

Product Market Competition, Financial Leverage, Risk of Financing on Financial Stability: Studies on Islamic Banks in Indonesia

Persaingan Pasar Produk, Financial Leverage, Resiko Pembiayaan terhadap Stabilitas Keuangan: Studi Pada Bank Syariah di Indonesia

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ABSTRACT

This study aims to explain and analyze the effect of product market competition, financial leverage, and risk of financing on the stability of Islamic banks in Indonesia in 2018-2022. The sampling technique used is Islamic banks listed on the Indonesia Stock Exchange. Source of data obtained from the annual report of each bank. The analytical method used is panel regression analysis with Eviews 10 software with the Common Effect Model (CEM) model as the best model. The variables used consist of product market competition (PCM), financial leverage (DER proxy), and financing risk (NPF proxy) on banking stability (proximate Natural Logarithm Z-Score). The results of this study found that product market competition did not affect bank stability. Meanwhile, financial leverage and financing risk have a negative effect on the stability of Islamic banks in Indonesia. From the results of this study, it is hoped that competition for Islamic banks in Indonesia can always run normally as it is today. In addition, the financial leverage and financing risks of Islamic banks have a negative impact on banking stability. Therefore, this research can be used as an early warning and reference for Islamic banks to make funding decisions through debt capital and excessive financing.

keywords: Banking stability, product market competition, financial leverage, financing risk

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ABSTRAK

Penelitian ini bertujuan untuk menjelaskan dan menganalisis pengaruh persaingan pasar produk, financial leverage, dan risk of financing terhadap stabilitas bank syariah di Indonesia pada 2018-2022. Teknik pengambilan sampel yang digunakan bank syariah yang terdaftar di Bursa Efek Indonesia. Sumber data diperoleh dari laporan tahunan masing masing bank. Metode analisis yang digunakan adalah analisis regresi panel dengan software Eviews 10 dengan model Common Effect Model (CEM) sebagai model terbaik. Variabel yang digunakan terdiri dari persaingan pasar produk (PCM), financial leverage (proksi DER) dan resiko pembiayaan (proksi NPF) terhadap stabilitas perbankan (doproksikan Natural Logarithm Z-Score). Hasil dari penelitian ini menemukan bahwa persaingan pasar produk tidak berpengaruh terhadap stabilitas bank. Sementara financial leverage dan resiko pembiayaan berpengaruh negative terhadap stabilitas bank syariah di Indonesia. Dari hasil penelitian ini, diharapkan persaingan bank syariah di Indonesia dapat selalu berjalan normal seperti saat ini. Selain itu, financial leverage dan resiko pembiayaan bank syariah berdampak buruk pada stabilitas perbankan. Oleh karena itu, penelitian ini dapat dijadikan early warning dan acuan bagi bank syariah untuk mengambil keputusan pendanaan melalui modal hutang dan pembiayaan yang berlebihan.

Kata Kunci: Stabilitas perbankan, product market competition, financial leverage, resiko pembiayaan

I. INTRODUCTION

Financial problems are a common phenomenon that often occurs in a company in a country. Concerns about financial sector resilience are also felt by major banks in ASEAN countries, as a result of the collapse of global banking defenses (IDX, 2023). Banking with a sharia system has existed in Indonesia since 1980, and units in Islamic banks also continue to increase, but their development is still less competitive with conventional banks (Nadia et al., 2019). Islamic banking faces challenges both internally and externally in increasing company profitability to avoid collapse or financial difficulties (Rachman et al., 2022).

Declining profitability cannot be used as a firm benchmark that the financial performance of Islamic banks deteriorates for the next period. Even so, the decline can be an early warning and understanding of the cause. Islamic banks have been given early warnings about bankruptcy in 2017 due to a decrease in financial stability, but the potential for bankruptcy is expected to continue to be broken due to ongoing operations (Hilyatin, 2017). The decline in financial stability certainly has an impact on the economy (Ali & Puah, 2018).

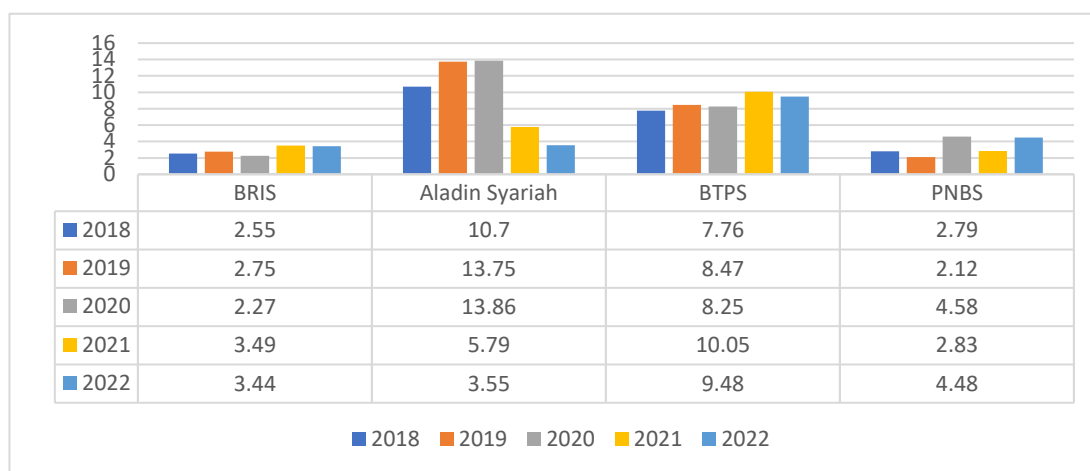


Figure 1. Stability of Islamic Banks in Indonesia

From the figure 1, Islamic banks in Indonesia face problems related to their financial stability. Two of the four Islamic banks in Indonesia listed on the Indonesia Stock Exchange have never even achieved financial stability at 5%, namely BRI Syariah and Bank Panin Dubai Syariah. Meanwhile, Bank Aladin achieved the highest stability at the height of the pandemic in 2019 at 13.75% and 13.86% in 2020, then fell dramatically to the lowest in the following year to 3.55% in 2022. Furthermore, BTPS became the Islamic bank with the most stable performance and resistance to shocks every year, including when the Covid-19 pandemic struck. However, the decline in financial stability in 2022 was experienced by three Islamic banks, including BRIS, Aladin Syariah, and BTPS. It is a serious concern to see that the decline actually occurs when the pandemic is nearing its end.

The polemic of financial stability is an interesting issue to be discussed, especially in Islamic banking because the operational system is attractive and different from conventional banks (Ardyanfitri et al., 2019). The declining financial stability since the pandemic covid 19 until the end of 2022 is inversely proportional to the increase in the number of units of Islamic banking and conventional banking in Indonesia. The growth of the bank, it turns out, also has a new impact, namely competition between one bank and another. Since 2018, the average level of competition in Islamic banks has varied from 2018 to 2022. Until 2022, the level of competition for Islamic banks in Indonesia is still relatively stable at 1%. This shows that the company competes well in creating innovative products and services. In line with competition theory, it provides direction that competition has a positive impact on banking stability (Schmidt, 1997). The market competition that occurs is a form of progress and development of banking in Indonesia. As competition in the banking industry has a positive impact on the efficiency of the bank, it does not have a good impact on bank stability, instead, it makes its operational performance better and more efficient (Li & Li, 2022). But inversely, Kanoujiya (2022) conducted research on banks in India and found that business competition can adversely affect stability and even financial distress.

Financial leverage is the amount of debt capital in the company's operations. Companies that use

a debt ratio greater than their capital are at risk of experiencing a decrease in financial stability (Mennawi, 2020). In line with the trade-off theory, it is concluded that a high level of leverage risks reducing a bank's financial stability and even raises the risk of financial distress. Heniwati & Essen (2020) and Malik (2019) found that banks in Pakistan use leverage on a high scale, actually reducing the risk of declining bank financial stability since banks have sufficient capital to manage operations. This shows that leverage has a positive effect on increasing the profitability of the company. High levels of debt can indeed facilitate operations because they increase additional capital, so some companies still use a high level of leverage to increase profitability. The decline in Islamic bank stability in Indonesia, exacerbated by the Covid-19 pandemic until 2022, requires appropriate policies related to financial leverage. Based on financial statements, several Islamic banks have used leverage with a ratio exceeding 3% since 2018-2022, including BRI Syariah with an average financial leverage of 9.27% and PNBS of 5.52%. The ratio is large enough to be taken during the Covid pandemic.

In addition to competition and financial leverage, banks also need to consider the financing they spend Usanti (2019). Although provides a large amount of financing to customers giving a good image in the community, too much in issuing funding to external parties also has a negative impact on company finances so that it affects banking stability (Ali & Puah, 2018). This risk will be even more visible when the economy is hit by a crisis or recession. As a result of the decline in sales, the company's revenue decreased, so the company had difficulty meeting its debt payment obligations. When the bank is about to execute its bad loans, the bank does not get adequate results, because the existing collateral is not proportional to the amount of financing provided. In the end, a bank will experience severe liquidity difficulties, especially when it has considerable bad debts (Syafii & Siregar, 2020). From 2018 to 2022, the average financing risk that occurs in Islamic banks is still at the normal stage with an average of 0.81% for all banks. Even so, problematic financing is not something good for financial performance. In contrast to this, Utami & Utami (2021) found that financing does not affect financial performance at Sharia Commercial Banks registered with Bank Indonesia.

Unstable conditions in Islamic banking from 2018 to 2022, exacerbated by the Covid-19 outbreak, damaged the financial system. This research analyzed whether competition amid banking in Indonesia, high financial leverage in Islamic banks, and financing risks have an effect on reducing Islamic banking stability from 2018-2022. This research is important to conduct because of the decline and unstable condition of sharia fighting. Moreover, there are several Islamic banks whose stability does not reach 5%. This is an interesting issue to be discussed and taken into consideration by Islamic banks in making decisions or policies for the previous period.

In the current era of openness and liberalization of the financial sector, the relationship between financial institutions has become so complex that it requires the right policies to survive. The development of the banking sector is very fast and sensitive to sudden disruptions or surprises, both from within and from outside (BI et al., 2018). Changes caused by the disruption occurred quickly and unexpectedly, making the task of regulators in maintaining financial sector stability even more complicated. Efforts to maintain stability can sometimes conflict with efforts to promote economic growth because restrictions are needed to support the sustainability of sound financial institutions.

This phenomenon is supported by inconsistent research results. From the inconsistency of research results or research gaps, researchers tried to fill the gap by adding data on the latest phenomenon related to the decline in the stability of Islamic banks so that it is more interesting to be examined Islamic banks. The previous study focused on product market competition at banks abroad, while this study used product market competition at Islamic banks because it was still little studied in Indonesia related to the effect on the stability of Islamic banking. The purpose of this study was to explain and analyze the effect of product market competition, financial leverage, and financing risk on Islamic banking stability in Indonesia. The results of this study were expected to be an additional reference and help Islamic banks in making competitive decisions in issuing innovations and products, the amount of leverage used for operating capital, and aggressive financing issued. Where the object research was carried out on Islamic banking listed on the Indonesia Stock Exchange, namely PT BRI Syariah (BRIS), PT Panin Dubai Syariah (PNBS), PT Bank BTPN Syariah (BTPS), and PT Bank Aladin Syariah.

II. LITERATURE REVIEW

Banking Stability

Banking stability is a reflection of the bank's financial condition (Fatoni & Sidiq, 2019). Therefore,

banks must always maintain their level of stability. Bank stability is a condition where the bank is in good health and free from financial difficulties (Goetz, 2018). A bank can be said to be stable in terms of the company's health level which includes the bank's function as a funding institution. Several factors affecting the stability of conventional and Islamic banks are the same, except for the level of income diversification. Income diversification is a combination of net interest income for conventional banks and non-interest income or profit sharing for Islamic banks (Masruron & Safitri, 2021). Islamic banking does not use diversification in determining stability. This makes Islamic banks more resilient to shocks that occur (Sari & Sudarman, 2023).

Despite the economic turmoil, if banking stability is in good health, banks can carry out activities and also collect and distribute funds and intermediation functions properly (Dutta & Saha, 2021). Banking stability describes a balanced and stable condition in a banking institution (Aiyubbi et al., 2022). Banking stability is one part of financial system stability, which functions to allocate funds from those who experience a surplus to those who experience a deficit. If the banking system is unstable, it will cause financial instability which will lead to various credit, liquidity, market, and capital risks. These risks can disrupt economic growth and people's well-being (Brahmbhatt & Canuto, 2012).

It is not new that the financial sector has an important role in a country's economy (Munir & Riaz, 2019). In many developing countries, where the banking sector still dominates the financial sector (bank-based), banks hold the main intermediary positions necessary for economic growth. Therefore, the stability and productivity of the financial system, especially banking, is one of the determinants of the success of a country's economy. It is not uncommon for the goal of maintaining stability to clash with the aim of encouraging economic growth (trade-off), because maintaining the continuity of a healthy financial sector intermediation function often requires several restrictions, including restrictions on development financing (BI et al., 2018). Of course, this is intended to maintain the health of financial institutions, both in banking and in the capital market.

Product Market Competition

Competition in banking is competition between banks to fight for customers, funds, and profits. This competition is influenced by various factors such as company size, performance, innovation, regulation, and economic development (Carlson et al., 2022). Market competition of interbank products can have a positive and negative impact on banks and society depending on how banks respond to the competition (Cetorelli, 2004). Competition in the Indonesian banking sector has increased since the enactment of banking transparency in 1983 and 1988 (Widyastuti & Armanto, 2013). However, the competition also posed several problems, such as the financial crisis of 1997-1998, the inequality of market structure between large and small banks, and low financial inclusion. Increased competition can force banks to operate more efficiently to survive (Schaeck & Cih, 2014).

The theory used in measuring competition against banking stability is *the competition-stability* theory. The competition-stability theory states that low competition will decrease banking stability. *Competition-stability* theory assumes that banks operating in a fiercely competitive environment tend to take higher risks to maintain their market share. In a competitive environment, banks tend to lower their lending rates to attract new customers and retain existing customers (BI et al., 2018). However, a reduction in lending rates can reduce banks' profit margins and encourage banks to take higher risks to maintain their profits. Competition-stability theory argued that high product market competition will increase banking stability because banks have high efficiency and low operational costs (Schmidt, 1997). Competition Theory finds that competition conditions affect bank stability (Cetorelli, 2004).

Competition generally occurs in the middle of operations. To facilitate competition among Islamic banks in Indonesia, Islamic banks will improve their performance, and change strategies to achieve optimal profits (Lin & Chan, 2021). There is competition that occurs because of common goals. Islamic banks are optimistic about improving their operational efficiency to win the competition and become the most superior Islamic bank. Competition in banking can increase profitability so that it has a good impact on company profits. Competition in banking has a positive impact on the efficiency of the bank, of course, it does not have a good impact on bank stability. Competition makes its operational performance better and more efficient (Li & Li, 2022). This shows that competition has a positive impact on a bank's financial stability (Goetz, 2018).

H1: Product market competition has a positive effect on Islamic banking stability

Financial Leverage

Leverage is a ratio used to test a company's ability to meet its obligations (Mettana et al., 2021).

The leverage ratio can show how much of the company's assets are funded by debt. If the wealth in the company is more funded by debt, then the company must also be able to generate more profit than the amount of debt so that the company is still able to pay its debt and interest, but also still able to make a profit (Dewi et al., 2019). Financial leverage reveals the relationship between bank debt and equity funds (Mennawi & Ahmed, 2020). The existence of debt funds in the bank's financial position is a source of financing. Nevertheless, a high leverage ratio creates higher business risk for banks which in turn makes it more difficult to further acquire external capital and tends to increase borrowing costs from external parties (Saputri, 2019). The easiest way to calculate a bank's financial leverage is to divide total debits by total equity. For Islamic banks, the equation is the same as in conventional banks because investment account holders generally take on debt characteristics (Mennawi, 2020).

Trade-off theory explained that companies that use debt as capital in their corporate activities must be able to benefit from the debt. If the company is not able to manage capital properly, it is at risk of experiencing financial distress (Farooq et al., 2023). The trade-off theory on leverage on banking stability states that there is a trade-off relationship between leverage and banking stability. Leverage is the ratio between a bank's debt and equity. The higher the leverage of a bank, the greater the risk of bankruptcy of that bank. However, the lower the leverage of a bank, the less the bank's ability to make a profit. In this trade-off theory, there is a conflicting relationship between leverage and banking stability. The higher the leverage of a bank, the more likely it is to go bankrupt. However, the lower the leverage of a bank, the less the bank's ability to make a profit. Therefore, there is a trade-off between leverage and banking stability (Modigliani & Miller, 1963).

Companies that continuously use leverage as their main capital, must focus on paying their debts amid uncertain profits (Umdiana & Claudia, 2020). High levels of leverage in banks in the country adversely affect the stability of Islamic banks and conventional banks and can cause financial distress (Miah & Uddin, 2017). A high leverage ratio has a negative impact on banking progress and stability (Mennawi, 2020)

H2: Financial leverage negatively affects banking financial stability

Risk of Financing

Financing risk is the potential loss faced by banks when bad loans occur. Financing issued by Islamic banks poses several risks when the decision in financing is not right. Financing risk often occurs when customers experience payment difficulties (Kwashie et al., 2022). Bank financing risk is the potential loss of the bank due to the debtor's failure to fulfill the obligation to pay the principal and or profit sharing from the financing provided (Sholahuddin, 2004). This financing risk can be caused by various factors, such as economic conditions, company competition, poor governance, natural disasters, or fraudulent behavior of debtors (Syatiri & Hamdani, 2017). The theory used in measuring financing risk to banking stability is agency theory.

Agency theory explained the existence of a contractual relationship between two or more parties who have different interests (Jensen & Meckling H, 1976). In the context of banking, agency theory links financial risk to bank stability by examining how banks manage funds raised from the public and how banks lend those funds to borrowers (Ali & Puah, 2018). Agency theory is a theory that explained the relationship between principals (owners) and agents (managers) in a company. In this case, the bank acts as the principal and the customer as the agent. Agency theory can reduce financing risks to bank stability by minimizing moral hazard and adverse selection. From the perspective of agency theory, banks can reduce financing risk by tightening financing requirements and strengthening the supervision of customers (Kurnia et al., 2017).

Financing risk allows for losses that the bank will suffer if the borrower does not repay the loan. Financing risk can weaken a bank's profitability because the bank must have reserves to cover possible losses. Low profitability may affect the Bank's ability to maintain sufficient capital and liquidity to deal with an uncertain market environment. Therefore, the decision to provide the amount of financing must be considered to maintain the bank's financial stability. The ratio used in measuring non-performing financing using Non-Performing Financing (NPF). NPF is the ratio between financing that has doubtful and bad quality and the total financing provided to the community (Aiyubbi et al., 2022). The possibility of losses to funding made by banks. Financing risk can negatively affect Islamic banking stability (Ali & Puah, 2018)

H3: Financing risk negatively affects bank financial stability

III. RESEARCH METHODS

This research was a quantitative research. This study examined the effect of competition, financial leverage, and financing risk on banking stability. The population and sample in this study were Islamic banks listed on the Indonesia Stock Exchange in 2018-2022. Data were obtained from the annual financial statements of each bank. The sample used was a saturated sample, where all Islamic banks listed on the Indonesia Stock Exchange in 2018-2022 can be accessed through the www.idx.co.id website.

Table 1. Research Sample

No	Sharia Bank Name
1	Bank Rakyat Indonesia Syariah
2	Bank Aladin Syariah
3	Bank Panin Dubai Syariah
4	Bank BTPN Syariah

Table 2. Variable Definition

Y	Banking Stability	Natural Logarithm Z-Score = $\frac{(ROA_{it}+CAR_{it})}{\sigma ROA_{it}}$ (1)
		ROA is the Return on Asset ratio, CAR is the Capital Adequacy Ratio in period t and σROA_{it} is the standard deviation from ROA (Yudaruddin et al., 2023)
X1	Product Market Competition	$PCM = \frac{\text{Profit}}{\text{Sales}}$ (2)
		PCM is a product market competition, profit is profit and sales are sales obtained from the annual report (Yanuardi & Usman, 2022)
X2	Financial Leverage	$DER = \frac{\text{Debt}}{\text{Equity}}$ (Mennawi & Ahmed, 2020) (3)
X3	Risk Of Financing	$\frac{\text{Problem Financing}}{\text{Total Financing}} \times 100\%$ (4)

Data Analysis

The data analysis technique used in this study data analysis was Partial Least Square (PLS) using the E-views 10 application. Multiple linear regression was used in this study, while the modeling used panel data, which was a combination of time series and cross-sections. In research using panel data regression, there are three approach models used, namely the Fixed Effect Model (FEM), Common Effect Model (CEM), and Random Effect Model (REM). To determine the best model, it is necessary to conduct a model selection test consisting of the Chow Test, Hausman Test, and LM Test. In the Chow Test, this test was performed to determine the best model between FEM and CEM. With the provision of decision making, if the probability value of the chi-square cross-section > 0.05, then the model used is CEM and if the probability value of the chi-square cross-section is < 0.05, then the model used is the FEM model. While in the Hausman Test, this test aimed to choose the best model between FEM and REM. With the provision of decision making, if the probability value of the random cross-section > 0.05, then use the REM model, but if the random cross-section probability value < 0.05, then follow the FEM model. Next is the Lagrange Multiplier Test. The Lagrange Multiplier test was performed to determine the best model between REM and CEM. One method that could be used in the LM test was the Bruesch-Pagan test. The decision making was if the probability value is > 0.05 then the model used is CEM but if the value of prob. < 0.05, the best model used was REM. The panel data regression analysis model is as follows:

$$SB_{it} = \alpha + \beta_1 PCM_{it} + \beta_2 FL_{it} + \beta_3 RP_{it} + e \quad (5)$$

Where SB: Bank Stability, PCM: Product Market Competition, FL: Financial leverage, RP: Financing risk

IV. RESULTS AND DISCUSSION

Result

Table 3. Test Chow

Equation: Untitled
 Test period fixed effects

Effects Test	Statistics	d.f.	Prob.
Period F	0.575670	(4,12)	0.6857
Period Chi-square	3.510807	4	0.4762

Before testing, researchers first select a model. When viewed from Table 3, researchers use the

Common Effect Model as the best model to be used for further testing. The Common Effect Model was chosen because of the value assuming that the value of prob. in Period F was $0.6857 > 0.05$

Table 4. Normality Test

Jarque-Bera	0.548664
Probability	0.760080

From Table 4 on the normality test, the data used in this study are normally distributed. This can be seen from the probability value was $0.760080 > 0.05$. In addition, the value on jarque-fallow was $0.548664 > 0.05$ or 5%.

Table 5. Multicollinearity Test

	X1	X2	X3
X1	1.000000	0.087585	-0.019240
X2	0.087585	1.000000	0.545119
X3	-0.019240	0.545119	1.000000

Table 5 of the multicollinearity test, shows that every variable used in the study, namely product market competition, did not occur multicollinearity. This is evidenced by the absence of a correlation coefficient was >0.90 in each variable.

Table 6. Regression Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	12.15145	2.323114	5.230674	0.0002
X1	-1.893076	2.470811	-0.766176	0.4584
X2	-0.564273	0.218663	-2.580559	0.0241
X3	-1.948157	0.762157	-2.556109	0.0252

The regression test table shows the following results: First, product market competition had a coefficient value of -1.893076 with a significance value of $0.4584 > 0.05$. A significance value of more than 5% and a result marked negative indicate that product market competition does not affect bank stability. So it can be concluded that hypothesis one is rejected. Second, financial leverage showed a negative coefficient of -0.5642 and a probability value of $0.0241 < 0.05$. The probability of the value is less than the significance value of 5%, the second conclusion is that the hypothesis is accepted that financial leverage affects banking stability in a negative direction. Third, financing risk had a coefficient value of -1.9481 and a probability value of 0.025. The probability value was less than the significance value of 5% or $0.025 > 0.05$. This means that the third hypothesis is accepted and the risk of financing negatively affects banking stability.

Table 7. Regression Coefficients

R-squared	0.750189	Mean dependent var	6.148000
Adjusted R-squared	0.604466	S.D. dependent var	3.847626

Based on table 7 shows that the R-Squared value was 6.148000, this shows that the ability of the independent variable to explain the dependent variable was 61.4%, and the remaining 38.6% was explained by other variables outside this study.

Discussion

Product Market Competition Against Bank Stability

Product market competition shows competition between Islamic banks in creating and offering Islamic financial products and services to their customers. In this context, each Islamic bank offers new products to gain a larger and wider market share. This study looks at product market competition in Islamic banks in Indonesia and measures its effect on the stability of Islamic banks. Especially now that the number of disputes in Indonesia continues to increase so that competition between banks, both sharia and conventional, also continues.

Table 8. Sharia Bank Product Market Competition Percentage Data in Indonesia

Bank Name	2018	2019	2020	2021	2022
BRIS	0,81	0,81	1,04	1,01	0,94
BTPS	0,74	0,74	0,76	0,77	0,78
Aladin Syariah	1,65	0,13	0,99	1,08	1,04
PNBS	1,08	0,74	0,76	1,01	0,94

Data findings show that the average market competition for Islamic bank products listed on the Indonesia Stock Exchange was 0.89% in 2018-2022. The level of competition is certainly still relatively normal and stable and has not even reached 1%. This phenomenon shows that competition for Islamic banks in Indonesia is still healthy throughout its increasing development. This is expected to continue

to be a driver of Islamic banking growth in Indonesia.

The findings show that product market competition has no effect on Islamic banking stability with probability values of $0.4584 > 0.05$. This shows that the level of competition does not determine the financial stability of Islamic banking in Indonesia. High or not competition between similar companies is not in line with banking stability. This research is in line with the previous research which stated that product market competition has no effect on stability (Li & Li, 2022). This can happen because banks have good coordination with other banks so that product market competition is not so high, it can be seen from the level of product market competition at Islamic banks in Indonesia is still relatively stable or not too high. In addition, strong risk management is one of the advantages so that product market competition does not affect the stability of Islamic banking in Indonesia.

Financial leverage against bank stability

This study found that financial leverage negatively affected banking stability in terms of probability values of $0.0241 < 0.05$. The higher the debt ratio or leverage in a company, the more it indicates declining banking stability. This certainly supports the trade-off theory which showed that financial *leverage* negatively affects financial stability (Harjito, 2011). This also supports previous research that showed high leverage ratios contribute to poor banking stability (Mennawi, 2020). The results of the study show that Islamic banks must overcome the capital policy of debt for the continuity of their operations. The higher the debt ratio, means that Islamic banks have to pay debts with uncertain benefits.

Table 9. Percentage Data on the Amount of Sharia Bank Leverage in Indonesia

Bank Name	2018	2019	2020	2021	2022
BRIS	7,54	8,48	10,6	10,61	9,12
BTPS	3,01	2,85	2,88	2,61	2,52
Aladin Sharia	1,25	1,20	1,12	2,08	1,51
PNBS	5,26	6,57	3,63	6,27	5,90

From the results of the table above, the highest leverage value was in BRI Syariah with a value of 10.61 in 2021. During the Covid-19 pandemic, Islamic banks in Indonesia increased their leverage to external parties and used this leverage as capital to improve their performance during the Covid-19 pandemic. However, this is broken when viewed from the declining financial stability since 2019. This further supports research to show that high leverage worsens financial performance, thereby reducing the financial stability of Islamic banks in Indonesia, which are listed on the Indonesia Stock Exchange from 2018 to 2022.

The debt capital policy has become a common phenomenon among business sector companies such as Islamic banks. Plus Islamic bank companies listed on the Indonesia Stock Exchange, of course, have the convenience of obtaining funds from outside. Even so, it must be balanced with good management (Sari & Indrarini, 2020). High leverage increases defaults in banks so that business continuity is also increasingly threatened. This certainly undermines the authority of the company. In addition, leverage also allows banks to pay greater interest, thus adversely affecting the financial crisis, and reducing assets in sharia trading as well (Latif & Triyanto, 2018). Judging from the results of the study, sharia disputes in Indonesia must use leverage at a safe limit and in accordance with applicable provisions in Islamic banking. Therefore, Islamic banks must manage their leverage so that things do not happen that are desired in a business.

Financing Risk to Bank Stability

Table 10. Data on the Risk Percentage of Sharia Bank Financing in Indonesia

Bank Name	2018	2019	2020	2021	2022
BRIS	1,39	1,58	1,12	0,87	1,12
BTPS	0,02	0,26	0,02	0,18	0,34
Aladin Sharia	0	0	0	0	0
PNBS	2,67	2,8	2,45	0,94	1,06

This study found that financing risk negatively affects the stability of Islamic banking. This is evidenced by the probability value of $0.0252 < 0.05$ with a coefficient value of -1.948157 , meaning that financing risk negatively affects the stability of Islamic banking in Indonesia. The results of this study support the initial hypothesis supported by research from Ali (2018). Financing risk often occurs when financing does not run smoothly as the procedure should. The risk of bad loans becomes a problem that must be faced when Islamic banks are not selective in the financing policies issued. This shows that high financing must also be balanced by good financing management. Financing risks can certainly

reduce the profitability and health of banks.

From the financing risk table from Islamic banks above, the risk ratio of Islamic bank financing in Indonesia was still below 3%. This shows that Islamic banks listed on the Indonesia Stock Exchange maintain financing that is excluded from the risk of financial difficulties due to aggressive financing. Even Bank Aladin Syariah did not experience financing risk from 2018 to 2022 when viewed from Net Performing Financing data as a financing risk measurement tool published from the financial statements of each bank. Even so, the financing risks that occur in Islamic banks certainly disrupt operational performance and hinder Islamic banks in maintaining financial stability, especially during the Covid-19 pandemic.

Judging from the results of the study, Islamic banks should control outgoing financing so as to minimize the risk of default by customers. Banking risk management is more efficient in regulating the pace of financing and paying attention to the causes and effects that will occur if excess financing is channeled. The risk of default shows the worse the financial performance of a company, which has a negative impact on the bank's financial stability (Malakauskas & Lakstutiene, 2021). From the results of this study, it makes an early *warning* or early detection for Islamic banks regarding financing policies to avoid the risk of bad loans by the customer concerned.

Financing uses a sharia contract as a differentiator between Islamic banks and conventional banks. Therefore, Islamic banks are unlikely to stop using financing despite the risks that will be faced next. To anticipate this, Islamic banks should make maximum efforts and improve risk management in the company. To avoid negative impacts, Islamic banks need to maintain the quality of financing, conduct careful credit analysis, and control risks appropriately, in addition, Islamic banks must comply with applicable regulations and policies. Good risk management and strong governance principles are essential to maintain a balance between increasing the amount of financing and risk management for Islamic banks.

The results of this study show that financing risk management should be a top priority for Islamic banks in Indonesia. To reduce the negative impact on financial stability, banks need to pay close attention to the identification, measurement, and management of financing risks (Usanti, 2019). Diversification of the financing portfolio is important so that sector-specific financing risks can be effectively dispersed. In addition, the use of risk management tools, such as financing insurance or derivative instruments, should be considered to help mitigate financing risk. Banking regulatory and supervisory authorities also need to ensure that Islamic banks comply with guidelines and requirements related to financing risk. In addition, increased transparency and reporting of financing risks will build stakeholder trust and strengthen the financial stability of Islamic banks in Indonesia as a whole.

V. CONCLUSION

This study used a sample of Islamic banking research listed on the Indonesia Stock Exchange from 2018-2022 to determine the effect of product market competition, financial leverage, and financing risk on Islamic banking stability. From the results of the study, it was found that product market competition did not affect the stability of Islamic banking. This is a new finding because product market competition is an interesting thing to continue to be discussed globally. Competition has no effect because Islamic banking competition in Indonesia is not too high and tends to be quite stable. Although product market competition does not influence financial stability, Islamic banks should make product market competition one of the reasons to continuously improve the quality of their products and services. Based on the results discussed above, this study has several policy implications that can be applied to sharia disputes in Indonesia. Product market competition should be well accepted by banks to improve banking efficiency and stability. Product market competition should be considered as a way to continue to grow.

Furthermore, financial leverage and financing risk negatively affect banking stability. Therefore, Islamic banks must be careful and pay attention to leverage management. The risk of high financial leverage can cause difficulties because banks have to pay interest and debt amid uncertain income. This means that the higher the level of financial leverage in Islamic banks, the worse the stability of Islamic banking in Indonesia. Furthermore, financing risk negatively affects the stability of Islamic banks. These results emphasize the importance of financing risk management, diversification of financing portfolio, use of risk management tools, strict regulatory supervision, and increased transparency in improving the financial stability of Islamic banks in Indonesia.

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