

CHAPTER V

CONCLUSION AND SUGGESTION

A. Conclusion

Based on the results obtained from the research conducted in the study entitled Risk Analyses on Shariah Banking in Indonesia Period 2010 - 2018 using the Vector Error Correction Model (VECM) approach, the following conclusions are:

1. Liquidity Risk does not have significant impact toward overall risk on Shariah Banking in Indonesia. Based on Impulse Response Function (IRF) test, the response of liquidity risk influence credit risk and operational risk is negative. Variance Decomposition test (VCD) on liquidity risk has a total average is less than credit risk and operational risk with the total average 0.54% and 0.76%. And in the Granger's Causality test the liquidity risk not significantly influence credit risk and operational risk by having a probability more than 5%.
2. Credit Risk has significant impact toward overall risk on Shariah Banking in Indonesia. Based on Impulse Response Function (IRF) test, the response of credit risk influence operational risk and liquidity risk is positive. Variance Decomposition Test (VCD) on credit risk has a total average more than operational risk and liquidity risk with total the average 26.42%. And in the Granger's Causality test the credit risk significantly influence operational risk and liquidity risk by having a probability less than 5%.

3. Operational Risk does not have significant impact toward overall risk on Shariah Banking in Indonesia. Based on Impulse Response Function (IRF) test, the response of operational risk influence liquidity risk is negative and credit risk is positive. Variance Decomposition test (VCD) on operational risk has a total average more than liquidity risk and less than credit risk with the total average 7.43% and 10.8%. And in the Granger's Causality test the operational risk significantly influences liquidity risk and does not significantly influence credit risk by having a probability more than 5%.

This research concluded that the dominant variable is NPF or Credit Risk. In other words, Credit Risk is a leading risk among Liquidity Risk and Operational Risk. When Shariah bank faces high credit risk, then it will cause liquidity shortage and bank cannot fulfil the obligation towards depositors. This condition increase liquidity risk in Shariah banking. Credit risk that occurs because of financing default gives impact to imbalance of funding and financing in bank which also causes increasing operational risk. Thus, when credit risk in Shariah banking is high, it can be ascertained that the other risks will follow.

B. Suggestion

The suggestions for several parties to the Liquidity Risk, Credit Risk, and Operational Risk on Shariah Banking in Indonesia, as follow:

1. Shariah Banking is expected to be more focused on credit risk by being more careful in distributing financing to Shariah Banking and paying attention to the Non Performing Financing (NPF) variable.

2. Shariah Banking is suggested to control the Non Performing Financing (NPF) movement with other variables, so that it is between the normal thresholds.
3. Shariah Banking must have minimum initial capital as explained in Bank Indonesia Regulation Number: 7/15/PBI/2015 concerning about Minimum Capital Requirements for Commercial Banks just in case a risk arises in Shariah Banking

C. The Future Research

1. Further research is expected to add variables related to Liquidity Risk, Credit Risk and Operational Risk in Shariah Banking, the purpose is to describe more about the situation that occurs in the condition of Risk in Shariah Banking.
2. For further research, it can be continued in making an Early Warning System or Index that makes Non Performing Financing (NPF) as a leading Indicator.
3. For further research, it is expected to take the current year period when there is an economic shock to see the resilience of each risk at the time of a crisis.
4. Further research should be able to add years, if necessary, years which are the Indonesian economy after experiencing a crisis.