Assyarikah : Journal Of Islamic Economic Business
Universitas Al-Amien Prenduan
Vol. 5 No.01 pp. 35 - 50

# FINANCING RISK MANAGEMENT IN SHARIA RURAL BANK (STUDY ON BPRS HIK PARAHYANGAN)

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**Abstrak**

Industri perbankan dalam operasionalnya sarat dengan risiko yang dapat mengganggu kelangsungan hidup bank, termasuk Bank Pembiayaan Rakyat Syariah (BPRS). Karakteristik produk dan jasa BPRS memerlukan fungsi identifikasi, pengukuran, pemantauan, dan pengendalian risiko yang sesuai dengan kegiatan usaha perbankan syariah. Komposisi pembiayaan berbasis bagi hasil pada BPRS hanya sebesar 14%, tingkat profitabilitas dengan ROA dan ROE mulai tahun 2014 menurun. Sebaliknya rasio pembiayaan macet *Non Performing Financing* (NPF) terus meningkat. Sementara peluang meningkatkan pembiayaan berbasis bagi hasil sangat tinggi karena jumlah UMKM sangat banyak.

Penelitian deskriptif kualitatif di bidang manajemen risiko ini dilakukan pada entitas Sharia Rural Banks. Jumlah BPRS di Indonesia sampai dengan tahun 2023 sebanyak 173, diantaranya ada 102 BPRS di wilayah pulau Jawa. Pengumpulan data sekunder diperoleh melalui laporan tahunan. BPRS HIK Parahyangan dipilih sebagai objek penelitian. Penelitian ini untuk melakukan analisis penerapan manajemen risiko di Sharia Rural Banks dengan mengikuti tahapan proses manajemen risiko.

Hasil penelitian menunjukkan fakta bahwa dalam periode tahun yang diteliti, yaitu tahun 2020-2022 BPRS HIK Parahyangan telah menerapkan manajemen risiko dan mitigasi risikonya dengan baik. Proses manajemen risiko dipahami dan diimplementasikan oleh BPRS HIK Parahyangan, menerapkan prinsip kehati-hatian dalam memberikan pembiayaan dan fokus pada klien yang memiliki rekam jejak yang terbukti baik. Kinerja pembiayaan berbasis bagi hasil menjadi lebih baik, total pembiayaan mulai tahun 2021 meningkat signifikan dan begitu pula untuk pendapatan bagi hasil. Sehingga BPRS HIK Parahyangan dapat menjaga kualitas pembiayaan yang sehat dengan tingkat rasio pembiayaan bermasalah yang terkendali.

Keyword: Manajemen risiko, Bank Pembiayaan Rakyat Syariah.

**Abstract:**

The banking industry in its operations is full of risks that can disrupt the survival of banks, including Sharia Rural Bank (BPRS). The characteristics of BPRS products and services require identification, measurement, monitoring and risk control functions that are in accordance with sharia banking business activities. The composition of profit sharing based financing at BPRS is only 14%, the level of profitability with ROA and ROE starting in 2014 has decreased. On the other hand, the non-performing financing (NPF) ratio continues to increase. Meanwhile, the opportunity to increase profit sharing-based financing is very high because the number of MSMEs is very large.

This qualitative descriptive research in the field of risk management was carried out on the Sharia Rural Bank entity. The number of BPRS in Indonesia until 2023 is 173, of which there are 102 BPRS in the island of Java. Secondary data collection is obtained through annual reports. BPRS HIK Parahyangan was chosen as the research object. This research is to conduct an analysis of the implementation of risk management at Sharia Rural Banks by following the stages of the risk management process.
The research results show the fact that in the year period studied, namely 2020-2022, BPRS HIK Parahyangan has implemented risk management and risk mitigation well. The risk management process is understood and implemented by BPRS HIK Parahyangan, applying the principle of prudence in providing financing and focusing on clients who have a proven track record. The performance of profit sharing based financing is getting better, total financing starting in 2021 has increased significantly and so has profit sharing revenue. So that BPRS HIK Parahyangan can maintain healthy financing quality with a controlled problem financing ratio.
Keyword: Risk Management, Sharia Rural Bank

## PENDAHULUAN

The banking industry is one of the pillars of the financial sector in carrying out intermediation and financial services functions. Banking in distributing funds will pay attention to efficiency. The banking industry in its operations is full of risks that can disrupt the survival of banks. The characteristics of sharia banking products and services require a risk management function and in mitigating risks they must consider conformity with sharia principles.

The main transactions in sharia banking use the principles of buying and selling, profit sharing and rental. The risks of each product offered can be different, the entity's ability to manage them is required because these risks cannot be avoided but must be managed well so as not to reduce the opportunity to obtain results. Sharia banks require human resources (SDI) who are fatonah, sidiq, trustworthy and tabligh in carrying out their roles [1].

The risks of Islamic banks are different from conventional banks, the pattern of profit and loss sharing carried out by Islamic banks increases the possibility of other risks emerging (Khan & Ahmed, 2001). The profit and loss sharing (PLS) theory provides justice to both parties because profits and/or losses that may arise from

[1] Istutik, & Bunyamin, 2012, *Analisis Kebutuhan Pengadaan Program Studi Akuntansi & Bisnis Syariah di Indonesia*, Paper presented in Konferensi Nasional Pendidikan Akuntansi Indonesia (KNPAI), 18-20 April 2012, Brawijaya University, Malang.

economic or business activities are shared (Yahya & Gunanto, 2011). One of the main factors that can determine the sustainability and growth of the sharia banking industry is how intensively sharia banks can manage the risks that arise from the sharia financial services provided [2].

Financing using profit sharing and margin principles both have risks, but the risk in margins can be completely eliminated. Meanwhile, profit sharing can actually create a risk that the partner-managed business will not run smoothly [3]. The risks faced by Islamic banks include: credit, market, liquidity, operational, legal, reputation, strategic and compliance risks as in conventional banks. While financing with a profit sharing system, banks will face additional risks, namely equity investment risk and return risk.

Sharia People's Financing Bank (BPRS) is a bank that uses sharia principles which in its operations does not provide payment traffic services. The legal basis for establishment is the same as sharia commercial banks. The existence of BPRS in the village or at the sub-district level helps many small and medium entrepreneurs to obtain working capital easily. From the sharia banking statistics published by the OJK, in the Sharia banking sector there are currently 13 Sharia Commercial Banks (BUS), 20 sharia business units (UUS), and 173 Sharia Rural Banks (BPRS)[4]

Table 1
Number of BPRS in Indonesia, December 2023
Based on Region

| Region | Amount |
|---|---|
| Jawa Timur | 25 |
| Jawa Tengah | 28 |
| DI Yogjakarta | 13 |
| Jawa Barat | 27 |
| Banten | 8 |
| DKI Jakarta | 1 |
| Outside the island of Java | 71 |
| Total | 173 |

Source: Statistic Islamic Banking, December 2023

[2] Yulianti Rahmani Timorita.2009.*Manajemen Risiko Perbankan Syari'ah*.Jurnal Ekonomi IslamVol. III, No. 2, Desember 2009.

[3] Khan, Tariqullah and Habib Ahmed, 2001, *Risk Management: An Analysis of Issues in Islamic Financial Industry*, Occasional Paper No. 5, Jeddah: IRTI-Islamic Development Bank.

[4] Otoritas jasa Keuangan, 2023, https://ojk.go.id/id/kanal/syariah/data-dan-statistik/statistik-perbankan-syariah

In December 2023 sharia banking statistics, it shows that the composition of financing based on profit sharing principles at BPRS with mudharabah and musyarakah contracts is only 27%, while financing based on sale and purchase principles with murabahah and istishna contracts is 60%. The quality of financing is shown by the *Non Performing Financing* (NPF) percentage, which is 6.49%. Even though the total value of buying and selling based financing is greater than profit sharing based financing, if viewed from the equivalent level of reward or profit sharing it is still greater than profit sharing based financing.

Based on data from the Ministry of Cooperatives and SMEs, Indonesia has 65.5 million MSMEs, which account for 99% of all business units. This amount has the potential to obtain financing from BPRS for working capital and business development. Financing with a profit sharing principle is more suitable for these needs. On the other hand, BPRS must have the ability to implement risk management well.

Regulation of the Financial Services Authority of the Republic of Indonesia Number 23 /Pojk.03/2018 concerning the Implementation of Risk Management for Sharia Rural Banks states that BPRS which have core capital of at least IDR 50,000,000,000.00 (fifty billion rupiah) are required to implement Risk Management a . Credit risk; b. Operational risk; c. Compliance risk; d. Liquidity risk; e. reputation risk; and f. Strategic risk. Meanwhile, for BPRS that have core capital of less than fifty billion, they are required to undertake at least 4 (four) types of risks.

Thus, it requires an analysis of whether BPRS management understands risk management (risk identification, measurement, monitoring and control) and risk mitigation functions; and how to implement risk management in BPRS, and effective risk mitigation.

## LITERATURE REVIEW

### Risk Management for Sharia Banking

According to the framework of The Committee of Sponsoring Organizations of the Treadway Commission (COSO), internal control components include: control environment, risk assessment, information and communication systems, control activities, and supervision. Risk management is a component of internal control, so business risk mitigation is carried out through good internal control. The entity's internal control system (SPI) and its compliance are also a concern in the risk-based audit era. Management and other employees must be able to handle business risks and fraud risks that threaten the achievement of the entity's goals [5].

The COSO framework SPI model can be adopted for Islamic banks. The results offered a model of internal control system that is fit with the Islamic banks. The model covers five components of COSO (the control environment, risk assessment, control activities, information and communication, and monitoring) in which each component elaborates sharia laws. The results also showed variation with respect to the adoption of COSO's elements [6].

In Bank Indonesia Regulation no. 13/23/PBI/2011 concerning the Implementation of Risk Management for Sharia Commercial Banks and Sharia Business Units, it is stated that Banks are required to implement risk management effectively. The application of risk management for sharia commercial banks (BUS) is carried out individually or in consolidation with subsidiary companies, and the application of risk management for sharia business units (UUS) is carried out for all UUS business activities, which is an integral part of the application of risk management in conventional commercial banks.

Implementation of risk management includes (1) active supervision by the Board of Commissioners, Directors and Sharia Supervisory Board; (2) adequacy of risk management policies, procedures and limit determination; (3) the adequacy of the risk identification, measurement, monitoring and control processes as well as the risk management information system; (4) and a comprehensive internal control system that is adapted to the objectives, business policies, size and complexity of the business as well as the Bank's capabilities.

Types of risk in Islamic banks include (1) Credit Risk; (2) Market Risk; (3) Liquidity Risk; (4) Operational Risk; (5) Legal Risk; (6) Reputation Risk; (7) Strategic Risk; (8) Compliance Risk; (9) Rate of Return Risk; (10) Investment Risk (Equity Investment Risk). In conventional banks according to OJK Regulation no. 18/POJK.03/2016 concerning the Implementation of Risk Management for Commercial Banks, but does not include return risk and investment risk.

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[5] Tuanakotta, Theodorus M., *Audit Kontemporer*, Penerbit Salemba Empat, 2015.

[6] Bunyamin & Istutik, 2015, *Internal Control System Model and Implementation on Indonesian Shariah Banks***,** Elsevier Procedia Journal of Social and Behavioral Sciences (ScienceDirect). Volume 211, 2015.

In general, the risks faced by sharia banking can be classified into two large parts, namely risks that are the same as those faced by conventional banks and risks that are unique because they must follow sharia principles. Although credit risk, market risk, liquidity risk, operational risk, legal risk, reputation risk, strategic risk and compliance risk are also faced by conventional banks, because they have to comply with sharia rules, the risks faced by sharia banks are also different. Sharia banks actually have bigger and more risks than conventional banks, because sharia banks must comply with sharia-related regulations. Aryani added that there is no difference between Islamic banks and conventional banks regarding the transparency of conveying information about risks [7].

According to the Financial Services Authority circular No.10/SEOJK.03/2019 concerning the Implementation of Risk Management for Sharia Rural Banks, the standard guidelines for implementing BPRS Risk Management at least include:

a) implementation of Risk Management in general, including: 1) active supervision of the Board of Directors, Board of Commissioners and Sharia Supervisory Board (DPS); 2) adequacy of Risk Management policies and procedures, and determination of Risk limits; 3) adequacy of the Risk identification, measurement, monitoring and control processes, as well as the Risk Management information system; and 4) a comprehensive internal control system.
b) application of Risk Management for each type of Risk, including the application of Risk Management for all types of Risk, namely credit risk, operational risk, compliance risk, liquidity risk, reputation risk and strategic risk, while still referring to the type of risk that must be managed by each BPRS based on core capital.
c) assessment of the implementation of Risk Management in the form of an assessment of the Risk profile including an assessment of the inherent Risk and an assessment of the quality of the implementation of Risk Management which reflects the BPRS Risk control system..

Thus, every bank is obliged to carry out the process of identifying, measuring, monitoring and controlling risks for all material risk factors. The implementation of

[7] Aryani, Dwi Nita. 2016. The Determinants And Value Relevance Of Risk Disclosure In The Indonesian Banking Sector. Disertasi. University of Gloucestershire, United Kingdom

risk identification, measurement, monitoring and control processes must be supported by a good internal control system [8].

**Risks of Profit Sharing Based Financing**

In profit sharing-based mudharabah or musyarakah financing products, sharia banks give full trust to fund managers or work partners to use sharia bank funds in managing their business. Mudharabah is a business cooperation agreement between the fund owner and the fund manager. The fund owner provides all the funds needed for a business and the fund manager acts to manage them [9]. In this financing, sharia financial institutions as shahibul maal (fund owners) finance 100% of the needs of a project (business), while entrepreneurs (customers) act as mudharib or business managers. Meanwhile, musyarakah is a cooperation agreement between two or more parties for a particular business, where each party contributes funds with the stipulation that profits are shared based on an agreed profit sharing ratio, while losses are based on the proportion of fund contributions [10]. Each partner authorizes the other partners to manage assets and each is deemed to have been given the authority to carry out musyarakah activities by taking into account the interests of his partner, without committing negligence or intentional mistakes [11].

According to Antonio, the risks involved in mudharabah and musyarakah financing, especially when applied to financing, are relatively high, including: (1) side streaming, where the customer uses the funds not as stated in the contract; (2) negligence and intentional errors, and (3) concealment of profits by customers if the customer is dishonest [12].

In financing with a mudharabah agreement. The risk that often arises in the three Islamic banks is the risk of loss, namely the high ratio of non-performing financing (NPF). The cause is that the customer loses the ability to pay financing installments

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[8] Khaliq, Ahmad; Rahman, Abdul; Mas'ud, Masdar; Niwana, Andi, 2020, Effect of Profit Sharing, Internal Control, Level of Understanding and Avalaibility of Product on Financing Performance and Nopat and Sharia Bank in South Sulawesi.

[9] Ikatan Akuntan Indonesia, 2021, *PSAK Syariah*, DSAS, Jakarta.

[10] Muchlis Yahya dan Edy Yusuf Agung Gunanto. 2011. *Teori Bagi Hasil (Profit and Loss Sharing) dan Perbankan Syariah dalam Ekonomi Syariah*. Jurnal Dinamika Ekonomi Pembangunan. Vol 1, No 1, 2011

[11] Dewan Syariah Nasional, 2000, *Fatwa Dewan Syariah Nasional (DSN) tentang transaksi Musyarakah*, tanggal 08 Muharram 1421 H / 13 April 2000 M, Jakarta.

[12] Antonio, Muhammad Syafi'i. 2001. *Bank Syariah: dari Teori ke Praktek*. Gema Insani Press, Jakarta.

and share profits with the bank as the owner of the capital because the customer is negligent. One of the negligence in question is side streaming, where customer financing is not used for previously agreed financing purposes [13]. Profit sharing-based financing requires supervisory procedures to monitor the use of funds by partners [14].

The profit sharing ratio is agreed upon at the time of the contract, the amount of income that will be obtained by the owner of the funds is very dependent on the results obtained by the mudharib or partner. The success of the business run by the mudharib or partner influences the amount of profit sharing income from sharia banks. Apart from that, both parties also need to understand when a transaction uses a hybrid contract, about the results that will be shared between both parties, for example a musyarakah contract is combined with an ijarah contract to become Musyarakah wal Ijarah [15], also in sharia card products [16].

Profit sharing activities can give rise to moral hazard problems. Fund managers have the opportunity to provide different reports to fund owners. In mudharabah, the owner does not have access to the management of the business being financed. They do not have the right to monitor and participate in managing the mudarib business. However, in musyarakah, this can be reduced. Fund owners can have the opportunity to be involved in the supervision and management of their partners' businesses [17]. Profit sharing-based financing provides an opportunity to improve the entity's financial performance if the mudharib or partner successfully manages funds in a profitable business [18].

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[13] Moh. Nasih, Nisful Laila, Dewikarina, 2013, *Manajemen Risiko Pembiayaan Mudharabah pada Perbankan Syariah*, Media Trend Vol. 8 No. 2 Oktober 2013, hal. 188 – 200.

[14] El-Hawary, Dahlia A., Wafik Grais and Zamir Iqbal, 2003, *Regulating Islamic Financial Institutions; The Nature of The Regulated*, on Proceding International Conference on Islamic Banking: Risk Management, Regulating and Supervision, September 30 – October 2, Jakarta : Bank Indonesia, pp. 1-20.

[15] Istutik, 2012, *Analisis Transaksi Musyarakah wal Ijarah Guna Meningkatkan Value Syariah Produk Perbankan Syariah*, Jurnal Akuntansi Aktual, Volume 1 Nomor 3, Januari 2012, Universitas Negeri Malang.

[16] Istutik, 2013, *Analisis Implementasi Akuntansi Ijarah pada Produk Syariah Card*, Jurnal Akuntansi Aktual, Volume 3 Nomor 1, Januari 2014, Universitas Negeri Malang.

[17] Idris, S. M. (2018). Syariah risk in musyarakah mutanaqisah home financing contract in Malaysia. International Journal of Academic Research in Business and Social Sciences, 8(5), 888-897.

[18] Istutik, 2012, *Model Pengukuran Kinerja Entitas Syariah,* Prosiding CBAM Vol.1 No.1 Desember 2012, 461-484, FE Unissula, Semarang.

## RESEARCH METHODOLOGY

The approach used in the research is descriptive qualitative, aimed at creating a systematic, factual and accurate description of how the BPRS risk identification, measurement, monitoring and control functions are implemented. The research object is BPRS HIK Parahyangan, secondary data related to the implementation of risk management through documentation of the BPRS HIK Parahyangan annual report via its website[19] . Analysis of the profit sharing-based financing risk management process at BPRS HIK Parahyangan

## RESEARCH RESULTS AND DISCUSSION

PT. BPRS HIK Parahyangan is a Sharia BPR. As a result of the acquisition of BPRS TOAT, the 2006 acquisition process was a milestone in the establishment of BPRS HIK Parahyangan. PT. BPRS HIK Parahyangan began operating effectively in September 2006, located at Jl. Experiment No. 1 Cileunyi - Bandung Regency. In accordance with the Vision of PT BPRS HIK Parahyangan, namely to become a superior and trusted Sharia Bank. For this reason, strategic business development continues to be improved so as to strengthen PT. BPRS HIK Parahyangan is one of the PT. The best BPRS in Indonesia.

PT. Sharia People's Financing Bank Harta Insan Karimah Parahyangan (formerly known as PT Bank Perkreditan Rakyat Syariah Tolong Menolong Berbenah (BPRS TOAT) which was renamed PT. Bank Perkreditan Rakyat Syariah Harta Insan Karimah Parahyangan. PT BPRS TOAT was founded on 11 September 1993 with Deed No. 26 Notary Masri Husen. Then based on deed number 21 dated 27 March 2009 from Notary Hilda Sophia Wiradiredja, SH containing the Directors' accountability report and profit distribution as well as deed number 22 dated 27 March April 2009 from the same notary regarding changes to the Company's Articles of Association and amendments. the name of PT. Harta Insan Karimah Parahyangan People's Credit Bank became PT.

BPRS HIK Parahyangan has implemented risk management since 2020, marked by the formation of a Risk Management and Compliance Work Unit in that year. The Risk Management and Compliance Work Unit has 5 personnel including 1 Head of

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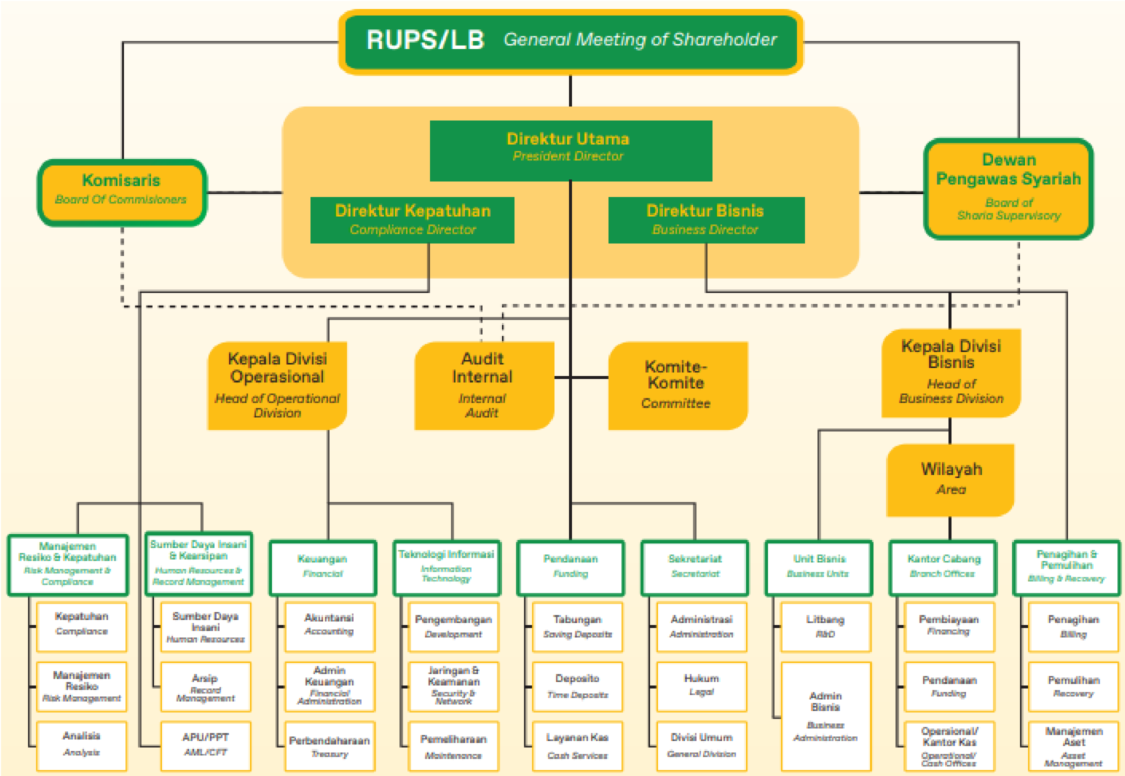
[19] BPRS HIK Parahyangan, 2023, Annual Report, 2020, 2021, and 2022, https://www.hikparahyangan.co.id/keuangan-laporantahunan

Department. In its implementation, the Risk Management and Compliance Work Unit is divided into 2 (two) supervisors consisting of: Risk Management Section with 2 (two) people and Compliance Section with 2 (two) people.

The position of the Risk Management & Compliance Work Unit is under the Compliance Director, as shown in the following organizational structure,

Figure 1 : Organization Structure, BPRS HIK Parahyangan




The scope of work of the Risk Management Section at BPRS HIK Parahyangan is to carry out diagnosis and analysis regarding organizational policies, procedures, limits and guidelines as well as system development related to the implementation of Risk Management. The BPRS internal guidelines plan which includes Risk Management Policies, Risk Management Procedures and Risk Limit Determination are prepared to serve as guidelines for all parties involved in the risk management process, then the guidelines for implementing Risk Management are disseminated to employees so that they understand Risk Management practices and develop a risk culture to all employees at every level of the BPRS organization. Development of a system for implementing risk management, for each type of risk, including credit risk, operational risk, compliance risk, liquidity risk, reputation risk and strategic risk. This section carries out risk identification, measurement, monitoring and control.

Monitoring results are presented in reports submitted to the Board of Directors in order to mitigate risks and make decisions on necessary actions. Monthly reports are submitted to Management, and also Reporting the Realization of Risk Management Action Plans to the Financial Services Authority.

In 2021, BPRS HIK Parahyangan will be increasingly disciplined in implementing risk management to minimize existing risks. HIK Parahyangan is always aware of the risks in all business and banking activities. HIK Parahyangan has implemented an integrated risk management system that covers all of its subsidiaries. HIK Parahyangan implements Management Guidelines in financing related to risk management. In monitoring cash management, the bank separates the funding section area from the financing section area, each of which functions specifically in accordance with the main duties and functions of the position or job description. HIK Parahyangan also documents all information and physical evidence related to the financing. In addition, the Bank implements the Know Your Customer (KYC) process in all customer branches in accordance with applicable regulations and carries out regular reports as a monitoring tool. Apart from that, HIK Parahyangan formed an independent Special Work Unit (UKK). Its mission is to identify, verify and monitor transactions in which funds are received from customers, with the aim of early prevention of suspicious financial transactions and prevention of fraud. Crime Prevention Measures Against Money Laundering and Terrorism (APU PPT).

PT BPRS HIK Parahyangan is able to manage risks, provide results and survive in 2021 despite existing challenges, especially the Covid-19 pandemic which has been ongoing since the beginning of 2020. Increasing capacity will keep the bank's performance positive in 2021. Strengthening capabilities including resources are HIK Parahyangan's strategy to maintain sustainable performance growth. In line with the global trend in the transition towards environmentally friendly energy, HIK Parahyangan also supports global and Indonesian government involvement in supporting a sustainable green economy. This is proven by the limited allocation of HIK Parahyangan funds to sectors that do not support the green economy. HIK Parahyangan is also active in financing the agricultural and tourism sectors and continues to increase zakat distribution through productive zakat concepts such as the Farmer Village Program.

Implementation of Risk Management in 2022 is by submitting the Risk Profile Report, Loss Event Database Report (LED), Post Booking Report, and Risk Decision Preference Statement (RAS) at the Risk Management Committee meeting. A monthly risk profile is created and equipped with recommendations and risk analysis for the issuance of financial products.

PT BPRS HIK Parahyangan distributes Mudharabah and Musyarakah financing based on profit sharing, not as much as Murabahah financing based on buying and selling, financial report data shows that it is no more than 25%. However, there is a trend of increasing mudharabah and musyarakah financing from year to year, and in 2021 there will be a very significant increase, namely 242%. Mudharabah and Musyarakah transactions are riskier than Murabahah transactions, there is a risk of not achieving the profit sharing target from fund management customers to PT BPRS HIK Parahyangan. The seriousness of risk management implemented by PT BPRS HIK Parahyangan makes the performance of Mudharabah and Musyarakah financing better. Profit sharing revenue in 2021 will increase by 300%, and based on collectibility, the proportion of Mudharabah and Musyarakah financing with current status will increase.

To maintain business continuity, HIKP continuously monitors economic activities and banking industry trends to take advantage of business opportunities, mitigate risks and develop long-term capabilities. Liquidity and strong capital as well as good credit quality are HIK Parahyangan's priorities. These efforts enable the bank to maintain good financial performance. The Bank seeks to take advantage of loan distribution opportunities, organizes various promotional agendas and attractive programs, and offers competitive profit sharing during each cycle of increasing loan demand. HIK Parahyangan always applies the principle of prudence in providing financing and focuses on clients who have a proven track record. By applying the principle of prudence, banks can maintain healthy funding and financing quality, including profit sharing-based financing, with a controlled level of non-performing financing ratios.

BPRS as a Sharia entity must comply with Islamic Sharia principles, mitigation of the risk of non-compliance with Islamic Sharia from the launch of new products to the operations and marketing of BPRS HIK Parahyangan is determined and monitored by the Risk Management & Compliance section. Then Internal Audit ensures that the risk management process has been implemented well and under control. The Sharia Supervisory Board (DPS) of BPRS HIK Parahyangan has the main role and is responsible for the Sharia opinions stated in the annual report. The role of the supervisory function is characterized by the number of meetings with management, carrying out studies and analysis of proposals from the Board of Directors of BPRS HIK Parahyangan relating to various issues that require DPS approval, observing and overseeing the directors' steps in following up on various SPI, KAP and OJK findings so that they continue to pay attention to the principles Sharia, and carry out sampling tests of several samples related to contracts for collecting and distributing funds, both in terms of contracts and transaction procedures as well as in ensuring compliance with Sharia principles, and for providing Sharia opinions.

## CONCLUSION

BPRS HIK Parahyangan formed a risk management & compliance section in 2020 as a commitment to implementing good risk management. Risk management guidelines were prepared and then socialized to all parts of the BPRS HIK Parahyangan organization. The risk management process begins to be implemented by identifying risks, analyzing risks, then risk assessment, preparing alternative solutions to be implemented, and finally risk monitoring.

Development of a system for implementing risk management, for each type of risk, including credit risk, operational risk, compliance risk, liquidity risk, reputation risk and strategic risk. The principle of prudence in financing helps reduce the NPL percentage. BPRS HIK Parahyangan can maintain healthy funding and financing quality, including profit sharing based financing, with a controlled level of non-performing financing ratio.

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