IMPLEMENTATION OF RISK MANAGEMENT ON SHARIA BANKING

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ABSTRACT

Banking as a financial intermediary, both banks in general and Islamic banking in particular will always be faced with various types of risks with varying levels of complexity and are inherent in its business activities.

Islamic banking as a part of the national banking has obtained a place with the issuance of Law Number 21 of 2008 concerning Sharia Banking. Islamic banking also has potential risks that must be managed properly. In particular, risk management arrangements for Islamic banks do not yet exist, but the concept of risk management in conventional banks can be applied to Islamic banks by adjusting to the rules of Islamic law.

According to the Regulation of the Financial Services Authority Number 57 / Pojk.03/2016 Regarding the Application of Risk Management in Commercial Banks Conducting Customer Service Prima Jo. PBI Number: 11/25 / PBI / 2009 Concerning Amendments to Bank Indonesia Regulation Number 5/8 / PBI / 2003 concerning Application of Risk Management for Commercial Banks, that Sharia Commercial Banks are required to apply Risk Management for at least 4 (four) types of Risk namely Credit Risk, Market Risk, Liquidity Risk and Operational Risk.

Keyword : Implementation, risk management, sharia banking

A. Introduction

Almost every country in the world, banking sector is the lifeblood of the country's economy, as well as in Indonesia, if the banking sector collapses the country's economy will collapse too.[1] Because banking institutions are the core of the financial system of each country.[2]

In connection with the country's economy, Indonesian banking aims to support the implementation of national development, in order to improve equity in economic growth and national stability, towards improving the welfare of the people, in conducting business activities based on economic democracy using the principle of prudence.[3]

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[1]Nimrod Sitorus, "Cengkraman Bank di Lahan Finansial", *Majalah Info Bank,* No. 300, edisi khusus Maret 2004, Vol. XXVI, hlm. 22

[2]Hermansyah, Hukum Perbankan Nasional Indonesia, (Jakarta : Kencana Prenada Media Gruup, 2006), hlm. 7

[3]Article 2 and 4 Law No. 7 Year 1992 concerning Banking , see article 2 Verse (1) PBI No.: 6/10/PBI/2004 concern Commercial Bank Soundness Rating System

Bank as business entity that collects funds from the public in the form of deposits, and channel them to the public in the form of credit, and / or other forms, basically aim in order to improve the standard of living of the people. As a bearer of the functions of the collector and distributor of public funds, the bank must be carried out using the precautionary principle.

The precautionary principle is intended to avoid the risk of the bank or at least minimize the existing risks, in this case the bank is expected to always be in a healthy and stable condition, so that it can carry out the purpose of establishing the bank, which is to support the implementation of national development in order to increase equity economic growth, and national stability towards improving the welfare of the people at large.

To run banking industry activity must be done with a good and professional banking management, and the implementation of this management can be carried out with the precautionary principle, because almost all banking industry activities are always related to the risks that might occur.

B. Risk management

Understanding the word 'risk (resiko)' in the Indonesian dictionary is defined as: "possibility, loss, effect".[4] Therefore risk can be expressed as something that is always there to hit it with the possibility of bad consequences or consequences that will be harmful,[5] such as the possibility of loss, fire, injury and so on.

Risks in banking institutions are unlikely to be avoided, especially with regard to credit risk, even for the future travel of the banking world according to Indonesian Economic Intelligence (IEI) Sunarsip, stated that credit risk in national banking is still quite high.[6]

The management of banks in realizing the objectives to be achieved must also be based on the implementation of optimal and professional risk management. Risk Management is defined as a series of processes of identification, measurement (access to operational risk), monitoring and control of all types of risks.[7]

[4]M. B. Ali dan T. Deli, *Kamus Standar Bahasa Indonesia,* (Bandung : Penebar Ilmu, 2000), lihat juga Ronny Kountur, *Manajemen Risiko,* (Jakarta : Abdi Tandur, 2006), hlm. 3

[5]Herman Darmawi, *Manajemen Risiko,* (Jakarta : Bumi Aksara, 2005), hlm. 1

[6]Sunarsip, " Credit Risk Is Still High", *Harian Republika,* September 25th 2006, hlm. 1, *Ibid.,* high credit risk is reflected in indicators of low investment realization, declining numbers of motor vehicle sales, and still high unemployment. In addition, Bank Indonesia's asset quality uniformity policy also plays a role in determining high credit risk in national banking institutions. As a result, banks become extra careful looking for new creditors as well as credit expansion to new sectors

[7]Rudjito, "Use of Risk Management for Banking", Business Law Journal, Volume 23- No. 3 Year 2004, hlm. 15.

Based on PBI Number: 11/25 / PBI / 2009 concerning Amendments to Bank Indonesia Regulation Number 5/8 / PBI / 2003 concerning Application of Risk Management for Commercial Banks, stated in Article 1 paragraph (5) that risk management is: "a series of procedures and methodology used to identify, measure, monitor, and control risks arising from bank business activities".[8]

The process of implementing risk management in national banking system requires the management of banking companies (banking management) to carry out a series of risk anticipating and controlling processes that may or are occurring in the banking system, to avoid greater losses and increase the profitability of the banking industry. Banking starts from the board of commissioners, the board of directors to the level of managers must implement or implement risk management properly.

The importance of applying risk management in banks is that banks are financial institutions that are vulnerable to risk. This can be seen from the many cases that occur in banking in the form of business crimes due to changes in values (values) in society, when a business activity is operated in such a way that it is very detrimental to the interests of the wider community.[9]

Risk management consists of the activities of identifying, measuring, monitoring, and controlling all types of risks. While Risk Management itself is not intended to eliminate the risk altogether from the banking business portfolio, but to minimize the occurrence of significant losses that are considered to be able to hamper business continuity.[10]

Actually indirectly Law Number 10 of 1998 concerning Banking contains regulations for banks to implement risk management as contained in Article 2, Article 10, Article 11, Article 27, Article 29, Article 34, and Article 35 even though they do not implicitly contain risk management rules in banking.

The essence of the application of risk management is the adequacy of procedures, and risk management methodologies, so that bank business activities can be controlled, at the limit that can be accepted and benefited the bank.

Because of the importance of the role of the bank in carrying out its functions it needs to be regulated properly and correctly. This aims to maintain customer trust in banking activities. One of the regulations that need to be made to regulate banking is the regulation regarding bank capital that serves as a buffer against possible losses.

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[8]See Article 1 Verse (11) PBI No. 11/19/PBI/2009 Jo. PBI No. 12/ 7 /PBI/2010 concern Risk Management Certification for Management and Officials of Commercial Banks

[9]Romli Atmasasmita, Pengantar Hukum Kejahatan Bisnis, (Jakarta: Prenada Media, 2003), hlm. 34

[10]Rudjito, *Loc.Cit*

The risk management implementation policy has several risks as stipulated in PBI No. 11/25 / PBI / 2009 concerning Amendments to Bank Indonesia Regulation Number 5/8 / Pbi / 2003 concerning Application of Risk Management for Commercial Banks. In Article 4 paragraph (1) PBI No. 11/25 / PBI / 2009 concerning the Application of Risk Management for Commercial Banks divided by eight coverage of risks in banking, namely: "credit, market, liquidity, operational, legal, reputation, strategic and compliance risks. While according to the World Bank (World Bank) there are four types of risk groups faced by banks, namely: financial risk, (financial risk), operational risk (operational risk), business risk (business risk), and other event risk (risk activity)".[11]

According to PBI No. 11/25 / PBI / 2009 Concerning Amendments to Bank Indonesia Regulation Number 5/8 / Pbi / 2003 concerning Application of Risk Management for Commercial Banks, what is meant by risk management is: "a series of procedures and methodologies used to identify, measure, monitor, and controlling risks arising from bank business activities".

In connection with the implementation of risk management in the banking industry, Rudjito stated that it is necessary to systematize banking risk management, where there are four stages of systematic risk management, namely:[12]

a. Risk identification, such as the activity of reviewing loss records, findings of the internal audit work unit, to the utilization of business managers through the discussion process.
b. Risk measurement
c. Risk monitoring, by taking into account the indicators and parameters that have been set, and
d. Risk control, which can be done by avoiding, transferring, and managing or disbursing (because risk control costs are more expensive than the impact of the expected losses).

Efforts to overcome or at least minimize these risks, it is necessary to do a risk management process (risk management).

The importance of applying risk management in banks is that banks are financial institutions that are very vulnerable to risk. This can be seen from the many cases that occur in banking, in the form of business crimes due to changes in values (values) in society, when

[11]Editorial, "Urgensi Penegakan Good Corporate Governance", Business Law Journal, Volume 23- No. 3 Tahun 2004, hlm. 4

[12]Rudjito, Op.Cit., hlm. 18

a business activity is operated in such a way that it is very detrimental to the interests of the wider community.[13]

Risk management in principle serves to minimize uncertainty, risk management is useful in order to know, identify characteristics, analyze, and control risks that are likely to occur, so that early efforts are needed to overcome the risks that are likely to occur. One step that needs to be done is to apply the principle of getting to know customers, because risk management policies and procedures related to the principle of recognizing customers are an integral part of the risk management policies and procedures themselves.[14]

C. Sharia Banking

The regulation on banking was originally regulated in the general Banking Law, which is commonly referred to as the Indonesian Banking law[15], wherein the Banking Law differentiates banks based on their business activities into two, namely conventional banks and banks that carry out business activities based on sharia principles . This is illustrated in Article 1 point (13), which limits the definition of sharia principles as an agreement based on the provisions of Islamic law.

In line with the development and progress of Islamic banking, the Government of Indonesia issued a law specifically regulating Sharia Banking by enacting Law Number 21 of 2008 concerning Sharia Banking, which came into force on July 16, 2008. Article 1 paragraph (7) of the Sharia Banking Law provides a definition what is clear about the definition of a Sharia Bank, namely: "Bank that conducts its business activities based on Sharia Principles and according to its type consists of Sharia Commercial Banks and Sharia People's Financing Banks".

The business activities of a bank, whether conventional banks or Islamic banks are based on an agreement, of course for Islamic banks the agreement is based on sharia principles.[16] Prior to the birth of the Sharia Banking Act, an agreement based on sharia principles referred to in the Banking Law Number 10 of 1998 as stated in Article 1 point 13 was formulated by Islamic banking experts who provided understanding as an agreement between banks and other parties, both for the purpose of depositing funds and for other financing activities that

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[13] Romli Atmasasmita, *Op. Cit*, hlm. 34

[14] Pedoman Standar Penerapan Prinsip Mengenal Nasabah

[15] Undang-undang Perbankan Indonesia adalah UU Nomor 7 Tahun 1992 sebagaimana telah diubah dengan UU Nomor 10 tahun 1998 tentang Perbankan.

[16] Article 1 Point 12 Law concerning Sharia Banking “The Sharia Principle is the principle of Islamic law in banking activities based on a fatwa issued by an institution that has authority in the stipulation of a fatwa in the field of sharia”

must be carried out in accordance with sharia, including financing based on profit sharing principles (*mudhorabah*), financing based on capital participation (*musharakah*), the principle of buying and selling goods by obtaining profits (*murabahah*) or financing of capital goods based on pure rent without choice (*ijarah*) or by the option of transferring ownership of goods leased to the bank by another party (*ijarah wa itiqna*).

After the promulgation of the Sharia Banking Law, this agreement is affirmed as a *aqad* (contract),[17] which is defined as a written agreement between a Sharia Bank or a sharia business unit and another party which contains the rights and obligations of each party in accordance with Sharia Principles.

Despite the different business activities, in fact the function of Islamic banks in general is not different from conventional banks, namely as intermediary institutions (intermediary institutions) or financial intermediaries (financial intermediaries),[18] because these financial institutions act as liaison between one economic actor and another economic actor in the real sector that wants to define its spending budget or want a surplus, in the spending budget that is also circulated to obtain additional income.[19]

The main difference lies in the type of profit taken by the bank from the transactions carried out. In conventional banks it is usually advantageous to take interest, while Islamic banks benefit from what is called a reward, both in the form of services (fee base income) and mark-up or profit margin, as well as profit and loss sharing.

In addition, Islamic banks are also allowed to carry out multi-finance business activities and trading. This is related to the nature of Islamic bank transactions which are investments and buying and selling as well as very diverse financing that can be done by Islamic banks, such as financing with the principle of murabahah (buying and selling), ijarah (rent) or ijarah wa itiqna (rent buying) etc.[20]

The figure of Islamic Banking has become a global phenomenon, not only in Muslim-majority countries, but in countries with Muslim minorities, this is because the syaraih banking work system is considered to contain a sense of justice.

In Indonesia, the growth and development of Islamic banking is fast, this is marked by the number of banks that have been conventional in opening their sharia units. The rapid growth of Islamic banks is actually inspired by the global financial crisis, on the one hand has

[17]Article 1 point 13 Law concerning Sharia Banking

[18] Read article 4 Law No.21 Year 2008 concerning Sharia Banking

[19]Soediyono, Rekso Prayitno, Prinsip-prinsip Dasar Manajemen Bank Umum Penerapannya di Indonesia, (Yogyakarta: BPFE Yogyakarta, 1992), hlm. 4

[20]See Article 19-26 Statute concerning Sharia Banking.

brought wisdom for the development of Islamic banking. The world community, experts and economic policy makers, not only glance but more than that they want to implement the concept of sharia seriously.

In addition, the prospects for Islamic banking are brighter and more promising. Islamic banks in Indonesia, are believed to continue to grow and develop. The development of the Islamic financial industry industry is expected to strengthen the stability of the national financial system. These expectations provide an optimism to see the spread of the Sharia banking office network currently experiencing very rapid growth.

However, the future of the Islamic banking industry will depend heavily on its ability to respond to changes in the financial world. The phenomenon of globalization and information technology revolution, making the scope of Islamic banking as a financial institution has exceeded the limits of a country's legislation. The implication is that even the financial sector becomes increasingly dynamic, competitive and complex. Moreover, there is a growing trend in cross-segment mergers, acquisitions and financial consolidation, which blends the unique risks of each segment of the financial industry.

The development of Islamic financial institutions is quite fast. One reason is because of the strong belief among the Muslim community that conventional banking contains elements of usury which are forbidden by Islam. Supported by the Banking Law and the Sharia Banking Act provides even greater opportunities for the development of Islamic banking because it states that the purpose of developing sharia is:

a. In order to meet the needs of banking services for people who do not agree with the concept of interest. With the implementation of a sharia banking system that coexists with the conventional banking system, the flow of public funds will run more broadly, especially from segments that have not been touched by the conventional banking system that implements the interest system.
b. In order to open space for financing for business enhancement based on partnership principles. The concept applied in this principle is that relationships that are built with investors will be harmonious (mutual investor relationship). Meanwhile, in conventional banks the concept applied is the relationship of debtors and creditors (debtor to creditor relationship).
c. In order to meet the need for banking products and services which have several varied advantages in the form of eliminating continuous interest charges (perceptual interest effects), limiting unproductive speculation activities (unproduction speculation), financing is aimed at businesses that pay more attention to moral elements .

Furthermore there are trends in the development of recording systems, financial mathematics and the innovation of risk management techniques that are unpredictable. These developments allegedly will further add to the challenges faced by Islamic banking, especially with the inclusion of conventional financial institutions that also offer Islamic financial products.

Besides that, the risk of facing the global financial system is not a mistake about the ability to create profits, but more important is losing trust and credibility about how its operations operate. Therefore, Islamic banking needs to equip itself with the latest operating system management capabilities to address these environmental changes. One of the main factors that can determine the sustainability and growth of the Islamic banking industry is, how intensely this institution can manage the risks that arise from the sharia financial services provided.

D. Risk in sharia banking

Risk management studies in the banking world today are indeed rising. Financial institutions, including Islamic banks, have at least acknowledged that they must pay attention to ways to minimize risk in order to maintain customer competitiveness, profitability and loyalty. Therefore, banks are seriously implementing this risk management, which is a continuous process and takes a lot of thought, energy, and money.

In the context of implementing risk management, the guidelines that have been implemented so far have been made only for conventional banks. Whereas those who interact and engage in activities in the world and national banking business are not only conventional banks, but also have been enlivened by banks with sharia principles whose numbers continue to increase from year to year.

Historically the application of risk management to banks, in this case BI itself has only begun to apply the rules for calculating capital adequacy ratio (CAR) at banks since 1992.[21] Meanwhile, banks with sharia principles were first born in Indonesia in the same year. So when viewed from the age of the Islamic banking system, this is a tough challenge. Islamic banks will be very difficult to follow the concepts that conventional banking has carried out in terms of risk management, considering conventional banking takes a long time to build systems and develop risk management techniques.

[21]Tedy Fardiansyah Idris, *Tantangan Manajemen Risiko Bank Syari'ah*, dikutip dari InfoBankNews.com

Risk in the banking context is a potential event, both anticipated and unanticipated, which has a negative impact on bank income and capital. Although bank managers strive to make the highest profits, simultaneously they must also pay attention to possible risks arising from management decisions regarding the structure of their assets and liabilities. Specifically the risks that will cause a variety of bank profit levels include liquidity risk, credit risk, interest rate risk and capital risk. Islamic banks will not face interest rate risk, even though in an environment where the dual banking system applies to an increase in the interest rate in conventional markets it can have an impact on increasing liquidity risk as a result of customers withdrawing funds from Islamic banks and moving to conventional banks.

Banks must pay serious attention to the potential risks they face and develop systems to identify, control, and manage these risks. The development of a risk management culture at banks is an integral part of the responsibilities of the supervisory authority and regulators. Therefore, the supervisory authority must also be familiar with the risk character of Islamic banks and participate in the development of efficient risk management.[22]

In this case the Islamic Financial Services Board (IFSB), has formulated the principles of risk management for banks and financial institutions with sharia principles. Last March 15, 2005, the first exposure draft was published. In the executive summary draft clearly stated that the risk management framework of Islamic financial institutions refers to the Basel Accord II (which is also applied by conventional banking)[23] and is adjusted to the characteristics of financial institutions with sharia principles.[24]

In general, the risks faced by Islamic banking can be classified into two major parts. That is the same risk that conventional banks face and risks that are unique because they must follow sharia principles. Credit risk, market risk, benchmark risk, operational risk, liquidity risk and legal risk must be faced by Islamic banks. However, because they have to comply with sharia rules, the risks faced by Islamic banks are different.[25]

[22]Hendro Wibowo, Manajemen Risiko Pada Bank Syariah, http://hndwibowo.blogspot.com/2008/06/manajemen-risiko-bank-syariah.html

[23]Indonesia applied Bassel accord II by issued PBI Nomor 5/8/PBI/2003 concern Application of Risk Management for Commercial Banks at Mei 23rd 2003, although prior to the birth of this Bank Indonesia Regulation there were regulations that tried to build a commitment to risk management through the Package February 1991, especially decree of BI the Director of BI No. 23/67/Kep/Dir/1991 tanggal 28 February 1991 concern The Bank's Minimum Capital Requirement, which is further elaborated in Decree of BI Director Direksi No. 23/11/BPPP/1991, February 28th 1991, regarding the Bank's Minimum Capital Requirement.

[24]Rahmani Timorita Yulianti, "Manajemen Risiko Perbankan Syariah", *http: / /master. islamic. uii. ac .id*, hlm 4, diakases tgl 28 Juli 2010

[25]Nova S, "Manajemen Risiko Pada Perbankan Syariah" http: // www .managementfile. com /journal. hlm. 1, diakses tgl 28 Juli 2010

Banking risks generally can be compared with Islamic banks, referring to Article 4 point 1 PBI No. 11/25 / PBI / 2009 concerning Amendments to Bank Indonesia Regulation Number 5/8 / PBI / 2003 concerning Application of Risk Management for Commercial Banks, among others, as follows:

1. Credit Risk (credit risk) is a risk that arises as a result of the failure of a party to fulfill its obligations. In commercial banks, financing is called a loan, while in Islamic banks is called financing, while for remuneration is given or received at a commercial bank in the form of interest (interest loan or deposit) in a predetermined percentage. In Islamic banks, the level of remuneration is measured by the system for the results of business. In addition, the requirements for credit applications in Islamic banks are more stringent than conventional banking so that credit risk from Islamic banks is smaller than conventional banking. Therefore on the credit side, in sharia rules, banks act as sellers, while customers are murabahah buyers. Thus the debtor who is considered not legally flawed and his business activities run well will get priority. Therefore, the risk of Islamic banks is actually smaller than conventional banks. Islamic banks will not experience a negative spread, because of the funds disbursed for financing, there will be income, not interest as in ordinary banks.
2. Market Risk, is a risk arising from the movement of market variables from a portfolio owned by a bank, which can harm the bank. Market variables include interest rates and exchange rates. In Islamic banking there is no market risk because Islamic banks do not base their operations on market risk.
3. Liquidity Risk, Risk is partly due to the bank being unable to fulfill its obligations due. The bank has two main sources of liquidity, namely assets and liabilities. If banks hold assets such as securities that can be sold to meet their funding needs, then the liquidity risk can be lower. While holding assets in the form of securities limits income, because they cannot obtain a higher level of income than financing. The key factor is that banks cannot freely maximize revenues due to the pressure of liquidity needs. Therefore the bank must pay attention to the right amount of liquidity. Too much liquidity will sacrifice income levels and too little will have the potential to borrow funds at prices that cannot be known in advance, which will result in increased costs and ultimately lower profitability. In Islamic banks, customer funds are managed in the form of deposits and investments. The method of deposit and investment is clearly different from deposits in conventional banks where deposits are an effort to make money. The concept of deposit funds means that whenever the customer requires, the Islamic bank must be able to fulfill it, as a result the deposit

funds become very liquid. This high liquidity makes deposit funds less eligible for an investment that requires fund deposition. Because the funds deposited are not long enough, they are only deposited, the bank may not provide returns. Whereas if the customer's funds are invested, then because the concept of investment is a business that bears the risk, meaning that every opportunity to benefit from the business carried out, there is also a risk to receive losses, the customers and banks share the benefits and risk.

4. Operational risk is according to the Basle Committee definition, operational risk is the risk resulting from a lack of an information system or internal supervision system that will result in unexpected losses. This risk is closer to human problems, the inadequacy and or non-functioning of internal processes, system failures or the existence of external problems that affect bank operations. There is no significant difference between Islamic banks and conventional banks related to operational risk.
5. Legal Risk, is a Risk caused by a weakness in the juridical aspect. The weakness of the juridical aspects is partly due to the existence of lawsuits, the absence of legislation that supports or the weakness of the engagement such as the non-fulfillment of the legal requirements of the contract. There is no significant difference between Islamic banks and conventional banks related to legal risk.
6. Reputation Risk is a risk that is caused partly by negative publications related to a bank's business or negative perception of the bank. There is no significant difference between Islamic banks and conventional banks related to reputation risk.
7. Strategic Risk is a risk that is partly due to the incorrect determination and implementation of bank strategies, improper business decision making or lack of responsiveness of the bank to external changes. There is no significant difference between Islamic banks and conventional banks related to strategic risk.
8. Compliance Risk is a Risk caused by a bank not fulfilling or not implementing the laws and other applicable regulations. There is no significant difference between Islamic banks and conventional banks related to compliance risk.

The eight risks explained before that must be obeyed by commercial banks, the Bank Indonesia Regulation only requires the implementation of risk management for Islamic banks at least 4 existing risks, namely; Credit Risk, Market Risk, Liquidity Risk, and Operational Risk.

However, in addition to the 4 risks that must be managed carefully by the Islamic Bank, actually the Islamic Bank must also face other unique risks. This unique risk arises because the contents of the Islamic bank balance are different from conventional banks. In this case the profit and loss sharing by the shariah bank adds to the possibility of other risks arising.[26] Such as withdrawal risk, fiduciary risk, and displaced commercial risk are examples of unique risks that must be faced by Islamic banks. This characteristic together with a variety of financing models and adherence to sharia principles.

Consequently, the techniques used to identify, measure, and manage risk in Islamic banks are divided into two types. Standard techniques used by conventional banks, provided that they do not conflict with sharia principles, can be applied to Islamic banks. Some of them include GAP analysis, maturity matching, internal rating system, and risk adjusted return on capital (RAROC).

On the other hand, Islamic banks can develop new techniques that must be consistent with Islamic principles. This is all done in the hope of anticipating other unique risks.

The survey conducted by the Islamic Development Bank (2001) on 17 Islamic financial institutions from 10 countries implies that the unique risks that must be faced by Islamic banks are more seriously threatening the survival of Islamic banks compared to the risks faced by conventional banks. The survey also implies that sharia bank customers have the potential to attract their savings if Islamic banks provide lower yields than conventional bank interest. Furthermore, the survey stated, profit sharing financing models, such as diminishing *musharaka*, *musharaka*, *mudaraba,* and buying and selling models, such as greetings and *istishna*', are more risky than *murabahah* and *ijarah*.[27]

In the next development, sharia banking faces a number of challenges related to the implementation of risk management, such as the selection of financial instruments in accordance with sharia principles as well as money market instruments that can be used to hedge against risks. Because BI and IFSB refer to the Basel Accord II rules, a thorough understanding of conventional bank risk management will greatly assist the implementation of risk management in Islamic banks.[28]

Operational risks arising from weak internal controls and corporate governance can also cause the bank's net cash flow revenue to fall compared to what is expected or targeted, causing management problems. Islamic banks will face risks related to fiqh issues because the development of Islamic banking is so fast, so it needs an efficient and fast sharia legitimacy system from banks, from the other side the sharia supervisory board in Islamic banking does not fully understand the concept of risk management and other systems so that a

[26]Tariqullah Khan dan Habib Ahmed, *Manajemen Risiko Lembaga Keuangan Syariah*, penerjemah dan pengantar Ikhwan Abidin Basri, (Jakarta: Bumi Aksara, 2008), hlm. 3.

[27]Rahmani Timorita Yulianti, *Op. Cit*, hlm. 3

[28]*Ibid*

comprehensive understanding of Islamic banking does not conflict with sharia principles in terms of product innovation. One that is needed in modern times in Islamic banking is compliance with sharia fatwas and sharia explanations or statements on audits conducted.

In relate with risk management as regulated in the Regulation of the Financial Services Authority (POJK) regulated in POJK No. 57 /POJK.03/2016, stating that Banks are required to apply risk management in general in the implementation of LNP, Banks are required to apply risk management to aspects of supporting service privileges; and transparency, education and customer protection.[29]

The application of risk management to the supporting aspects of service privileges referred to at least includes:

a. Availability of adequate human resources in accordance with the characteristics and complexity of LNP;
b. Written procedure of LNP activities which refers to the provisions governing the implementation of risk management and the provisions governing Anti Money Laundering and Prevention of Terrorism Funding (APU and PPT);
c. Suitability of specifications, characteristics and risks of products and / or activities offered with characteristics and profiles of Prime Customers; and
d. Availability of adequate information technology

Application of risk management in the aspects of transparency, education and customer protection at least includes: LNP specifications, written agreement between the Bank and the Prime Customer, a mechanism to ensure the authority of the transaction agent; and submission of information to the Prime Customer regarding the position or exposure of each Prime Customer periodically.

Furthermore, in the POJK it is affirmed that banks are required to administer data, documents or documents related to financial transactions and activities of Prime Customers in LNP.

E. Closing

The efficient risk management capacity is how Islamic banks are able to position strategically in the global market by reducing all risks. The absence of a sound and strong risk management system can eliminate Islamic banks from their ability to overcome risks, and can reduce their potential contribution.

[29]See Article 3 - 4 POJK No. 57 /POJK.03/2016

Adequate resources need to be devoted to risk measurement and identification and the development of risk management techniques. In this case, there is an urgent need to combine solid understanding of sharia law with strong knowledge of modern risk management techniques so as to be able to develop innovative risk mitigation.

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