity perspective, non-performing financing can hurt a bank's performance because it is related to its ability to generate income which decreases or disappears altogether. For banks, this will reduce income and increase the cost of reserves such as PPAP (Provision for Earning Assets Losses). On the other hand, from a national perspective, non-performing financing will also reduce banks' contribution to national economic development and growth.

Law No. 10 of 1998 concerning banking as well as Law No. 21 of 2008 concerning Sharia banking, among other things, states that financing by Sharia banks, which are carried out based on Sharia principles, contains risks so that in practice, banks must pay attention to the principles of financing based on sound sharia principles. Djamil (2014) states that the principles of sound financing aim to minimize the forms of risk that can occur for the financing provided so that the bank can minimize the level of losses that might occur.

Non-Performing Financing (NPF) is the amount of problematic credit/financing likely uncollectible (Fahmi, 2014). The NPF ratio is one of the benchmarks in knowing a bank's soundness level, which can be assessed from the smoothness and whether or not the return on financing is distributed to the public. It is essential to know the NPF value because it is helpful to measure the level of financing problems banks face. The higher the NPF ratio, the lower the quality of Islamic bank financing (Lusian et al., 2014). POJK No. 15 of 2017 concerning the status and follow-up of supervision of commercial banks explains that what is meant by "non-performing loans (NPL) or non-performing loans (NPF)" are loans or financing that have substandard, doubtful or bad quality. as referred to in the provisions of the laws and regulations regarding the assessment of the quality of commercial bank assets and the OJK regulations regarding the assessment of the quality of assets of sharia commercial banks and sharia business units. In measuring NPF in this study using a formula that has been used previously in research by Munifatussa'idah (2020), Purnamasari & Musdholifah (2016), Wibowo & Saputra (2017), and Wulandari et al. (2019) with the following calculations:

$$\text{NPF} = \frac{\text{Non-Performing Financing}}{\text{Financing}} \text{ x } 100\%$$

Capital Adequacy Ratio

A bank's capital adequacy level can be reflected in the Capital Adequacy Ratio (IBI, 2014). Dendawijaya (2009) states that the Capital Adequacy Ratio is a measure of the ability of banks to cover the decline in their assets due to bank losses caused by risky assets. An increase in the CAR value indicates that the bank's capital is increasing to reduce the NPF. This shows that the higher the capital adequacy level owned, the easier it will be for a bank to manage the risk of non-performing financing, thereby reducing the NPF value (Makri et al., 2014). The formula for calculating CAR refers to research by Munifatussa'idah (2020), Retnowati & Jayanto (2020), and Wulandari et al. (2019) as follows:

$$\text{CAR} = \frac{\text{Capital}}{\text{Risk-Weighted Assets}} \text{ x } 100\%$$

Several studies conducted by Astrini (2018), Nugrohowati & Bimo (2019), Retnowati & Jayanto (2020), and Wulandari et al. (2019) also confirmed this. The increase in the capital adequacy ratio indicates that the bank can manage its capital correctly so that if there is a non-performing loan, it can still be covered by its capital. The hypothesis proposed in this study are:

H1: Capital Adequacy Ratio has a negative effect on non-performing financing

Good Corporate Governance

The National Committee on Governance Policy (KNKG) defines corporate governance as a process and structure that is practiced in directing and managing businesses to achieve business progress and corporate accountability with the ultimate goal of creating corporate value and shareholder wealth sustainably by taking into account the interests of stakeholders (Utama et al., 2022). Based on several understandings from various parties, corporate governance is a system that is created and then directed at controlling the company so that good, transparent, and fair relations are created between various parties with interests in the company (Priyono, 2019).

Good corporate governance can function in anticipating various financial and reputation risks. Of course, this is an essential pillar in realizing a superior and resilient Islamic bank (Chapra & Ahmer, 2002 in Priyono, 2019). So that GCG in Islamic banks is necessary to implement the interests of various parties. Poor corporate governance is one factor that results in a high NPF value as an indicator in measuring financing risk (Al Arif & Rahmawati, 2018). This is due to bad and negligent banking management in checking, assessing, and supervising the financing process, starting from the financing application by the debtor to the predetermined repayment period (Al Arif & Rahmawati, 2018). The GCG measurement refers to Bank Indonesia Circular Letter No. 12 of 2010, which uses a GCG self-assessment composite value issued through banking GCG reports (Budiman, 2016; Dewany, 2015; Permatasari & Novitasary, 2014; Siswanti, 2016; Yuliani & Fithria, 2022). Several studies conducted by Budiman (2016), Darwanto & Chariri (2019), Fadhillah (2018), Pudail et al. (2018), and Siswanti (2016) prove that the existence of GCG practices can uncover and suppress high indications of financing risk as seen from the NPF value. The hypotheses proposed in this study are:

H2: Good Corporate Governance has a negative effect on non-performing financing

Gross Domestic Product

Keynes' view states that when the gross domestic product is in good condition, public consumption is also safe, so bank savings are also stable (Priyono & Ismail, 2012). However, if, on the other hand, the economic conditions are experiencing a crisis, then there will be an increase in consumption due to rising prices of goods and scarcity of goods in the market as well as lowering the level of public savings due to concerns about banking institutions (Purnamasari & Musdholifah, 2016).

In general, there are nominal GDP and real GDP. This study uses real GDP because real GDP shows economic growth from year to year without being affected by price changes, so real GDP is more relevant in describing overall economic conditions (Central Bureau of Statistics, 2022). Declining consumption accompanied by declining investment and the level of gross domestic product can indicate a decline in the production of goods and services. This will later affect the income earned by the company, which is the primary source of financing payments in banking institutions. Therefore, the hypothesis proposed is:

H3: Gross Domestic Product strengthens the relationship between Capital Adequacy Ratio and Non-Performing Financing

H4: Gross Domestic Product strengthens the relationship between Good Corporate Governance and Non-Performing Financing

RESEARCH METHOD

This study uses a quantitative approach using secondary data. Data sources come from annual reports of Islamic commercial banks, OJK publications, and the Central Bureau of Statistics reports. The population in this study is 12 Islamic commercial banks with an observation period of 2016-2021. The sampling technique used is purposive sampling with the criteria of (1) Sharia commercial banks that have been registered with OJK, (2) Sharia commercial banks that have published annual reports and GCG reports that can be accessed, (3) Sharia commercial banks that are not regional banks. Based on predetermined criteria, there are only seven Sharia commercial banks that are considered as samples. These Islamic banks are *Bank Muamalat Indonesia*, *Bank Victoria Syariah*, *Bank Mega Syariah*, *Bank Panin Dubai Syariah*, *Bank Syariah Bukopin*, *BCA Syariah*, and *Bank Aladin Syariah*.

The data analysis technique used is panel data analysis. This is because the nature of the research data collected is time series and cross-section. In analyzing panel data, there are three (3) approaches, namely the common effect model (CEM), fixed effect model (FEM), and random effect model (REM) (Zakaria, 2013). After determining which model is the best, multiple regression and moderate regression analyses (MRA) will be carried out.

RESULTS AND DISCUSSION

Descriptive statistics

Descriptive statistics are statistical methods to provide an overview of data seen from the mean, median, maximum, minimum, standard deviation, and number of observations. The results are shown in Table 3:

Table 3. Descriptive statistics

	CAR	**GCG**	**PDB**	**NPF**
Mean	49.35810	1.927381	3.651667	4.491429
Median	23.34000	1.985000	5.025000	3.595000
Maximum	390.5000	3.000000	5.170000	43.99000
Minimum	11.51000	1.000000	-2.070000	0.000000
Std. Dev.	81.64691	0.640358	2.640199	6.939844
Observations	42	42	42	42

Source: Processed secondary data (2023)

Table 3 explains some information from each variable. Based on the results of descriptive statistics, the NPF variable was recorded with the highest value of 43.99, the lowest value of 0.00, and an average value of 4.49. This indicates that within the 2016-2021-time limit, the NPF value is still sufficiently detectable because it is close to the limit set by Bank Indonesia, which is 5%. In the variable CAR, the most significant value is 390.50, with the smallest value of 11.51 and an average value of 49.35. These results imply that the capital factor of Islamic banks is in good condition because it is already above 8% according to the standards set by Bank Indonesia (IBI, 2014). In addition, the GCG variable has the lowest value of 1.00, and the highest value is 3.00, with an average value of 1.92. This illustrates that the implementation of GCG is suitable according to the composite self-assessment value (SEBI No. 12 of 2010). The GDP variable shows the highest and lowest values of 5.17 and -2.00, with an average value of 3.65.

Estimation Models

To determine the best model for processing panel data, parameter estimation was carried out using three approaches, namely the common effect model (CEM), fixed effect model (FEM), and random effect model (REM). The tests were carried out using the Chow test and Hausman test, with the results shown in table 4:

Table 4. Chow test and Hausman test

Effect Test	***Statistic***	**d.f**	***Prob.***
Cross-section F	2.699776	(6.32)	0.0310
Cross-section Chi-square	17.203002	6	0.0086
Test Summary	***Chi-Sq. Statistic***	***Chi-Sq. d.f.***	***Prob.***
Cross-section random	12.560395	3	0.0057

Source: Processed secondary data (2023)

Referring to Table 4 that the best model is the fixed effect model (FEM). This is based on the Chow test by looking at the cross-sectional probability value F 0.03 <0.05. Furthermore, the Hausman test was carried out to obtain a random cross-section probability value of 0.005 <0.05. So, it was decided that the best model for this analysis was the fixed effect model (FEM) approach.

Regression Analysis and Moderate Regression Analysis (MRA)

Table 5 mentions some of the information on the test results using the best approach, namely the fixed effect model (FEM). This information is like the value of the coefficient of determination seen from the Adjusted R-squared value of 0.34. This means that 34% of the variation in NPF can be explained by GCG, FDR, and GDP moderation, while other factors explain the rest. In addition, table 5 shows the results of the F statistic test of 3.38, which is greater than F table 3.23 (3.38 > 3.23) with a significance value of 0.005 <0.05. Thus, it can be stated that the existing regression model can be used in predicting non-performing financing variables and indicating that the capital adequacy ratio (CAR), good corporate governance (GCG), and moderation of significant gross domestic product simultaneously affect non-performing financing (NPF).

Table 5. Model of Panel Regression

Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	-5.091956	5.476635	-0.929760	0.3595

CAR	-0.060668	0.019865	-3.053963	0.0045
GCG	6.267380	2.347777	2.669495	0.0118
PDB	0.136429	0.355536	0.383730	0.7037
CAR*PDB	-0.002587	0.004147	-0.623932	0.5371
GCG*PDB	0.456122	0.587153	0.776836	0.4430
Adjusted R-squared	0.343800			
F-statistic	3.386773			
Prob (F-statistic)	0.005048			

Source: Processed secondary data (2023)

The Effect of Capital Adequacy Ratio toward Non-Performing Financing

In Table 5, the t-statistic value of the CAR variable is greater than the t-table value (3.053 > 2.023) with a significance value of 0.004 <0.05. This means that CAR negatively affects the NPF of Islamic banking in Indonesia. So, as measured by CAR, sufficient capital can negatively affect non-performing financing, as seen from the NPF ratio. This is in line with the statement of Makri et al. (2014) that the higher the level of capital adequacy risk, the easier it will be for a bank to manage to finance, thereby reducing the NPF value.

The capital ratio or capital adequacy ratio (CAR) shows that it is vital in bearing credit risk that can occur in problematic financing. In this case, banking capital has a role in guarding against these risks. So with that, if the CAR ratio is higher, it can signal that banks' ability to manage their funds is good enough to minimize the level of problem financing that occurs (Nugrohowati & Bimo, 2019). In addition, the findings of this study are in line with the findings of Fauzukhaq et al. (2021), Kuswahariani et al. (2020), and Wibowo & Saputra (2017).

The role of capital is essential, considering that it is directly related to all assistance in banking activities, including funds in the form of financing. These results support the theory of financial intermediation that bank capital also affects bank security in refinancing and the bank's ability to withdraw repayments from loans or provide liquidation in the financing process.

The Effect of Good Corporate Governance toward Non-Performing Financing

Based on Table 5, the t-statistical value of the GCG variable is greater than the t-table value (2.669 > 2.023) with a significance value of 0.011 <0.05. This shows that there is a significant influence of GCG on NPF. The t-statistic values and coefficients show a positive direction. This indicates that every increase in banking governance also impacts increasing the value of non-performing financing. These results do not prove that the existence of good governance (GCG) can reduce the value of NPF.

This research shows that, although Islamic Commercial Banks have implemented good corporate governance (GCG) appropriately following Bank Indonesia Circular Letters, these banks have still not succeeded in reducing financing risk seen from the NPF ratio. This is due to the less-than-optimal duties and responsibilities of the Risk Monitoring Committee, which should effectively evaluate risk management policies and strategies management prepare every year (Khan & Ahmed, 2008). In addition, the Risk Monitoring Committee should also evaluate the accountability reports from the directors regarding the implementation of risk management policies (Khan & Ahmed, 2008). Another cause is that the risk management aspect is not always the main focus in GCG assessment but covers all factors in banking management so that it does not have a significant influence in reducing or reducing the value of non-performing financing (Mukhibad & Khafid, 2018; Septiani et al., 2022).

The findings of this study are also not proven to support agency theory. From the point of view of agency theory, maintaining good corporate governance is very important to prevent conflicts of interest between company owners and those who run the company, which can have a negative impact on company performance. Various preventive steps can be taken to achieve this goal, such as regulating the structure, systems, procedures, regulations, and company values (Utama et al., 2022). In addition, the findings of this study are in line with the results of the studyDewany (2015), Hidayat & Arfianto (2017), Ihsan (2016), Mukhibad & Khafid (2018), and Nurkhin et al. (2019) that the existence of good governance does not always provide adequate guarantees in reducing the value of non-performing financing as a risk of problematic financing.

The role of gross domestic product as a moderating variable

Table 5 shows the significance value for the interaction variable 1 (CAR*GDP) is 0.53 > 0.05. Furthermore, for the significance value of the interaction variable 2 (GCG*PDB), the result is 0.44 > 0.05. From these interaction tests, GDP cannot moderate the relationship between CAR and GCG on NPF. This can be seen by acquiring a significant value greater than 0.05. Thus, it can be concluded that gross domestic product has no effect in moderating the effect of the independent variables CAR and GCG on the dependent variable NPF.

As measured by the capital adequacy ratio, the capital ratio has been going quite well, as evidenced by its effect in reducing the NPF level. Adequate capital is essential to a company, and Sharia banking is no exception. Capital is the primary key in the final handling of risk that may occur one day. The gross domestic product fact proved to have no effect in strengthening the relationship between CAR and NPF. This can happen because GDP is an external factor unrelated to the financing process that banks are carrying out.

The importance of good governance in Islamic banking in reducing the risk of problem financing is unrelated to the presence or absence of Gross Domestic Product (GDP). GDP only reflects the economy's condition and cannot explain the situation of individuals or people fulfilling their obligations in detail. On the other hand, the results of this study do not support Keynes' view in Priyono & Ismail (2012) that an increase in GDP can positively impact reducing the level of problem.

CONCLUSION AND LIMITATION

Islamic banking, over time, has continuously experienced various problems. The conditions and situations that existed at all times did not always positively impact the development of Islamic banking. In addition, as time passes, Islamic banking is increasingly becoming a reference in terms of Islamic economics in Indonesia. So that factors related to the health condition of the banking system should be the main focus. One is from the problematic financing side, which must be monitored because this is also related to the bank's capital structure.

This study has several triggering factors about NPF as a financing risk. These factors are in the form of capital adequacy ratio (CAR), good corporate governance (GCG), and gross domestic product (GDP). Simultaneously, financing risk in the form of NPF in Islamic banking in Indonesia is significantly influenced by CAR, GCG, and GDP variables. Capital is very vital in accommodating risks that are feared to occur. These risks include the risk of default proxied by the NPF. Therefore, sufficient capital is needed to anticipate this. This is consistent with the results of this study that CAR has a significant negative effect on NPF. An increased CAR can be a good sign in anticipation of an increase in NPF. However, the results of the analysis state that GCG has a positive effect on NPF. This is a finding that even with the application and implementation of good governance in banking, it does not necessarily mean that the risk of non-performing financing will decrease. This can happen because, in self-assessment, the banking sector does not always focus on aspects of risk management but on many other management aspects. Gross domestic product as a moderator does not affect the CAR and GCG relationship. Even though the gross domestic product is a reference for the macroeconomic conditions of society, it cannot always be an aspect that can predict the reduction in problem financing.

The limitation of this research is the unavailability of governance self-assessment data from each Islamic commercial bank. The data serves as an assessment instrument for each factor in purchasing the final composite value of good corporate governance following regulations issued by Bank Indonesia as the banking authority. In addition, these data can be concrete evidence that there has been a long assessment process in measuring good corporate governance. In addition, this research does not cover the entire Islamic banking industry, such as Bank Syariah Indonesia (BSI) and other types of Islamic banking. The researcher's recommendation for further research is research on non-performing financing, which needs to be expanded by collecting data from other sources, especially not only from the quantitative aspect but from the qualitative side or a combination of these two aspects. The qualitative aspect that can be carried out is an in-depth study of bank customers who use financing products with different backgrounds. This is intended to get a broader, more comprehensive, and in-depth picture regarding financing in Islamic banking.

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