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ANALYSIS OF THE EFFECTIVENESS OF IMPLEMENTING THE FOUR EYES PRINCIPLE TO CONTROL NPF IN ISLAMIC BANKS: LITERATURE REVIEW

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Abstract

This study discusses the issue of Non-Performing Financing (NPF) which is a major challenge for Islamic banks in Indonesia, with the aim of exploring the effectiveness of implementing the Four Eyes principle in controlling financing risk. The scope of the research includes analysis of internal policies and decision-making practices that affect the financial performance of Islamic banks. The method used is a literature review approach, with data collection from academic databases such as Scopus and Google Scholar. Data are analyzed using thematic analysis to provide insight into current issues related to risk management. The results of the study indicate that the implementation of the Four Eyes Principle can significantly reduce the NPF ratio, with success influenced by organizational culture and staff training. These findings indicate that collaboration in decision-making is a key factor in mitigating financing risk. The implication of these results is the need for strengthening policies and ongoing training to improve the effectiveness of risk management in Islamic banks.

Keywords: ***Four Eyes Principle, Risk Management, Non-Performing Financing, Risk Control, Islamic Banking.***

A. INTRODUCTION

In recent years, Islamic financial institutions in Indonesia have experienced rapid development, with an increase in the number of customers and the variety of products offered. According to data from the Financial Services Authority (OJK), the Islamic banking market has shown significant growth, but on the other hand, the Non-Performing Financing (NPF) phenomenon remains a serious challenge. The NPF ratio in Islamic banks is often higher than that of conventional banks, reflecting the greater risks faced in the financing process that does not use collateral (Qodar, 2016). Research by Arifin (2023) highlights that although risk management has been implemented with various mechanisms, its effectiveness is still questionable. Data shows that the number of problematic customers continues to increase from year to year, indicating factors that are not fully understood in the management of financing risks in Islamic banks.

Although many studies have been conducted on risk management and NPF, there is still a gap in the literature that specifically discusses the application of the Four Eyes principle in decision making in Islamic banks. Most previous studies focus more on individual risk analysis without considering collaborative practices in decision making, which can reduce the possibility of errors (Husain & Asmawati, 2017). Research by Junaedi (2018) confirms that the joint decision-making model in the context of Islamic banks is still under-explored, and there is no consensus on how this principle can be effectively integrated into risk management practices. This gap indicates the need for further research to understand the dynamics that occur in the decision-making process in Islamic banks, as well as their impact on risk management and financing performance.

The purpose of this paper is to explore the application of the Four Eyes principle in financing risk management and its impact on the NPF ratio in Islamic banks. Specifically, this paper seeks to answer the question of how the application of this principle can improve accountability and effectiveness in financing decision making. This study aims to identify best practices that can be applied in Islamic banks to reduce the risk of problematic financing. The methods used include qualitative analysis, with data collection through in-depth interviews with practitioners in the Islamic finance industry and analysis of documents related to policies and procedures in Islamic banks. In addition, a survey of customers will also be conducted to obtain their perspectives on risk management and satisfaction with the services provided. Based on the existing phenomenon, the hypothesis proposed in this study is that the implementation of the Four Eyes principle will contribute significantly to reducing the NPF ratio in Islamic banks. This argument is based on the assumption that by involving more than one individual in each financing decision, the risk of errors and omissions can be minimized, thereby improving the quality of the decision-making process. Thus, this study is expected to provide new insights into risk management in Islamic banks, as well as relevant recommendations for industry practices. Through a deeper understanding of the implementation of this principle, it is hoped that Islamic banks can be better at managing risks and maintaining the financial health of the institution, which will ultimately increase customer trust and the stability of the Islamic financial sector as a whole.

B. LITERATURE REVIEW

FOUR EYES PRINCIPLE

In recent years, Islamic banks in Indonesia have experienced significant growth, but the challenge of Non-Performing Financing (NPF) remains a major issue. High NPF indicates that there is a risk that is not well managed in the financing process. The implementation of the Four Eyes principle, which requires two individuals to be involved in decision-making, is expected to increase accountability and reduce the risk of errors in the financing process. This trend has emerged along with the increasing awareness of the importance of effective risk management in maintaining the financial health of Islamic banks (Junaedi, 2018).

The Four Eyes Principle (FEP) is a strategic approach to decision-making, where two individuals are actively involved in the evaluation and approval process. This concept is designed to increase accountability and transparency, as well as to reduce the risk of errors and potential fraud in decision-making. In the context of Islamic banks, the implementation of FEP is crucial, especially in the financing process, where decisions taken not only impact the bank's financial performance, but also the institution's reputation in the eyes of customers and the community.

Supriadi (2018) studied the application of FEP in the context of commercial financing at the Sharia Business Unit of PT. Bank Tabungan Negara (Persero) Tbk. In his research, Supriadi emphasized that FEP allows for tighter control over every step in the decision-making process. By involving two individuals, the evaluation process becomes more comprehensive, where every decision is made through in-depth discussion and consideration. This not only minimizes the risk of error, but also ensures that the resulting decisions are in accordance with sharia principles, which prioritize fairness and transparency.

Furthermore, Supriadi revealed that FEP also functions as an effective internal monitoring mechanism. When two individuals are involved in the decision-making process, they can supervise each other and provide input, so that the risk of error can be minimized. This is especially important in the context of financing, where wrong decisions can result in problematic financing or Non-Performing Financing (NPF) which can harm the bank financially and reputationally.

Junaedi (2018) in his qualitative study on the implementation of FEP at Bank Syariah BTN highlighted the importance of support from top management in implementing this practice. Management support is not only about providing direction, but also includes providing clear policies and training for staff. Through training, staff will better understand the importance of collaboration in decision making and how to implement FEP effectively.

Junaedi found that the implementation of FEP can reduce errors in the decision-making process. With two individuals involved, the level of accuracy and reliability in financing evaluation increases. This has direct implications for reducing the potential for NPF, because the decisions taken are more mature and measured. This study shows that collaboration in decision-making not only improves the quality of decisions, but also builds trust among employees and customers.

The implementation of FEP in Islamic banks has broad implications for the performance of the institution. By reducing NPF through better decision-making, Islamic banks can not only maintain their financial health but also increase customer trust. This trust is very important, considering that Islamic banks operate within the framework of Islamic principles that prioritize fairness, transparency, and accountability.

In the long term, the implementation of FEP can contribute to the sustainability of Islamic banking operations. With a better decision-making system, banks can manage financing risks more effectively, so that they can meet the financing needs of the community in a manner that is in accordance with Islamic principles. This will create a more stable and sustainable financial ecosystem, which in turn will increase the contribution of Islamic banks to the national economy. As a strategic step in decision-making, the implementation of the Four Eyes Principle (FEP) in decision-making in Islamic banks is a strategic step that can increase accountability and transparency. Collaboration between two individuals in each decision allows for minimal potential for error, which ultimately contributes to the reduction of Non-Performing Financing (NPF). Support from management and adequate training for staff are the keys to success in implementing FEP. Therefore, FEP not only functions as a risk management tool, but also as an important pillar in maintaining customer trust and the reputation of Islamic banks. With this approach, Islamic banks can ensure that decisions taken are more ethical, responsible, and support overall financial stability.

NON PERFORMING FINANCING AND FEP CONTROL

Non-Performing Financing (NPF) is a key indicator in assessing the quality of assets and financial health of a bank, especially in the context of Islamic banks. NPF occurs when the debtor fails to fulfill its obligations in paying financing installments. In the Islamic financial system, NPF is not only a financial problem, but also has implications for moral and ethical aspects, considering the importance of the principles of justice and responsibility in Islamic financial transactions. Therefore, NPF control is one of the main priorities in risk management in Islamic banks

The impact of NPF can be very detrimental to Islamic banks. First, high NPF can reduce the financial performance of the bank, considering the losses resulting from unpaid financing. This can affect the profitability and liquidity ratios of the bank, which in turn can reduce the bank's ability to provide new financing. Second, the bank's reputation can also be damaged. Banks that are known to have high NPF levels may lose the trust of customers and investors, which can have an impact on the decline in the number of customers and the flow of funds to the bank. Third, customer trust is a very important aspect in Islamic banking, where a good relationship between the bank and customers must be built on the basis of trust and integrity.

Controlling Non-Performing Financing (NPF) is a challenge that must be addressed seriously by Islamic banks. Research by Mohammad Dendi Abdul Nasir and Nunuk Khomariyah (2021) shows that internal factors such as the ratio of assets and deposit financing as well as external factors such as inflation and exchange rates have a significant influence on NPF in Islamic banks in Indonesia. This study uses the Error Correction Model (ECM) and finds that in the short term only the variable of the deposit financing ratio has a significant effect on NPF, while in the long term the variables of assets and inflation also have a significant effect1

In addition, research by Ade Abdul Mukti (2013) at Bank Muamalat Indonesia Cirebon Branch showed that customer character, capital to debt ratio, and amount of collateral significantly influenced problematic financing. This study used a Likert scale and statistical data analysis to find a strong relationship between these variables and problematic financing. This study shows that internal factors such as the lack of accuracy of bank officers in accepting financing applications are also the main cause of problematic financing.

Managing NPF effectively is a challenge that must be faced by Islamic banks. According to Harahap et al. (2021), the implementation of FEP can be an effective strategy to minimize NPF, especially in the Small and Medium Enterprises (SME) segment. SMEs often face higher risks in terms of loan repayment, so it is important for banks to apply principles that can help in better decision making.

By understanding the factors causing these problematic financing, Islamic banks can take more effective steps in controlling them and ensuring financial stability. The implementation of the Four Eyes Principle (FEP) has proven to be an effective strategy in minimizing NPF, especially in the SME segment. By involving more than one individual in the decision-making process, banks can improve the quality of evaluations and decisions taken, as well as reduce the risk of problematic financing. In this context, FEP not only functions as a control tool, but also contributes to the development of better organizational competencies and culture. Thus, the implementation of FEP can help Islamic banks to achieve better performance and maintain customer trust, which is a valuable asset in the Islamic banking industry.

Research by Harahap et al. shows that by involving more than one individual in the credit decision-making process, banks can improve the quality of the evaluations carried out. The involvement of several parties allows for broader and deeper consideration of prospective debtors, including analysis of repayment capacity, financial condition, and external factors that can affect the debtor's business. Thus, the decisions taken become more objective and based on more accurate data.

In the context of implementing checks and balances, FEP functions not only as a control tool, but also as a mechanism to improve the competence of individuals involved in decision making. With collaboration and discussion between different parties, the competence of each individual can complement each other, resulting in better decisions. This is very crucial in the context of SME financing, where precision and accuracy in risk assessment are essential. The implementation of FEP also contributes to improving the quality of decisions taken. With collaboration between two or more individuals, the decision-making process becomes more transparent and accountable. This will reduce the possibility of errors that can lead to NPF. Research shows that banks that implement FEP tend to have lower NPF levels than those that do not implement it, indicating that this principle is effective in controlling financing risk.

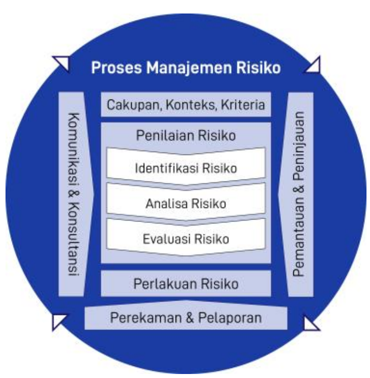
One of the main advantages of implementing FEP is its ability to increase objectivity in decision-making. By involving more than one individual in the assessment process, banks can not only reduce bias that may arise from individual perspectives, but also integrate the various skills and experiences that each individual has. This is especially important in the context of financing, where decisions taken will have a direct impact on customers and the financial health of the bank. This collaborative process allows banks to conduct a more in-depth and comprehensive analysis of each prospective borrower, so that decisions made can be more accurate and targeted.

For example, one individual may focus on the financial aspects of the borrower, while another may evaluate factors related to Sharia compliance. This approach helps in identifying potential risks early and taking necessary mitigation steps before a financing decision is made. Implementing FEP also has an impact on the organizational culture of the bank. In an environment where collaboration and transparency are an integral part of the decision-making process, banks can create a working atmosphere that is Aldo (2021) shows that by implementing FEP, banks can be more effective in mitigating NPF risk. A better decision-making process will reduce the possibility of providing financing to unqualified or high-risk debtors. This helps banks maintain the health of their financing portfolios and ensures that the financing provided can be returned according to the agreed terms.

RISK MANAGEMENT

According to ISO 31000:2018 Risk Management Guideline, the risk management process is a systematic process of implementing policies, procedures, and practices related to risk communication and consultation activities, determining the scope, context, and criteria of risk. The implementation of risk assessment according to ISO 31000:2018 involves several main stages, namely risk identification, risk analysis, risk evaluation, risk treatment, monitoring and review, and recording and reporting. Risk identification is the process of identifying potential risks that can affect the achievement of organizational goals. Risk analysis then examines the impact and likelihood of the risk occurring. Risk evaluation involves assessing the results of the analysis to determine the priority of handling. Risk treatment includes developing strategies to manage risk, such as avoiding, reducing, sharing, or accepting risk. These steps are continuously monitored and reviewed to ensure their effectiveness, and all activities must be documented and reported. To provide an overview, it can be seen in Figure 1.1 below.

Figure 1.1 ISO 31000 2018.



Source: ISO 31000 2018 Risk Management – Principles and Guidelines

To ensure successful risk management, ISO 31000:2018 sets out eight principles that organizations must follow, namely (1) integrated, (2) structured and comprehensive, (3) tailored, (4) inclusive, (5) dynamic, (6) best available information, (7) human and cultural factors, and (8) continuous improvement (ISO 31000:2018). These eight principles support the objectives of risk management, namely creating and protecting value. The value of an organization is realized by improving performance, encouraging innovation, and supporting the achievement of goals (ISO 31000:2018). The implementation of new risk management can be said to be successful if the value of the organization increases after that (ISO 31000:2018). Based on these principles, risk management in financing is a crucial aspect for Islamic banks, which function as intermediary financial institutions to meet the financial needs of the community. Tsani (2018) explains that the implementation of strict procedures in submitting financing, such as the 5C analysis (Character, Capital, Capacity, Collateral, and Condition), as well as the Four Eyes principle, can significantly reduce the risk in every financing transaction. By involving the risk management unit as a verifier, compliance and financing decision maker, banks can ensure that the decisions taken are more objective and transparent, so that potential problems in the future can be minimized. However, on the other hand, there is a need for innovation in risk assessment methods. Many Islamic banks still use traditional approaches that are inadequate to deal with the complexity of today's market conditions. Research shows that the application of a more comprehensive risk analysis, such as 5C (Character, Capacity, Capital, Collateral, and Conditions) and 4C+1S (Character, Capacity, Capital, Collateral, and Sharia Compliance), can help in identifying and mitigating risks arising from the financing provided (Devi, 2020).

Sumantri (2014) in his research emphasized the importance of careful evaluation of the debtor's eligibility in home ownership financing products (KPR) at Bank BNI Syariah. Through a systematic risk identification and assessment process, banks can anticipate risks that may arise, especially in terms of bad financing. The application of analysis methods that use historical customer data and a scoring approach allows banks to make more informed decisions. This shows that effective risk management not only protects banks from losses, but also increases customer trust in Islamic banks. In this context, Nugroho (2018) also highlighted the implementation of risk management in Islamic venture capital companies, emphasizing the importance of prudence in financing. By adopting good risk management principles, including in-depth analysis of the character and economic conditions of the debtor, the company can reduce the possibility of problematic financing. Overall, the implementation of comprehensive risk management in financing in Islamic financial institutions is key to maintaining the financial health and sustainability of bank operations.

In addition, the implementation of risk management through decision-making through the application of the Four Eyes Principle (FEP) has been recognized as one of the effective strategies in controlling financing risks, especially in the Islamic banking sector. Aldo (2021) in his analysis of risk management in Home Ownership Credit (KPR) financing at PT. Bank Muamalat Indonesia emphasized that the implementation of FEP in the decision-making process for KPR financing can significantly help in mitigating the risk of Non-Performing Financing (NPF). One of the main debates in risk management in Islamic banks is the effectiveness of implementing the Four Eyes principle. Some researchers argue that FEP can be an effective tool in reducing NPF by increasing transparency and accountability in decision making (Husain & Asmawati, 2017). However, there are also skeptical views that consider the implementation of FEP may not always guarantee risk reduction, especially if it is not supported by a healthy organizational culture and adequate training.

This debate shows the need for a holistic approach to risk management in Islamic banks, where various elements contribute synergistically to achieve the desired goals. Research by Arifin (2023) emphasizes that although FEP can reduce risk, its success is highly dependent on consistent implementation and support from top management. In addition, research by Ardhiansyah (2024) explored the impact of centralization and decentralization policies on consumer financing in Islamic banks. The results of this study indicate that although there is no significant difference in financing performance between the two approaches, centralization provides better quality performance. This shows that organizational structure and operational policies have an influence on credit risk management. Another study by Wahyu and Budianto (2023) shows a growing trend in credit risk research, with an emphasis on the need to understand and manage credit risk in the context of Islamic and conventional banking. This finding underscores the importance of a more holistic and integrative approach to risk management in Islamic banks.

The concept of corporate governance is also relevant in the context of NPF control. Good corporate governance can strengthen the internal control system and ensure that decisions are made in accordance with sharia principles and stakeholder interests. Research by Elasrag (2018) shows that the implementation of good corporate governance practices in Islamic financial institutions can help reduce the risk of problematic financing. From these studies it shows that although there are various efforts in risk management in Islamic banks, there are still many challenges to be faced. The application of the Four Eyes principle can be one solution, but it must be supported by innovation in risk assessment techniques and a healthy organizational culture. By understanding existing trends, debates, and research results, it is hoped that Islamic banks can be better at managing financing risks and reducing NPF, thereby maintaining customer trust and the financial stability of the institution.

C. RESEARCH METHODS

This study adopts qualitative analysis to examine the Analysis of the Effectiveness of the Four Eyes Principle in Controlling NPF in Islamic Banks: Literature Review

1. Research Design: A systematic literature review was conducted, focusing on studies published in the last five years (2017-2024).
2. Data Collection: Data was collected from academic databases namely Scopus and Google Scholar.
3. Data Analysis: Data was analyzed using thematic analysis, providing insights into current themes and issues related to the impact of Risk Management strategies on Problematic Financing in Islamic banks.

D. RESULTS AND DISCUSSION

This section will discuss the results of research that analyzes the effectiveness of the implementation of the Four Eyes Principle in controlling Non-Performing Financing (NPF) in Islamic banks. Using a literature review method, this study examines various academic sources and case studies that discuss the impact and implementation of the Four Eyes Principle in the context of Islamic banking. The discussion of the results of this study will outline several results of discussions and discussions in several articles related to how the Four Eyes Principle can improve accountability, transparency, and financing risk management, as well as its implications for reducing the NPF rate in Islamic banks.

FINANCING RISK MANAGEMENT

Risk management in financing is an important aspect that must be considered by financial institutions, especially in terms of unsecured financing, such as the Mutabarok Bunda Sejahtera product at BPRS Magetan. According to research by Arifin (2023), although risk management has been implemented according to existing procedures, its effectiveness is still questionable. The increase in the number of problematic customers from year to year shows that the risk remains high in unsecured financing. Therefore, it is very important to apply a comprehensive risk analysis, such as the 4C + 1S method, to identify and reduce the risks that may arise from the financing provided

In addition, research by Devi (2020) at BPRS Bumi Artha Sampang highlighted the importance of implementing preventive measures through 5C analysis (character, capacity, capital, condition, and collateral) in Murabahah financing risk management. With this approach, banks can be more effective in identifying and monitoring risks, while reducing the possibility of problematic financing. This is in accordance with the findings of Husain and Asmawati (2017), which emphasize that good risk management in home ownership financing products at Bank BNI Syariah must involve a comprehensive risk assessment process. The use of historical and analytical data in risk assessment can help banks anticipate potential problems in the future

From this understanding, it is clear that effective risk management does not only depend on the implementation of existing procedures, but also needs to be balanced with innovation in risk assessment and monitoring techniques. The application of the Four Eyes Principle (FEP) in risk management also shows significant results in reducing the Non-Performing Financing (NPF) ratio.

IMPLEMENTATION OF THE FOUR EYES PRINCIPLE

The application of the Four Eyes Principle (FEP) in managing financing risks in Islamic banks has shown a significant positive impact in reducing the Non-Performing Financing (NPF) ratio. Research conducted by Supriadi (2018) revealed that FEP has a beneficial effect in reducing NPF. This shows that the involvement of two individuals in the financing decision-making process can reduce the possibility of errors or omissions that can cause financing problems. This result is very important because a high NPF ratio can damage the financial health of a bank and reduce the level of customer trust. Therefore, the application of FEP is not only a procedure, but also an effective tool for managing risk.

Furthermore, Junaedi (2018) emphasized that FEP as a joint decision-making model not only helps reduce financing risk, but also increases the level of accountability in each transaction. In the context of the Sharia Business Unit at Bank BTN, the implementation of FEP ensures that each financing decision is reviewed and approved by more than one individual, reducing the possibility of financing problems. This study also shows that, although other factors such as profit and bank size also affect NPF, the practice of FEP as a standard in decision-making has great potential to improve overall financing performance.

Thus, the implementation of FEP not only functions as an internal control tool, but also creates a more collaborative and responsible work culture in risk management in Islamic banks. This is very relevant in an era where transparency and accountability are the main demands in the financial sector. The success of FEP in reducing NPF at Bank BTN can be used as a model for other financial institutions to adopt in order to improve the effectiveness of risk management and maintain the financial health of the institution.

In addition, the implementation of FEP has been proven to create a more transparent and accountable decision-making environment. This is important because decisions made through collaboration can reduce individual bias and increase objectivity in risk evaluation. By involving more than one individual in the decision-making process, banks can reduce potential errors and ensure that the resulting decisions are more mature and measured.

The implementation of FEP also encourages a work culture that is more responsive to the challenges and risks involved in financing, and increases customer trust in financial institutions. When customers see that financing decisions are made through a transparent and collaborative process, they are more likely to trust that the bank is acting in their best interests. Thus, FEP not only serves as a risk management tool, but also as an important pillar in maintaining the trust and reputation of Islamic banks in the eyes of the public.

PROBLEM FINANCING

Dealing with non-performing financing (NPF) is a major challenge for financial institutions, including Islamic banks. As stated by Qodar (2016), inadequate financing management can result in bank assets not rotating and reduce the bank's ability to provide profit sharing to customers. Research shows that the factors causing NPF at PT Bank Syariah Mandiri include non-compliance with regulations in business units, decline in customer business, and suboptimal practices such as side streaming. Therefore, an effective strategy is needed to handle NPF, such as routine collection and restructuring, to ensure that non-performing financing can be resolved quickly and efficiently

In this context, Nurjanah and Hilyatin (2017) highlighted the importance of using the stay and exit strategy to overcome NPF at Bank Syariah Mandiri Purwokerto Branch. Although there was an increase in NPF in 2015, the bank still managed to maintain it below the maximum limit set by Bank Indonesia. In addition, the implementation of the Financial Information Service System (SLIK) by OJK as explained by Rozabila (2024) also plays an important role in minimizing problematic financing. By integrating accurate information about debtors before disbursing financing, banks can make wiser decisions and reduce potential risks

Khan and Bhatti (2008) emphasized that Islamic banking needs to face financing-related risks, such as credit risk, which can affect the financial performance and reputation of the bank. In this regard, Zaher and Hassan (2001) stated that the application of Islamic principles in credit decision-making, as well as transparency and accountability in the process, are essential to reduce NPF. Therefore, a combination of effective risk management strategies and solid information systems is key to maintaining the financial health of Islamic banks. This ensures that banks are not only able to manage risks better, but also increase customer confidence and the stability of the financial sector as a whole.

RESEARCH AND FINANCING ANALYSIS

Research on financing risk in Islamic and conventional financial institutions shows significant development from 1975 to 2022. Based on the analysis conducted by Wahyu and Budianto (2023), there were 1139 articles identified through searches in indexed national and international journals, indicating an increase in the number of publications each year. This study also identified five main clusters in the topic of financing risk, as well as 13 main themes related to financing risk in Islamic and conventional banking. This reflects the growing interest in understanding and managing financing risk, which is a crucial aspect of banking operations. For example, research by Hassan and Ahmed (2019) shows that a better understanding of risk management can strengthen the financial performance of Islamic banks.

Furthermore, research by Ardhiansyah (2024) highlighted the impact of centralization and decentralization policies in consumer financing after the merger in Islamic banks. Although no significant differences were found in financing performance and profits between the two approaches, the results showed that centralization provided better quality performance. This suggests that effective financing risk management can be influenced by the organizational structure and operational policies implemented by the bank. Thus, it is important for financial institutions to continuously evaluate and adjust their strategies in financing risk management to improve overall performance. Research by Zaher and Hassan (2001) also emphasized the importance of organizational structure in risk management, which can help banks reduce the possibility of problematic financing.

CORPORATE GOVERNANCE IN FINANCING

The implementation of good corporate governance not only ensures compliance with regulations, but also creates transparency and accountability that can increase customer and stakeholder trust. According to Hassan and Lewis (2007), strong governance principles in Islamic banking are essential to maintain the integrity and reputation of the institution. The existence of an effective Sharia Supervisory Board can help ensure that all financial transactions and products are in accordance with Sharia law, which ultimately supports the sustainability and growth of Islamic financial institutions.

In addition, Khan and Bhatti (2008) emphasized that strong corporate governance can reduce risk and increase the stability of the Islamic financial system. In this context, an approach based on ethical and moral values in decision making becomes very relevant. Therefore, Islamic financial institutions do not only focus on financial profits, but also on social responsibility and sustainability. This is in line with the main objective of Islamic financial institutions to provide broader benefits to society and the environment, as well as to build a fairer and more sustainable financial ecosystem.

By adopting good corporate governance principles, Islamic financial institutions can strengthen their foundations in facing global challenges and maintaining the trust of customers and stakeholders. This is important to ensure that they not only comply with existing regulations but also contribute positively to the economic and social development of society.

RESEARCH IMPLICATIONS

Research on the effectiveness of the Four Eyes Principle (FEP) in controlling Non-Performing Financing (NPF) in Islamic banks shows that the application of this principle can significantly increase accountability and transparency in the decision-making process. By involving more than one individual in each financing decision, each evaluation step becomes more comprehensive, allowing for deeper consideration of the risks involved. This reduces the possibility of errors and potential fraud, which in turn contributes to a decrease in the NPF ratio. These findings underline the importance of implementing FEP as a strategy in risk management, where Islamic banks that adopt this principle tend to show better performance in terms of financial health and reputation.

However, the success of FEP implementation does not only depend on the mechanism itself, but also on top management support and adequate training for staff. Management support is needed to create and strengthen a collaborative and responsible work culture, where each individual feels involved in the decision-making process. The implications of this study also include the development of policies and regulations that can encourage the widespread implementation of FEP in Islamic banks. With more effective risk management and a significant reduction in NPF, it is expected that Islamic banks can improve customer satisfaction and maintain their reputation, which is very important in maintaining the stability of the Islamic financial sector as a whole. Further research also needs to focus on evaluating the effectiveness of the risk management strategies implemented, as well as analyzing the impact of existing regulations and policies on the performance of Islamic banks. This research can include a comparative study between Islamic and conventional banks in terms of risk management and financing performance. The implications of the results of this discussion indicate that with appropriate policies and continuous research, Islamic banks can improve the quality of their financing portfolios and reduce the risk of problematic financing, as well as build customer trust and maintain the financial stability of institutions, which ultimately supports the growth of the Islamic financial sector as a whole.

E. CONCLUSION

The implementation of the Four Eyes Principle (FEP) in managing financing risk in Islamic banks has proven effective in reducing the Non-Performing Financing (NPF) ratio. By involving two individuals in each decision-making process, FEP increases accountability, transparency, and objectivity, thereby reducing the potential for errors and omissions. The results of the analysis show that collaboration in decision-making not only improves the quality of financing evaluation but also strengthens a more responsive and responsible work culture. Support from top management and adequate training for staff are the keys to the success of FEP implementation.

These findings underscore the importance of innovation in risk assessment techniques and the need for a holistic approach to risk management in Islamic banks. Thus, the implementation of FEP is not only beneficial for reducing NPF, but also contributes to increasing customer trust and the financial stability of the institution. Overall, FEP is a strategic tool that greatly assists Islamic banks in managing risk and maintaining financial health, as well as improving their reputation in the eyes of the public. The implementation of FEP inspires a collaborative and responsible work culture, which is very important in the modern era where transparency and accountability are the main demands in the financial sector.

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