IJEBAS
International Journal of Economic, Business, Accounting, Agriculture Management and Sharia Administration
RADJA PUBLIKA

ASSESSING RISK MANAGEMENT IN SHARIA BANKING

M. Yahya[1], Saparuddin[2], Siregar[3], Sugianto[4]
[1]IAIN Langsa
[2,3,4]Islamic universities in North Sumatra
E-mail: yahya1238@gmail.com

Abstract
Risk management is an important element whose application is very important, especially in Bank as one of financial institution. In the circumstances of the external and internal environments of the rapidly expanding banking, Islamic banks are always faced with various types of risk with varying levels of complexity and inherent in their business activities.s

Keywords: ***Risk Management, Islamic Bank.***

1. INTRODUCTION

Islamic banking institutions have shown rapid development, although the volume of business quantitatively is still small compared to the total volume of conventional banking. Seeing the development of sharia banking, it does not escape the risks that will be caused, therefore risk management needs to be a concern for sharia banking implementers (Zainul Arifin, 2000: 44).

Risk in the banking context is a potential event, both predictable and unpredictable, which has a negative impact on the bank's income and capital. These risks cannot be avoided, but can be managed and controlled. Therefore, like banking institutions in general, Islamic banks also require a series of procedures and methodologies that can be used to identify, measure, monitor, and control risks arising from business activities, or what is commonly referred to as Islamic bank risk management.

Risk management is a manager's effort to overcome losses rationally so that the desired goals can be achieved effectively and efficiently. Specifically, risk management is defined as the ability of a manager to manage the possibility of income variability by minimizing the level of losses caused by decisions taken in dealing with uncertain situations. The function of the leader is very important in regulating and minimizing the occurrence of losses from the business being run.

2. IMPLEMENTATION METHOD

2.1 The Character of Risk Management in Sharia Banking

Management is a process to achieve organizational goals effectively and efficiently. The achievement of organizational goals is carried out by managing the functions of planning (planning), organizing (organizing), preparation of personnel or staffing (staffing), direction and leadership (leading) and supervision (controlling) (Nanang Fattah, 1999: 1). The planning function is a very important stage in initiating and managing good management, so that it does not happen*error prediction* which will result in mismanagement.

Management itself can be defined as a The ability that serves to direct in order to achieve the desired results from the goals of human efforts and other resources. Of course, everyone wants the business they run to run well and bring in a lot of profit, because the purpose of the business is to get as much profit as possible.

In Islam, the purpose of business is not based on profit alone, but in every business and business has a vision of helping each other and making each other mutually beneficial. As in the

word of Allah QS.Al-Baqarah verse 245. This verse shows that helping in the economy is a very noble thing for every Muslim without harming themselves and harming others.

Islamic sharia principles in asset management emphasize the balance between individual and community interests. It should be noted that Islamic banking has distinctive characteristics, including (Slamet Wiyono, 2005: 74) :

1. It is not allowed in one transaction there are two contracts.
2. Don't know the concept of usury
3. The concept of profit sharing (mudharaba)
4. Does not recognize the concept of value and time.

Talking about risk management is also mentioned in Islam, as contained in the QS. An-Nisa' 29 which reads :

ا لَّذِينَ امَنُوا۟ لَا لُوٓا۟ لَكُم لَٰبَطِلِ لَّآ اضٍ لَا لُوٓا۟ للَّهَ انَ ا □

Meaning: O you who believe, do not eat each other's wealth in a vanity way, except by way of commerce which is carried out with mutual consent between you. and do not kill yourselves; Verily Allah is Most Merciful to you.

In a hadith the Prophet also said :

لا لاضرارمن الله شق الله ليه (رواه الحاكم)

Meaning: "It is not permissible to cause harm to oneself and not to cause harm to others. Whoever does harm, Allah is the one who harms him and whoever makes it difficult, Allah will make it difficult for him" (HR Imam Hakim and others)

Like and like (anta rhadhin) is also interpreted as mutually beneficial to each other so that it does not cause harm to everyone who does business. This context is very important in the continuity of business transactions both in banking and buying and selling. This shows that risk management in Islam begins with the concept of not oppressing each other and taking other people's property in a way that is not justified in Islam.

In the concept of fiqh is known by the rules;

اَلضَرَرُ اُل

Meaning: All harm (risk) must be removed.

This rule (الضرريزال) provides an understanding that humans must be kept away from idhrar (not hurting), both by themselves and by others, and they should not cause harm (hurt) to others (Nasr Farid Muhammad Washil, 2009: 17). This rule is one of the most significant and influential rules in Islamic fiqh. This is because every law is enacted sometimes to gain benefits and sometimes to reject harm. Thus, every law includes the maintenance of five main things (al-dharuriyyat al-khams), namely the maintenance of religion (hifdhu al-din), the maintenance of the soul (hifdhu al-nafs), the maintenance of the mind (hifdhu al-aqli).

*Dharar*is a difficulty that really determines human existence, because if it is not resolved, it will threaten religion, life, lineage, property and human honor (Imam Musbikin, 2001: 68). From this it can also be drawn a common thread that, every sinful act is part of dharar, because it will make the heart and mind of the perpetrator restless. Likewise in the business concept, harm is an obstacle to errors in financial management.

There are five levels of emergency related to this rule, namely:

1. *Al-Dlarurat*: that is the condition of a person who if he does not get help immediately, it is estimated that he will die. For example, someone who is very hungry, his face is pale, his body is shaking and he is sweating cold sweat. This emergency level can cause it to be allowed to eat unlawful food (Imam Musbikin, 2001: 70). In this kind of condition, a person may do things that are prohibited by religion (mahzurat). In a more general context, human needs that are classified as emergency are a form of need without which humans will be in disrepair throughout their lives.
2. *Wish*: namely the condition of a person who is not helped immediately, causing his distress, but not to the point of death. In a situation like this, the person cannot justify the forbidden goods, but it is only allowed, for example, if a person is allowed to break his fast because he is experiencing extreme exhaustion or hunger (Imam Musbikin, 2001: 71).
3. *Benefit*: namely the human interest to create a decent life. So the law is applied according to what it is because the law actually brings benefits. For example, eating staple foods such as rice, fish, vegetables and so on.
4. *Adultery*: namely a need like the needs of people who are forced to only eat rice with simple side dishes, even though he wants luxurious side dishes (Imam Musbikin, 2001: 71). Or in other words, namely the human desire to get certain luxuries or pleasures.
5. *Fudul*: namely a life behavior that has exceeded the limit alias excessive. So that causes him to eat food that is forbidden or doubtful. For example, eating using a container or plate made of gold or silver (Imam Musbikin, 2001: 71). This part clearly must be avoided, and there is no appreciation (let alone legitimacy) of the Shari'a towards it.

From various transactions, it is necessary to have a management that can be used as anticipation so as not to cause high losses. In Indonesia's positive law, there are various laws and regulations that regulate guarantees in the context of implementing a prudential system that must be carried out by the banking industry, including Islamic banking. These laws and regulations include;

1. Financial Services Authority Regulation Number 65 /POJK.03/2016 concerning the Implementation of Risk Management for Sharia Commercial Banks and Sharia Business Units.
2. Bank Indonesia Regulation Number 13/23/PBI/2011 concerning Implementation of Risk Management for Islamic Commercial Banks and Sharia Business Units.

Discussing about risk management, when viewed from the definition of risk management, namely, Financial Services Authority Regulation Number 65 /POJK.03/2016 concerning the Implementation of Risk Management for Sharia Commercial Banks and Sharia Business Units is defined Risk Management is a series of methodologies and procedures used to identify, measure, monitor, and control risks arising from all of the Bank's business activities. While risk is defined aspotential loss due to the occurrence of a certain event (Slamet Wiyono, 2005: 94).used in Islamic banks have different characters from conventional banks, mainly because of the types of risks that are unique to banks that operate according to sharia. In other words, the basic difference between Islamic banks and conventional banks lies not in how to measure (how to measure), but in what is assessed (what to measure). , risk assessment, risk anticipation, and risk monitoring arising from bank business activities (Adiwarman A. Karim, 2007: 256).

1. Risk Identification

   Risk identification is carried out by using an analysis of the characteristics of risks inherent in functional activities, risks to products and business activities of Islamic banks and also not

only includes various risks that exist in banks in general, but also includes various risks that are unique only to banks. banks that operate based on sharia principles.

2. Risk Assessment
   In risk assessment, the uniqueness of Islamic banks is seen in the relationship between probability and impact, or commonly known as the Qualitative Approach ((Adiwarman A. Karim, 2007: 256).
3. Anticipate Risk
   Anticipation of risk in Islamic banks aims to:
   a. *Preventive.*In this case, Islamic banks require DPS approval to prevent errors in processing and transactions from the sharia aspect. In addition, Islamic banks also require an opinion and even a DNS fatwa if Bank Indonesia views the DPS approval as inadequate or outside its authority.
   b. *detective.*Supervision in Islamic banks covers two aspects, namely banking aspects by Bank Indonesia and sharia aspects by DPS. Sometimes there is a different understanding of whether a transaction violates sharia or not.
   c. *Recovery.* Correction of an error may involve Bank Indonesia for the banking aspect and DSN for the sharia aspect.
4. Risk Monitoring
   Monitoring activities in Islamic banks not only include the management of Islamic banks, but also involve the Sharia Supervisory Board (Adiwarman A. Karim, 2007: 259).

3. RESULTS AND DISCUSSION

3.1 Measuring Risk Management

In the risk management process, the initial stage of Islamic banks must correctly recognize and understand and identify all risks, existing bank risks (inherent risks) and those that may arise from a new bank business. Furthermore, successively, Islamic banks need to measure, monitor and control risk. This process is continuous, so it becomes a lifecycle.

In its implementation, the process of identifying, measuring, monitoring and controlling risks takes into account the following matters (Ikhwan A. Basri, 2008: 20)

1. Risk identification is carried out by analyzing:
   a. Characteristics Risks inherent in functional activities.
   b. Risks from products and business activities.
2. Risk measurement is carried out by performing:
   a. Periodically evaluate the suitability of assumptions, data sources and procedures used to measure risk.
   b. Improvements to the Risk measurement system if there are changes in business activities, products, transactions and material Risk factors.
3. Risk Monitoring is carried out by performing:
   a. Evaluation of risk exposure.
   b. Completion of the reporting process if there are material changes in business activities, products, transactions, risk factors, information technology and risk management information systems.
4. Implementation of the risk control process is used to manage certain risks that can endanger the continuity of the bank's business (Wilson Arafat, 2006: 74-77).

IJEBAS
RADJA PUBLIKA
International Journal of Economic, Business,
Accounting, Agriculture Management and Sharia Administration

3.2 Types of Risk

In general, the types of risks are classified into three types, namely:

1. Financing risk

   Financing risk is the risk caused by the counterparty's failure to fulfill its obligations. In Islamic banks, financing risks include risks related to products and risks related to corporate financing.

2. Product related risks, which include:
   1) Risks related to Natural Certainty Contracts (NCC) financing. What is meant by NCC-based financing risk analysis is identifying and analyzing the impact of all customer risks so that financing decisions are taken after taking into account the existing risks of NCC-based financing.
      Such as: Murabaha, ijarah, ijarah vomiting bit tamlik, greetings and istishna'.
   2) Risks related to Natural Uncertainty Contracts (NUC)-based financing. What is meant by NUC-based financing risk analysis is to identify and analyze the impact of all customer risks so that financing decisions are taken after taking into account the existing risks of NUC-based financing (Adiwarman A. Karim, 2007: 261-269). Such as: mudharabah, and musharaka.
   3) Risks related to corporate financing
      The complexity and volume of corporate financing creates additional risks in addition to the risks associated with the product. Therefore, the analysis must be more comprehensive. The analysis includes:
      a. Analysis of sales costs, profits, assets and liabilities
      b. Cash flow analysis
      c. Market risk (Market Risk), Market risk is the risk of loss that occurs in the portfolio owned by the bank due to the movement of market variables (adverse movement) in the form of interest rates and exchange rates. This market risk includes four things, namely:
         - Interest rate risk (Interest Rate Risk)
         - Currency Exchange Risk (Foreig Exchange Risk)
         - Price Risk
         - Liquidity Risk (Liquidity Risk), Liquidity Risk is

         The risk caused by the Bank not being able to fulfill obligations that have matured (Lukman Dendawijaya, 2005: 176).

   Example of Market Risk :

   On July 5th Branch A of Bank Zulfikar Syariah purchased bank notes from customers for USD 10,000.00 at an exchange rate of 9,700 and at the end of the day the branch forgot/negligently sold it to a money changer or delegated it to the head office. The next day the new branch remembers being able to sell it at an exchange rate of 9,600, and what if the exchange rate becomes Rp. 9800.

3.3 Operational Risk

Operational risk is the risk caused by insufficient or malfunctioning internal processes, human error, system failure or external problems that affect bank operations (Adiwarman A. Karim, 2007: 275). Three factors cause operational risk:

1. Infrastructure, such as: Technology, Policy, Environment, Security, Disputes and so on.

2. Process, and
3. Resource.

These factors lead to various risks, including:

1. Reputational risk
   Is a risk caused by, among other things, negative publications related to the Bank's business activities or negative perceptions of the Bank.
2. Compliance risk
   Is the risk caused by the Bank not complying with or not implementing the applicable laws and regulations. Compliance Risk Management is carried out through consistent implementation of the internal control system.
3. Strategic risk
   Risks are caused, among others, by the establishment and implementation of the Bank's strategy that is not appropriate, business decision making is not appropriate or the Bank is not responsive to external changes.
4. Legal risk
   Is a risk caused by a weakness in the juridical aspect. Weaknesses in the juridical aspect are, among others, due to lawsuits, the absence of supporting laws and regulations or the weakness of the engagement, such as non-fulfillment of the legal requirements of the contract and imperfect binding of collateral.

4. CONCLUSION

Judging from the definition of Risk Management, that is, according to Bank RegulationsIndonesia No. 05/08/PBI/2003 Risk is defined as the potential occurrence of an event that can cause a loss to the Bank. Meanwhile, risk management is defined as a series of procedures and methodologies used in Islamic banks that have different characters from conventional banks.

Operational risk management process of Islamic banks which includes risk identification, risk assessment, risk anticipation, and monitoring of risks arising from the bank's business activities. In the risk management process, the initial stage of Islamic banks must properly recognize and understand and identify all risks, existing bank risks (inherent risks) and those that may arise from a new bank business. Furthermore, successively, Islamic banks need to measure, monitor and control risk. This process is continuous, so it becomes a lifecycle.

REFERENCES

Anshori, Ghofur, Abdul. Sharia Banking Law (Law No. 21 of 2008). (PT. Refika Aditama. Bandung. 2009)

Arafat, Wilson. Indonesian Banking Management: Theory and Implementation. (Indonesian LP3ES Library. Jakarta, 2006)

Basri, Ikhwan. Islamic Financial Institution Risk Management. (Sinar Graphic Offset. Jakarta. 2008)

Dendawijaya, Lukman. Banking management. (Gralia Indonesia. Bogor, 2005)

Karim, Adiwarman. Islamic banks: fiqh and financial analysis. (PT. Raja Grafindo Persada. Jakarta, 2007).

Musbikin, Imam, Qawa'id Al-Fiqhiyah, (Jakarta: PT Raja Grafindo Persada, 2001).

Nasr Farid Muhammad Washil & Abdul Aziz Muhammad Azzam, Qawa'id Fiqhiyyah, (Jakarta: Sinar Graphic Offset, 2009).

Rohayana, Ade Dedi, Qawa'id Fiqhiyyah Science, (Jakarta: Gaya Medi Pratama, 2008).

Wiyono, Slamet. Islamic Banking Accounting. (Grasindo. Jakarta, 2005).

Financial Services Authority Regulation Number 65 /POJK.03/2016 concerning the Implementation of Risk Management for Sharia Commercial Banks and Sharia Business Units

Gerson, RF (2004). Measuring Customer Satisfaction . Jakarta: PPM.

Haefner, JE, Deli-Gray, Z., & Rosenbloom, A. (2011), “The importance of brand liking and brand trust in consumer decision making: Insights from Bulgarian and Hungarian consumers during the global economic crisis”, Managing Global Transitions : International Research Journal, Vol. 9 No.3, pp.249-273.

Hafeez, S., & Hasnu, S. (2010), “Customer satisfaction for cellular phone in Pakistan: A case study of Mobilink”, Business and Economics Research Journal, Vol.1 No.(3), pp. 35-44.

Hafeez, S. and Muhammad, B. (2012), “The Impact of Service Quality, Customer Satisfaction and Loyalty Programs on Customer's Loyalty: Evidence from Banking Sector of Pakistan”, International Journal of Business and Social Science, Vol.3 No. 16, pp. 200-209.

Heriyadi, Listiana, E. and Lay, YN (2018). An Analysis of the Influence of Service Quality, Personal Selling and Complaint Handling and Trust on Customer Retention (Survey of Bank Harda International Savings Customers, Pontianak Branch). Volume 7 Number 2.

Kotler.P. (2008). Marketing Principles 2. Twelfth Edition. Jakarta : Erlangga.

Simahatie, M. ., Siregar, S. ., & Sugianto, S. (2022). Problems Of Al-Sharf Implementation In Sharia Banking (Study Literature). International Journal of Economic, Business, Accounting, Agriculture Management and Sharia Administration (IJEBAS), 2(2), 259–262. https://doi.org/10.54443/ijebas.v2i2.218

Syahraini, S., Siregar, S. ., & Sugianto, S. (2021). Sharia Bank Corporate Governance Based On Maqashid Sharia. International Journal of Economic, Business, Accounting, Agriculture Management and Sharia Administration (IJEBAS), 1(2), 397–403. https://doi.org/10.54443/ijebas.v1i2.138