

**CRITICAL ANALYSIS OF LIQUIDITY MANAGEMENT IN ISLAMIC BANKING: A
CASE STUDY ON ISLAMIC BANKING BRANCH MALANG, EAST JAVA,
INDONESIA**

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Abstract

This study aims to determine the liquidity management of Islamic banking. By qualitative method, the results showed that the main way to manage liquidity is through SBIS (Sharia Bank Indonesia Certificate). It is caused by two difficulties. They are some problems about financing channelling and an over liquidity problem. This way can cause sluggishness in the real sector because the funds deposited are only "silent" in Bank Indonesia. The second way to manage liquidity is through PUAS (Sharia Interbank Money Market) using IMA certificate (Interbank Mudharaba). The using of IMA certificate is not sharia compliance because it is a short-term usage.

Key words: *Islamic Banking, liquidity management, SBIS, PUAS*

INTRODUCTION

Bank is a financial institution that serves to raise and distribute funds in the form of savings and channel them to the public in the form of finance / credit and or other forms in order to improve people's lives. So here it can be concluded that the banking business covers three activities, namely: to raise funds, distribute funds and provide other banking services. If it is associated with the development of Indonesia's banking industry since the enactment of Act No. 10 of 1998 on the amendment of Act No. 7 of 1992, Indonesia has developed a national banking using the framework of the dual banking system where in addition to conventional banking there has long been developing, also coexists alongside the Islamic banking system in accordance with Islamic principles.

This phenomenon of Islamic banking is a very interesting phenomenon, because it happened just when the national economy is in a vulnerable state. This can be seen in the current world economic crisis of 2008 began to present Islamic banking provides an alternative solution to the banking world. With a systematic method, Islamic banking has its own appeal, namely the absence of a system of interest expense to be borne by the customer remain the usual conventional diperbankan.

The development of Islamic banking in recent years that the results are quite encouraging, which can be seen in the development of third-party funds that rely on Islamic banks and investment financing provided by Islamic banks (PYD). As seen in the following table:

Table: Composition of Islamic Banking Deposits and PYD

Explanation	Years					
	2005	2006	2007	2008	2009	Juli, 2010
DPK	15,584	20,672	28,012	36,852	52,271	60,456
PYD	15,232	20,445	27,944	38,195	46,886	57,633

* in billions of dollars

Sources: Report on Islamic Banking Directorate of Bank Indonesia, July 2010

It illustrates an increase in Third Party Funds (TPF) of Islamic banks compared with the year-to-year Funding Provided (PYD) which almost go hand in hand. Although it can be said that the excess liquidity of Islamic banks can be channeled properly, but did not rule unproductive excess liquidity is the case in the future. This means there is excess liquidity idle funds. Idle funds in question here is the fund "unused" or not used for the specific purposes of urgency. If Islamic banks can not manage it then the bank will soon issue a cost that would be detrimental to the bank itself. In addition, Bank Indonesia sees the bank is not productive in fund management, automatically create a bad bank can be predicated of Bank Indonesia.

Imbalance between the absorption of third-party funds and the distribution of funding is definitely not a light matter for Islamic banking. Because the Islamic banking system adopted for the results, then it is one burden that ditanggung the bank that also automatically became depositors of the burden as well. It means that the yield earned depositors of Islamic banks tend to be smaller. This imbalance is a serious liquidity problem faced by Islamic banks, if not addressed can lead to failure of the bank.

If one of the problems that plagued the liquidity risk of a bank, then there are several instruments that can be used by conventional banks one of which is the Interbank Money Market that we are familiar with the term money market. As with conventional banks, according to Antonio (2001: 188) also requires syariahpun bank monetary instruments based on Islamic law in carrying out banking activities in order to menjalankam fungsingya in full, not only in facilitating short-term trading but also plays a role in long-term investments. To overcome the difficulties in the short-term funding, Islamic banks can seek through Interbank Money Market based on Sharia principles (PUAs) using certificates Mudharabah Investment Bank (IMA).

Besides the PUAS transaction mechanism in liquidity management, Islamic banking can also use one of the other instruments, facilitated by Bank Indonesia. Based on Bank Indonesia Regulation No. 6/7/PBI/2004 about SWBIs (Certificates of Bank Indonesia Wadiah) instrument is, in principle, is a testament to the care wadiah short-term funds using wadiah with a rate of return in the form of bonuses. The fundamental differences in the use of SWBIs or through the PUAS on Islamic banking transactions, this is when the use of these SWBIs over the management of the reserve funds of Islamic banks with excess funds (overlikuid), while in principle PUAS an inter-bank transactions for liquidity management either excess or lack of funds.

In practice, the current phenomenon of Islamic banking facility in utilizing media for the management of liquidity prefer SWBIs facility provided by Bank Indonesia than through other mechanisms such as transactions in the money market. It is actually a little to be scrutinized again when most of the funds deposited in the banking Islamic SWBIs. SWBIs in principle SWBIs funds deposited in the Bank Indonesia settles in and is not used to doing perputaraan the real sector. So it can be said that can cause sluggishness SWBIs real sector because of the funds that would otherwise be used to finance, in fact silent on SWBIs are not touching the real sector at all.

While the liquidity management of Islamic banking through PUAS mechanism by IMA certificates using the instrument, also to be scrutinized again. This is because the use of the Mudaraba contract IMA certificate used in this transaction in principle, a profit-sharing benefits derived from perputaraan funds used in the real sector. Logically, a transaction that runs on money market is very short terms that in a matter of days and not necessarily those funds can be channeled to productive ventures. Where is the next logical these funds can not provide any revenue to the bank fund raiser / IMA certificate issuer.

LITERATURE REVIEW

a. *Dual Banking System of National Banks in Indonesia*

The enactment of Law No. 10 of 1998 on amendments to Law No. 7 of 1992, shows that the Indonesian banking industry has evolved into a dual banking system. Dual banking system is the system of conventional and Islamic banking thrive in a country where the application should be based on the characteristics of each system. Conventional banking has grown old, grown side by side with the Islamic banking system (www.bi.go.id). Development of Islamic banking system in the framework of the dual banking system designed by Indonesian Banking Architecture (API). The presence of Islamic banks as an alternative for Muslims, who enjoyed banking services with the system of interest (usury).

Enactment of Law no. 10 of 1998 on amendments to Law No. 7 of 1992 resulted in Islamic financial institutions developed rapidly in recent years, so that Bank Indonesia as the monetary authority to monitor and control the development of new financial institutions. To carry out the monitoring and control functions that the monetary authorities should also establish a set of policies and monetary instruments in accordance with Islamic principles. Most Muslim countries do the conversion of monetary and banking mechanisms that exist in the Islamic system, such as Iran and Pakistan, and some other Muslim countries, like Indonesia, to accommodate these developments through the "dual banking system".

This strategy is based on the experience during the crisis, that turned out to bank with Islamic principles can survive amid volatility and high interest rates. This is supported by the characteristics of Islamic banking activities that prohibits the bank interest (riba) and prohibits speculative financial transactions. The existence of the two banking systems are evolving in parallel and have limited financial relationships to each other are expected to

create diversification of risk, which in turn will reduce systemic risk in times of financial crisis (Zulkarnaian, 2002:1).

b. Liquidity Management in Banking: Form Minimize Risk

Liquidity management is a very complex problem in the operations of a bank. The main trigger for the bank's collapse, both big banks and small banks, not because of a failure in the financing of causing harm, but rather the inability of banks to manage liquidity. In financial terminology and understanding of the many banking liquidity. Antonio (2009:178), broadly defines liquidity as the ability to meet the fund (cash flow) immediately and the appropriate fees . Liquidity is important for banks to run the day-to- day business transactions , addressing urgent cash needs , meet customer demand for loans , and provide flexibility in achieving attractive investment opportunities and profitable. In other words, according to these definitions, a bank if the liquid is said to be able to meet short-term liabilities in the form of withdrawal of depositor funds and money of the borrower / debtor. Practically, bank liquidity is associated with the number of third-party funding (TPF) at any given time. In this case, the government of Indonesia through Bank Indonesia set a minimum liability limit of each bank to maintain its main liquidity obligations to third parties.

The purpose of the management of liquidity here is to keep the liquidity position of the bank in order to comply with the central bank, managing illiquid instruments in order to always be able to meet all cash flow needs, including needs that are not expected, for example, a sudden withdrawal of a number of demand deposits or deposits that not yet matured, but it also must minimize the idle bank funds (funds were unemployed) as it would be if the bank charges too much idle funds.

c. Sharia Interbank Money Market (PUAS)

The money market is a source of liquidity. According Fabossi (1999:6) definition of money market is a financial asset traded. The money market is a meeting place and make transactions between funds search (issuers) with investor capital funds (investors) with a period of 1 (one) year. According to PBI PBI No.7/28/PBI/2005 regarding change No.2/8/PBI/2000, PUAS are short-term investment activity in dollars between market participants based on the mudaraba principle, the agreement between the investor and the fund manager to perform activities attempt to gain an advantage that will be distributed to both parties based on the pre-agreed ratio.

In essence, the transaction is a sale PUAS proof of ownership, not the sale of certificates of proof of ownership. It's basically just a certificate representing the properties owned, but only because Islamic banks are in the first stages of the securities, the Islamic banks will not accelerate monetary quantity (monetary Enchantment) on the quantity in the real sector.

d. Mudharabah contract on the Mechanism PUAS

Mudaraba, according to Chapra (2000: 188) is a form of partnership where one partner is called shahibul maal maal or rabhul or other party providing the funds for acting as a passive partner (sleeping partners). The other party is called mudharib namely providing business and management expertise to run the venture, trade, industry, or service with the purpose of getting profit.

Mechanism PUAS sharia in Indonesia carried out in accordance with the mudaraba (Karim, 2004) is a scheme that applies directly between two parties, namely Shahibul Maal (as surplus units) deal directly mudharib (as deficit units). In this case, what happens is direct investment (direct financing) between shahibul maal with mudharib. In direct financing such as this, the role of banks as intermediaries (intermediary) no. Mudharabah classics such as these have special characteristics, namely the nature of the relationship between shahibul maal with mudharib is based on personal relationships and mutual trust (trust).

Shahibul maal just want to give their money to someone who he knew well his character and professionalism. According to Karim (2004: 198), the classical mudaraba models as it is not efficient and less likely to be applied by the bank. In anticipation of this, the contemporary scholars make new innovations on mudaraba schemes involving three parties. Additional one party is played by Islamic banks as an intermediary that brings Shahibul Maal with mudharib. Thus, the evolution of the concept of direct financing and indirect financing becomes. It is important to note that the transaction is PUAS more bailout funding, the success PUAS therefore remain dependent on indirect funding scheme.

e. Sharia Mudharabah Interbank Investment Certificate (IMA) in Indonesia

Based on Bank Indonesia Regulation No. PBI 2/8 / PBI / 2000, one of the tools used in the transaction are PUAS Mudharabah Investment Certificates between Islamic Bank (IMA), which uses the principle of profit-sharing. This certificate is used as an investment vehicle for banks with excess funds in order to earn a profit, and on the other hand to obtain short-term funds for Islamic banks are experiencing a shortage of funds. IMA Certificate is issued by the issuing bank regulated in Bank Indonesia regulations. Banks experiencing liquidity shortages may issue certificates IMA approved by Bank Indonesia, which will be transferred to the second party as a fund raiser bank. In PUAS these instruments will be traded instruments in the first stage (first level securitization), this instrument can be a securitized derivative instruments if the back (second level of securitization), and may not be sold again as the scholars agreed.

f. Sertifikat Bank Indonesia Syariah (SBIS)

Bank Indonesia Sharia Certificate (SBIS) is is securities as debt instruments issued by Bank Indonesia Sharia. SBIS characteristics are:

- Using ju'alah contract (however, based on the DSN-MUI fatwa, Islamic SBI also be published using mudharabah, Musharaka, wadiah, qardh, and wakalah).
- Dimensionless units of Rp1 million
- Aterm of at least one month and a maximum of 12 months;
- Published without paper (scripless)
- Can be used as collateral to Bank Indonesia, and
- Can not be traded in the secondary market (non-negotiable).
- As with SBI, SBIS Bank Indonesia is also an instrument for open market operations, primarily through the mechanism of Islamic banking.

DESIGN / METHODOLOGY / APPROACH

In this study the method used is qualitative approach. Qualitative research chosen for wanting to uncover and understand the phenomenon behind something that is still very little known and tried detailing the complex reality, which is hard revealed by quantitative methods. In addition, qualitative research can also be interpreted as a method of research that seeks to understand a phenomenon more deeply about anything pertaining to the subject of the research which is reflected in the behavior, perception, motivation and action (Moleong, 2009: 6). Data were obtained through interviews, documentation and observation. With a phenomenological approach, conducted case studies on Islamic Banking Branch Malang, Indonesia.

Based on the qualitative approach used in this study, the data obtained is very dependent on the information provided by the informant. Therefore, informants were selected for this study data collection process first, employees of Islamic banks in which the informant has considerable experience and knowledge of the existing liquidity management ulcerative sharia banking, but it also positions the informant structural issues related to the management of liquidity so as to reveals how Islamic banking managing daily liquidity.

Secondly, Islamic economists is expected to provide information also functions as a validation test data from both practitioners and academics who know a little or a lot about the liquidity management of Islamic banking. Lastly, it takes informant supporters (which also serves as a test of the validity of the data), among others, the Bank Indonesia who know and regulate banking in general.

RESULT

The results showed that (1) the liquidity management of Islamic banking, there are three options that can be used the Certificates of Bank Indonesia Sharia (SBIS), Interbank Money Market (SATISFIED) and Short-Term Bank Facilities Indonesia. Of the three options, tend to prefer to use Islamic banking and transaction SBIS and transaction in PUAS. While the short-term facility of Bank Indonesia is only used as a last alternative. Bank Indonesia's short-term facilities are not attractive because of the use of these facilities will affect the performance assessment of Islamic banking by Bank Indonesia.

Islamic banking facilities give priority to the use of SBIS motivated by, (a) the difficulty of Islamic banking to extend financing to the public precisely because of the moral hazard associated with the use of public funding channeled (b) inter-bank conditions experienced overluid so there is no bank that needs liquidity fund , and (c) as a form of investment funds minimize the risk to the bank and hopes to get a "bonus" is more definite. In fact when the management of liquidity in the banking sharia done through SBIS still poses a problem of its own: first, during this Islamic banking is still concerned about the level of bonuses granted by Bank Indonesia on funds deposited at different SBIS with a given return on SBI by conventional banks.

Secondly if the majority of Islamic banking the placement of funds in SBIS will cause a slowdown in the real sector, because in principle the funds deposited in Bank Indonesia (BI) only "silent" and not channeled to the real sector. This is not in accordance with the principles of Islamic economy where every movement of funds must be accompanied by the movement of the real sector.

Furthermore, (2) management of liquidity through transactions PUAS using IMA certificate remains in use despite being a second choice. This is due to the complicated procedures in pengelolaan mechanism liquidity through transactions PUAS. Nevertheless PUAS with the transaction certificate IMA (Mudharabah Interbank Investment) is more often used to address short-term needs in Islamic banking. Though supposed to do the financing, in accordance with the Mudharabah contract used in the transaction PUAS. In addition, the facility also used the overnight period at IMA certificate purchase mechanism, so it needs to be reviewed again because logically these funds can not be channeled to the productive efforts overnight. While the contract is used in this transaction is that the principle of Mudharabah contract will benefit obtained from the real sector investment.

Actually liquidity management by using the SBIS and through PUAS transaction has not been able to address the real problems facing Islamic banking in the allocation of idle money that is caused by the overluid. This occurs because of financing by Islamic banking is not fully in accordance with the principles of Sharia. This condition disebabkan Indonesian Islamic banking is still in the process of transition from conventional systems to the Islamic system, so that the dual banking system is often ambiguous in its use.

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