An Analysis of Potential Financing Risk Management in Islamic Rural Banks: A Framework of Identification, Measurement, Monitoring, and Mitigation

Aqidah Asri Suwarsi*, Satria Utama, Reza Anarika Aureli

Department Sharia Economics, Faculty of Islamic Religion, Universitas Muhammadiyah Yogyakarta, Daerah Istimewa Yogyakarta, Indonesia

*Corresponding email: aqidah.asri@fai.umy.ac.id

Abstract - *This research aims to determine the potential of financing risk management in Islamic Rural Banks, focusing on the four key stages: risk identification, measurement, monitoring, and mitigation. An effective risk management becomes essential to ensure financial stability and minimize potential losses. BPRS's NPF is still above the limit determined by BI. This research object is the BDW Rural Banks, with the subjects being the Board of Directors, Board of Commissioners, Sharia Supervisory Board, PEMR (Risk Management Executive Officer), AO (Account Officer). A mixed method is used in research that determining inherent risks as well as assessing the Quality of Risk Management Implementation (KPMR) by quantitative methods, while qualitative methods are used in the process of identification, monitoring, mitigation, and evaluate KPMR by FGD. The results of the inherent risk measurement are ranked 2 (Low to Moderate), KPMR is at level 1 (Strong). Then, it can be seen that the BPRS BDW risk level determination matrix is at risk level 1, which is categorized as Low. The capital expense that must be reserved to protect financing risk is Rp. 15.658.659.920.*

Keywords*: Risk Management, Financing Risk, Inherent Risk, KPMR, BPRS*

I. INTRODUCTION

In 2021, Bank Indonesia (the central bank of Indonesia) reported that the national banking industry had experienced a notable decline in performance, marked by a year-on-year financing contraction of –2.41% as of December 2020. Banks in Indonesia, as financial intermediaries, have faced significant challenges [1], including credit or financing risks [2], declining asset quality and tightening margins (particularly net interest margins), as reported by J.P. Morgan in [3]. Data from the Indonesian Banking Services Authority (OJK), presented in Figure 1, show an increasing trend in the non-performing financing (NPF) ratio across the Indonesian banking sector, including Islamic banking institutions. Although there have been performance improvements in Islamic rural banks in Indonesia which is known as Bank Perekonomian Rakyat Syariah (literally means Islamic Rural Banks or Islamic Local Banks, or Islamic BPRs) [4] since the challenging period of 2018–2020, some Islamic BPRs still have NPF levels that exceed the maximum limit set by Bank Indonesia (BI).

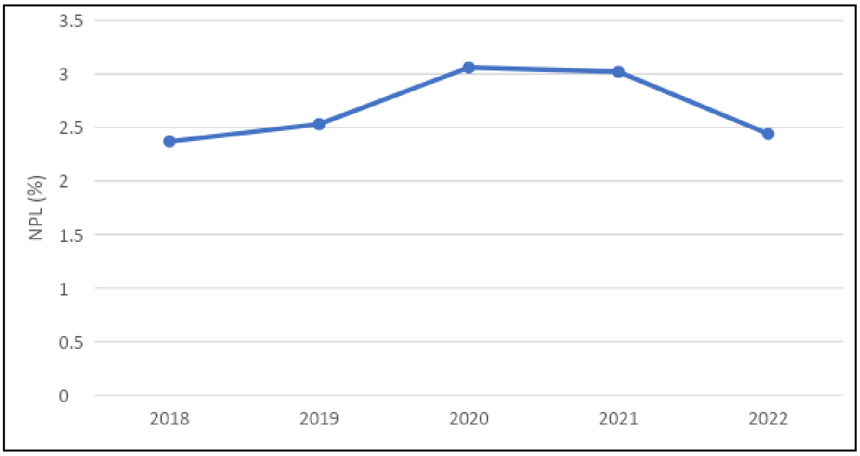


Fig. 1. NPL Data in the Indonesian Banking Industry

Islamic BPRs play a vital role in the Indonesian economy, providing financing services to low-income individuals and meeting the capital needs of small- and micro-scale industries [5]. Empirical data from the Sharia banking sector present a compelling narrative regarding the condition of Islamic BPRs. From 2018 to 2020, Islamic BPRs in Indonesia consistently recorded high NPF ratios of 9.30%, 7.05% and 7.24% respectively. These figures are more than double the

NPF levels found in Islamic commercial banks (BUS) and Islamic business units (UUS) during the same period. The consistent presence of elevated NPF ratios in Islamic BPRs highlights fundamental issues in their risk management and credit quality control mechanisms. While individual BPRs performance may vary, the overall industry trend reflects ongoing structural and operational weaknesses. Figure 2 illustrates this, showing how the problem persists despite efforts to improve financing standards and internal governance frameworks.

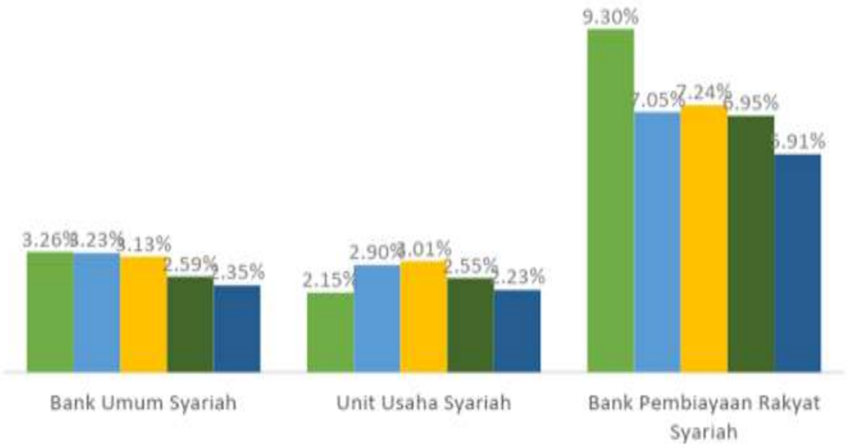


Fig. 2. Non-Performing Financing (NPF) data on Indonesia Sharia Banking

As of March 2023, the OJK had recorded a total of 171 active Islamic BPRs operating across Indonesia. Interestingly, the Special Region of Yogyakarta (DIY) stood out as one of the provinces with the highest number of Islamic BPRs branch offices, with 13 institutions operating within its jurisdiction. This points to a unique situation in DIY, where the geographic area per Islamic BPRs is significantly smaller than in other provinces. This dense distribution of Islamic BPRs could suggest greater market potential and improved accessibility to Sharia-compliant financial services for the region's residents. This implies that consumers in DIY benefit from closer physical proximity to financial services, which could enhance financial inclusion and support institutional growth.

Table 1. Comparison Of The Number Of Bprs And Province

Province	Amount	Province Area (km2)	Area Ratio (km2/BPRs)
Yogyakarta	13	3.186	265,5
Central Java	26	32.801	1.261,6
West Java	28	35.578	1.270,6
East Java	28	47.083	1.681,5

Table 2. NPF Conditions Of Bprs In Special Region Of Yogyakarta

BANK PEMBIAYAAN RAKYAT SYARIAH	NPF			
	TAHUN			
	2019	2020	2021	2022
Wilayah Kabupaten Bantul				
BPRS Margirizki Bahagia	13,12	10,57	11,21	9,40
BPRS Bangun Drajat Warga	7,49	6,24	5,97	5,45
BPRS Madina Mandiri Sejahtera	10,5	9,14	5,26	3,53
Wilayah Kabupaten Sleman				
BPRS Mitra Amal Mulia	6,68	1,96	4,44	5,30
BPRS Danagung Syariah	24,62	11,98	9,04	20,38
BPRS Harta Insan Karimah Mitra Cahaya Indonesia	3,21	3,37	1,96	5,02
BPRS Formes	3,45	10,99	5,18	5,56
BPRS Cahaya Hidup	12,41	12,75	13,34	7,02
BPRS Sleman	Unavailable	Unavailable	Unavailable	Unavailable
Wilayah Kota Yogyakarta				
BPRS Dana Hidayatullah	8,2	3,74	2,90	4,43
BPRS Barokah Dana Sejahtera	0,04	3,29	2,47	6,88
BPRS Mitra Harmoni Yogyakarta	8,5	5,57	5,67	16,19
BPRS Unisia Insan Indonesia	Unavailable	3,78	4.42	2,64

Table 3. Data On Total Bprs Financing In Special Region Of Yogyakarta (In Thousands Of Rupiah

BANK PEMBIAYAAN RAKYAT SYARIAH	TOTAL PEMBIAYAAN TAHUN				
	2018	2019	2020	2021	2022
Wilayah Kabupaten Bantul					
BPRS Margirizki Bahagia	Rp 33.253.536	Rp 30.289.115	Rp 25.426.524	Rp 25.280.550	Rp 22.573.170
BPRS Bangun Drajat Warga	Rp 65.174.844	Rp 88.691.960	Rp 94.142.565	Rp 102.027.038	Rp 112.468.123
BPRS Madina Mandiri Sejahtera	Rp 58.398.805	Rp 76.184.009	Rp 70.285.413	Rp 76.494.685	Rp 100.735.678
Wilayah Kabupaten Sleman					
BPRS Mitra Amal Mulia	Rp 40.276.092	Rp 41.723.484	Rp 41.372.659	Rp 47.419.316	Rp 48.498.702
BPRS Danagung Syariah	Rp 26.273.798	Rp 28.379.371	Rp 22.141.286	Rp 25.214.052	Rp 24.525.192
BPRS Harta Isan Karimah Mitra Cahaya Indonesia	Rp 54.748.977	Rp 72.275.483	Rp 77.056.234	Rp 124.505.849	Rp 164.323.114
BPRS Formes	Rp 25.484.434	Rp 28.561.259	Rp 27.077.280	Rp 29.676.414	Rp 35.563.031
BPRS Cahaya Hidup	Rp 21.414.710	Rp 24.882.630	Rp 24.658.454	Rp 27.615.575	Rp 34.342.805
BPRS Sleman	Unavailable	Unavailable	Unavailable	Unavailable	Unavailable
Wilayah Kota Yogyakarta					
BPRS Dana Hidayatullah	Rp 20.493.358	Rp 18.219.024	Rp 18.219.024	Rp 20.599.376	Rp 34.383.359
BPRS Barokah Dana Sejahtera	Rp 75.575.330	Rp 92.147.792	Rp 97.242.777	Rp 116.682.744	Rp 130.777.001
BPRS Mitra Harmoni Yogyakarta	Rp 47.497.046	Rp 59.784.515	Rp 63.077.068	Rp 71.311.747	Rp 77.737.842
BPRS Unisia Insan Indonesia	Rp 30.521.139	Rp 41.336.542	Rp 44.674.700	Rp 52.143.981	Rp 72.595.551

BPRS Bangun Drajat Warga (BDW) is a relevant and practical example of broader trends in the Islamic BPRs sector. It is an Islamic rural bank located in Bantul Regency, Yogyakarta. BDW has performed notably well in recent years and has one of the largest asset and financing portfolios of any Islamic BPRs operating in the DIY region. It is ranked first in Bantul in terms of total financing. Despite its institutional strengths, however, BPRS BDW has also faced challenges with respect to credit quality and financing performance. In 2019, the bank's NPF ratio was 7.49%, which was well above the limit set by Bank Indonesia. However, over the following years, BPRS BDW demonstrated significant improvements in managing its financing risks. By 2022, its NPF ratio had fallen to just under 5%, indicating that the institution had started to implement more effective risk management strategies. These efforts align with the regulatory framework set out in OJK Regulation No. 23/POJK.03/2018, which requires all Islamic BPRs to adopt comprehensive risk management practices [6]. This regulation outlines clear procedures and methodologies for identifying, measuring, monitoring and controlling risks associated with various business activities. Being involved in the intermediation process, risk management is as important to the Islamic banks as it is to the conventional banks [7]. Based on the evidence presented by BPRS BDW, it can be inferred that the bank has acknowledged the importance of effective risk management and has taken action to comply with national standards and improve financial stability.

The success of BPRS BDW in reducing the NPF level is of particular interest, particularly given the position of BPRS BDW as one of the Islamic BPRs with the largest assets and total financing in the DIY region. This makes it an important topic of discussion. In order to provide a comprehensive overview of the subject, the author must examine how BPRS BDW identifies, measures, monitors, and mitigates the risk of problematic financing. This research aims to investigate the key challenges encountered by BPRS BDW in managing financing risks, particularly those arising from non-performing financing. The research will analyze the strategies and measures undertaken by the institution to address and reduce these risks.

This research's novelty lies in its focuses on four core aspects of risk management: the identification, measurement, monitoring and mitigation of financing risk [8]. These components are studied in the context of their practical application within BDW's operations. Significant portions of the analysis are conducted in accordance with the Financial Services Authority's Circular Letter (SEOJK) No. 10/SEOJK.03/2019 [9]. This emphasizes the importance of assessing both inherent risk and the quality of risk management (KPMR) implementation. The framework outlined in this regulation offers a comprehensive structure for understanding risk from operational and strategic perspectives. Unlike broader industry analyses, this research is grounded in the specific experiences, responses and financial records of BPRS BDW during the second half of 2023. This provides valuable insights into not only the effectiveness of BDW's internal control mechanisms, but also how Islamic BPRs can generally improve their resilience in the face of rising financing risks. It is hoped that the findings of this research will be of use to relevant parties, including financial institutions and customers, in order to facilitate more effective management of financing risks.

II. METHODOLOGY

The present study employs a mixed-method approach, integrating quantitative and qualitative methodologies [10], to analyzed the phenomenon under investigation [11]. This approach was chosen to gain an in-depth understanding of the implementation of financing risk management at BPRS BDW Yogyakarta, particularly across the four main stages: identification, measurement, monitoring and mitigation. Identification, monitoring and mitigation were analyzed using descriptive qualitative methods, while measurement was analyzed using a combined qualitative and quantitative approach. The research population includes all financing risk management processes carried out by BPRS BDW, as well as the bank's financial statements for the second half of 2023. The sample consists of financial position and productive asset quality reports, including financing and asset data, data on the 25 debtors with the largest financing debt balances based on the Customer Identification File (CIF), financing data by economic sector and collection feasibility data. Data were collected through two main sources: primary and secondary data. Primary data was obtained through direct observation of the financing risk management process implementation at BPRS BDW and semi-structured interviews with key informants. These informants included Risk Management Executives, the Board of Directors and Account Officers. Additionally, interviews were conducted with the Sharia Supervisory Board, the Board of Commissioners and the Internal Audit Executive Officer. Secondary data came from BPRS BDW's financial reports for the second half of 2023, obtained from the Indonesian Banking Services Authority (OJK) and BPRS BDW websites. Furthermore, internal policy documents related to identifying, measuring, monitoring and mitigating financing risks were analyzed, including BPRS BDW's risk management guidelines and policies. The financing risk profile is measured using the parameters set by OJK, as regulated in SEOJK No. 10/SEOJK/03/2019. These parameters are as follows:

1) Assess and determine the level of inherent risk of financing risk with the following parameters/indicators:
   a. Pillars of asset portfolio composition and level of financing concentration
      Parameters of the ratio of productive assets to total assets

$$\frac{Productive\ Assets}{Total\ Assets}$$

Rank	1	2	3	4	5
	≤ 95%	>95% of productive asset components have low financing risk exposure	>95% of productive asset components have moderate financing risk exposure	Productive asset components have high financing risk exposure	>95% of productive asset components have very high financing risk exposure

Parameters of the ratio of financing to total productive assets

$$\frac{Financing}{Total\ Productive\ Assets}$$

Rank	1	2	3	4	5
	≤ 75%	>75% of financing schemes are mostly or completely simple, and the types of financing are not diverse	>75% of financing schemes are mostly or completely simple, and the types of financing are varied	>75% of financing schemes are mostly or completely complex, and the types of financing are not diverse	>75% of financing schemes are mostly or completely complex, and the types of financing are diverse

Parameters of the ratio of 25 largest debtors to total financing

$$\frac{25\ Debtors}{Total\ Financing}$$

Rank	1	2	3	4	5
	≤ 20%	>20% market share has not changed over a very long period	>20% market share unchanged over a long period	>20% market share has not changed over a fairly long period	>20% market share unchanged over a short period

Parameters of the ratio of financing per economic sector to total financing

$$\frac{Financing\ per\ Economic\ Sector}{Total\ Financing}$$

Rank	1	2	3	4	5

	≤ 85%	> 85% of financing originating from the 3 (three) largest economic sectors has not changed over a very long period	> 85% of financing originating from the 3 (three) largest economic sectors has not changed over a long period	> 85% of financing originating from the 3 (three) largest economic sectors has not changed over a long period	> 85% of financing originating from the 3 (three) largest economic sectors has not changed over a short period

Parameters of the ratio of profit-sharing financing to total financing

$$\frac{Profit\ Sharing\ Financing}{Total\ Financing}$$

Rank	1	2	3	4	5
	≤ 10%	> 10% profit-sharing financing schemes are mostly or entirely simple, and the types of profit-sharing financing are not diverse	> 10% profit-sharing financing schemes are mostly or completely simple, and the types of profit-sharing financing are varied	> 10% profit-sharing financing schemes are mostly or completely complex, and the types of profit-sharing financing are not diverse	> 10% profit-sharing financing schemes are mostly or completely complex, and the types of profit-sharing financing are varied

b. Asset quality pillar

Parameters of the ratio of non-performing productive assets to total productive assets

$$\frac{Problematic\ Productive\ Assets}{Total\ Productive\ Assets}$$

Parameters of the ratio of net non-performing financing to total financing (NPF net)

$$\frac{Problematic\ Financing}{Total\ Financing\ (NPF\ Nett)}$$

Parameters of the ratio of low-quality financing to total financing

$$\frac{Low - Quality\ Financing}{Total\ Financing}$$

Parameters of the ratio of low-quality profit-sharing financing to total financing

$$\frac{Low - Quality\ Profit\ Sharing\ Financing}{Total\ Financing}$$

Parameters of the ratio of financing for problematic profits to total financing

$$\frac{Problematic\ Profit\ Sharing\ Financing}{Total\ Financing}$$

Parameters of the ratio of low-quality profit-sharing financing to total profit-sharing financing

$$\frac{Low - Quality\ Profit\ Sharing\ Financing}{Total\ Profit\ Sharing\ Financing}$$

Parameters of the ratio of problematic profit-sharing financing to total profit-sharing financing

$$\frac{Problematic\ Profit\ Sharing\ Financing}{Total\ Profit\ Sharing\ Financing}$$

Table 1. Asset Quality Pillar Parameter Ranking Table

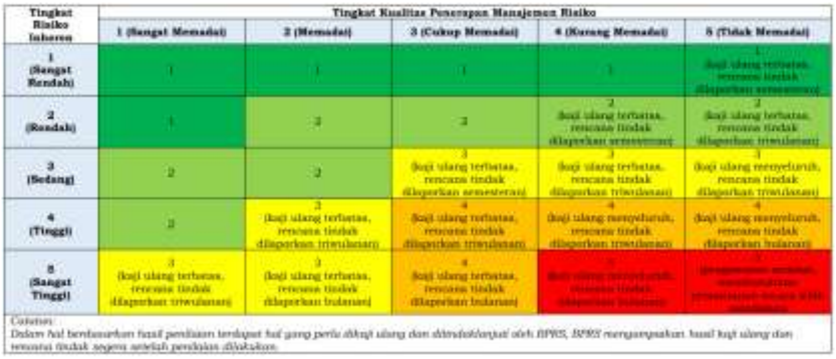
Rank	1	2	3	4	5
Problematic productive	≤7	The ratio is above	The ratio is above		

assets/ total productive assets	%	the rating threshold with good quality financing conditions.	the rating threshold of 1, with financing conditions of fairly good quality, but there is potential for decline.	The ratio is above the rating threshold of 1, with financing conditions of poor quality.	The ratio is above the rating threshold 1, with poor quality financing conditions.
Net problematic financing / total financing	≤5 %				
Low-quality financing/total financing	≤7 %				
Low-quality profit-sharing financing/total financing	≤6 %				
Problematic profit-sharing financing/total financin	≤1 %				
Low quality/total profit sharing financing ≤ 10% profit sharing financing	≤10				
Problematic profit-sharing financing/total profit-sharing financing	≤3				

c. Fund distribution strategy pillar: Islamic BPRs evaluates the effectiveness of fund distribution strategies by analyzing financing portfolio growth and related risks. This assessment includes growth in financing to non-bank third parties and certain economic sectors compared to industry trends.
d. External factor pillar: Islamic BPRs assesses external factors related to inherent financing risks so that they can influence financing risks, including causing losses for Islamic BPRs. The ranking of these parameters is based on indicative descriptions.

2) Assess and determine the quality level of risk management (KPMR) implementation for financing risks by paying attention to qualitative parameters: The KPMR level is evaluated by paying attention to qualitative parameters. The setting of the KPMR level for each type of risk is categorized into level 1 (very adequate), level 2 (adequate), level 3 (fairly adequate), level 4 (less adequate), and level 5 (insufficient).

The research was conducted at the Bangun Drajat Warga Sharia People's Financing Bank (BPRS BDW), with key informants including the PEMR, the Board of Directors and the Account Officer. Additional informants included the Sharia Supervisory Board, the Board of Commissioners and the Internal Audit Executive Officers. Qualitative research must meet four criteria: (1) credibility, (2) transferability, (3) dependability and (4) confirmability [12]. Data analysis techniques were applied to three activity streams simultaneously [13]. The conclusions drawn from the interview results are supported by valid and consistent evidence and answer the research question concerning the identification, measurement, monitoring and mitigation of financing risks at BPRS BDW. The research results were summarized to ensure consensus on the conclusions before being written up in a report. In this research, data analysis involved determining the risk level for each type of risk [14], consisting of five ratings: 1 (very low), 2 (low), 3 (medium), 4 (high), and 5 (very high). The risk level can be determined using the Risk Matrix Assessment Method:



Tingkat Risiko Inheren	Tingkat Kualitas Penerapan Manajemen Risiko: 1 (Sangat Memadai)	2 (Memadai)	3 (Cukup Memadai)	4 (Kurang Memadai)	5 (Tidak Memadai)
1 (Sangat Rendah)	1	1	1	1	1 (kaji ulang terbatas, rencana tindak dilaporkan semesteran)
2 (Rendah)	1	2	2	2 (kaji ulang terbatas, rencana tindak dilaporkan semesteran)	2 (kaji ulang terbatas, rencana tindak dilaporkan triwulanan)
3 (Sedang)	2	2	3 (kaji ulang terbatas, rencana tindak dilaporkan semesteran)	3 (kaji ulang terbatas, rencana tindak dilaporkan triwulanan)	3 (kaji ulang menyeluruh, rencana tindak dilaporkan triwulanan)
4 (Tinggi)	2	3 (kaji ulang terbatas, rencana tindak dilaporkan triwulanan)	4 (kaji ulang terbatas, rencana tindak dilaporkan triwulanan)	4 (kaji ulang menyeluruh, rencana tindak dilaporkan triwulanan)	4 (kaji ulang menyeluruh, rencana tindak dilaporkan bulanan)
5 (Sangat Tinggi)	3 (kaji ulang terbatas, rencana tindak dilaporkan triwulanan)	3 (kaji ulang terbatas, rencana tindak dilaporkan bulanan)	4 (kaji ulang terbatas, rencana tindak dilaporkan bulanan)	[illegible]	[illegible]

Catatan:
Dalam hal berdasarkan hasil penilaian terdapat hal yang perlu dikaji ulang dan ditindaklanjuti oleh BPRS, BPRS menyampaikan hasil kaji ulang dan rencana tindak segera setelah penilaian dilakukan.

Fig. 1. Risk Matrix Assessment Method

III. RESULT AND DISCUSSION

A. Data Analysis And Interpretation

The identification of financing risks at Sharia Rural Banks (BPRS) is carried out in line with SEOJK No. 10/SEOJK.03/2019, which concerns the implementation of risk management for BPRS. This requires banks to identify the risks associated with all their products and activities [15], conduct proper financing analyses, set up adequate information systems, consider factors that could affect future risks and assess the accuracy of payments, customer compliance and concentration risks.

At BPRS BDW, one of the main causes of financing risk is problematic financing itself. This stems from both internal and external factors [16]. Internal factors include: (1) weaknesses in financing analysis, (2) insufficient supervision and (3) weaknesses in collateral management. External factors include: (1) deficiencies in customer character, (2) customers being unwilling or acting in bad faith, (3) customers absconding, and (4) limited repayment ability [17]. Table 5 shows data on problematic financing at BPRS BDW, as presented in the Productive Asset Quality Report (KAP). The KAP indicates that BPRS BDW continues to hold low-quality financing, as evidenced by an NPF ratio of 6.13%. This suggests that the risk of default remains significant. Furthermore, the bank’s potential risks also arise from the fact that most of its financing is still distributed to high-risk economic sectors. Despite being recognized as a high-risk sector vulnerable to macroeconomic fluctuations and government policies, the housing construction sector was chosen as the main sector in the financing portfolio. The main factors influencing risk in this sector are interest rates, inflation, licensing and market competition. While this is risky, interviews with the Executive Risk Management Officer (PEMR) suggest that the choice of portfolio is consistent with the bank’s vision, mission and financial capacity to absorb potential losses. Although it focuses on achieving the bank's strategic objectives, this demonstrates an awareness of the risks faced. The following outlines the implementation of the financing risk identification process carried out by BPRS BDW, based on interviews with Dyah Widhowaty Eko Putri as an Executive Risk Management Officer (PEMR), and Arsyiannur Saka Annas as an Account Officer (AO), both of BPRS BDW, and confirmed by Rachmad as the Board Member of BPRS BDW.

Table 5.
Data On The Collectability Of Bprs Bdw Financing For The Period December 2023

Aset	Posisi Tanggal Laporan					
	L	DPK	KL	D	M	Jumlah
Penempatan pada Bank Syaraiah Lain	**Rp 60.428.106**	Rp -	Rp -	Rp -	Rp -	Rp 60.428.106
Piutang	**Rp 98.666.893**	**Rp 7.310.883**	**Rp 374.870**	**Rp 539.141**	**Rp 5.877.097**	**Rp 112.768.884**
a. Piutang Murabahah	Rp 89.979.442	Rp 6.178.954	Rp 372.370	Rp 459.094	Rp 4.944.360	Rp 101.934.220
b. Piutang Isitishna	Rp 7.281.053	Rp 746.486	Rp -	Rp -	Rp -	Rp 8.027.539
c. Piutang Multijasa	Rp 1.400.494	Rp 358.448	Rp -	Rp 1.425	Rp 51.278	Rp 1.811.645
d. Piutang Qard	Rp -	Rp -	Rp -	Rp -	Rp -	Rp -
e. Piutang Sewa	Rp 5.904	Rp 26.995	Rp 2.500	Rp 78.622	Rp 881.460	Rp 995.481
Pembiayaan Bagi Hasil	**Rp 28.791.604**	**Rp 4.441.506**	**Rp 494.140**	**Rp -**	**Rp 2.095.417**	**Rp 35.822.667**
a. Mudharabah	Rp 7.065.425	Rp 83.735	Rp -	Rp -	Rp 1.892.628	Rp 9.041.788
b. Musyarakah	Rp 21.726.178	Rp 4.357.771	Rp 494.140	Rp -	Rp 202.789	Rp 26.780.878
Pembiayaan Sewa	**Rp 8.691.549**	**Rp 1.191.323**	**Rp 118.150**	**Rp 345.926**	**Rp 729.972**	**Rp 11.076.920**
Jumlah Aset Produktif	**Rp 196.578.152**	**Rp 12.943.712**	**Rp 987.160**	**Rp 885.067**	**Rp 8.702.486**	Rp 220.096.577
Aset Produktif Pihak terkait	**Rp 23.764.726**	**Rp 4.355.723**	**Rp 473.417**	**Rp -**	**Rp -**	**Rp 28.593.866**

BPRS BDW provides comprehensive financing risk identification, covering the characteristics of each product and activity, including financing, savings and waqf services. This identification includes an in-depth analysis of the customer's financial condition, payment capacity, collateral assessment, environment, business partner character, customer financial reports, cash flow projections, quality of the business plan, and other supporting documents. Intensive coaching is also carried out after the financing agreement to continuously monitor the customer's financial condition and identify potential payment failures.

The process involves a financing analysis to evaluate the feasibility of prospective customers' businesses, minimise the risk of default and determine their appropriate financing needs. Conducting financing analysis before disbursing financing is an application of the precautionary principle. Financing analysis itself examines important aspects of customers whom Sharia financial institutions will finance. The analysis covers three main aspects: the customer's financial condition, payment ability and collateral. Customers' financial conditions are evaluated based on factors such as fixed income, type of work, employment status and benefits received. For business customers, business turnover and net profit evaluations are carried out to ensure business continuity. This process is supported by the Know Your Customer (KYC) principle, which is implemented by the Account Officer (AO) to gain an in-depth understanding of customers, as stated by PEMR BPRS BDW.

After analyzing the customer's financial situation, AO can assess their ability to pay. This process is important for determining the source of refunds and the customer's capacity to pay instalments. AO ensures that customers have the means and the desire to fulfil their obligations to the bank, as stated by the PEMR BPRS BDW. An important aspect of the financing analysis process is assessing the guarantee or collateral provided by the customer. This collateral serves as an alternative payment source; if the customer defaults on their payments, the bank can sell the collateral. The AO BPRS BDW explained that the collateral is assessed by calculating its estimated value. If this value is insufficient, the customer is asked to provide additional collateral. Guarantees often submitted to the BPRS BDW include vehicle ownership certificates and motor vehicle ownership books, with different valuation calculations depending on the type. PEMR BPRS BDW supports this statement, emphasizing that the aim of collateral appraisal is to prevent banks from experiencing losses in the future. Different types of collateral, such as cash, precious metals, vehicles and property, require different analyses, taking into account their condition, market value, deductions and liquidity.

In line with the research results, the suitability of partners/members is based on the 5C assessment. Surveys and investigations were carried out twice: the AO conducted the initial survey and, if deemed feasible, a follow-up survey was conducted by officials according to their authority, ranging from the head of the division to the commissioner. All financing decisions are determined by committee meetings; committee members include the AO, the head of the division, directors and commissioners according to their authority. BPRS BDW has developed an adequate information system to provide comprehensive, accurate and up-to-date data on portfolio composition. According to the PEMR and the Board of Directors, the system allows management to assess overall financing risks and informs strategic decision-making.

BPRS BDW actively considers factors that influence the level of financing risk in the future, such as market dynamics and government regulations. Customer assessments include reviewing repayment histories and checking SLIK for new applicants. The Board of Commissioners conducts evaluations at least annually, or more frequently if significant changes occur, to ensure continuous oversight of risk conditions. In addition, the Board of Commissioners carries out periodic evaluations at least once a year, or more frequently if there are significant changes in BPRS business activities. These evaluations take place in meetings, and general policies are established annually or whenever necessary to address emerging issues. This demonstrates BPRS BDW's commitment to carefully managing financing risks and ensuring consistency in decision-making. BPRS BDW has identified the causes of financing concentration risk, but has not yet determined portfolio limits as these are still being finalized. Currently, portfolio limits are still being adjusted to bank capacity. Although the identification process has been completed, monitoring has not yet become a general consideration for directors. PEMR BPRS BDW conveyed this, indicating that although initial steps have been taken, further policies are still being adjusted.

Interviews with various parties at BPRS BDW, including PEMR, Directors, the Board of Commissioners and the AO, have strengthened the understanding of the financing risk identification process carried out by BPRS BDW. The interview results were compared with the provisions stated in SEOJK No. 10/SEOJK.03/2019, and it can be concluded that most of BPRS BDW's financing risk identification processes comply with these provisions. BPRS BDW has carried out a thorough risk identification process, which includes identifying risks in products and activities, analyzing financing, providing an adequate information system and considering factors that could influence future financing risks. Furthermore, BPRS BDW has paid attention to aspects such as payment accuracy, customer payment continuity, customer compliance with financing agreements and financing concentration risk identification. However, several aspects of the financing risk identification process based on SEOJK No. 10/SEOJK.03/2019 have not yet been addressed, including the fact that the Board of Directors has not considered the results of identifying the causes of financing concentration risk when formulating general policies. It is important to consider the results of identifying the causes of financing concentration risk when formulating general policies because this can have a significant impact on the company's financial health and sustainability. (2) BPRS BDW has not set a portfolio risk limit when identifying the causes of financing concentration risk. The portfolio limit at BPRS BDW is currently aligned with the bank's capabilities. The bank should determine limits for financing concentration risk prior to conducting financing transactions. This is important because it can be used to control the risks inherent in financing activities. Risk limits can help management control exposure and monitor actual risk-taking activity compared to predetermined tolerances.

B. Measuring Financing Risk

According to SEOJK No. 10/SEOJK.03/2019, the process of measuring financing risk must be supported by properly documented written systems and procedures. In practice, BPRS BDW has developed several mechanisms to align with these regulatory requirements. Firstly, the bank has established systems and procedures for measuring financing risk, although these have not yet been documented in the Standard of Procedure (SOP). Secondly, its risk management information system (SIM) provides features that enable account officers (AOs) to monitor late payments daily. However, the system is limited in its ability to assess financing risk categories using a combination of qualitative and quantitative approaches. Thirdly, the bank's management asserts that the system produces accurate, up-to-date information to support decision-making. The measurement process considers various factors, such as transaction characteristics, the counterparty's financial condition, agreement terms, collateral, potential default and the bank's capacity to absorb losses. The bank regularly evaluates and adjusts the assumptions used to project potential failures in line with changing internal and external conditions. Finally, the system is integrated into decision-making processes and supports compliance with the delegation of authority, although an independent evaluation has yet to be conducted.

BPRS BDW is continuously improving its process for measuring financing risk to support effective risk management and sound decision-making. The bank already uses measurement tools that can quantify inherent risk exposure, and risk assessments are conducted monthly as part of routine activities. These assessments capture not only general exposures, but also risks specific to individual financing transactions, ensuring that potential risks are carefully evaluated before financing is approved. The Board of Directors has emphasized that such measurements are a proactive effort, reflecting the bank's commitment to prudent financing practices.

However, financing risk measurement at BPRS BDW still relies heavily on qualitative assessments based on the judgements of account officers, which are then reviewed by the financing committee and the compliance and risk management department. While the bank's decision-making process is supported by system-generated tools, it also takes broader financial and reputational factors into account to ensure a comprehensive evaluation. This integrated approach highlights the complexity of financing risk, where weaknesses in financial ratios may affect not only credit quality, but also the bank's overall reputation. To promote transparency and accountability, the bank documents the assumptions, data and other information used in the measurement process, thereby strengthening the basis for audits and evaluations.

Nevertheless, several gaps remain in comparison with the requirements of SEOJK No. 10/SEOJK.03/2019. Firstly, the written systems and procedures for risk measurement have not yet been formally documented in technical SOPs, which reduces standardization and consistency. Secondly, qualitative methods still dominate the assessment process, necessitating stronger integration of quantitative tools. Thirdly, statistical or probabilistic models, such as credit scoring, have not yet been adopted, with implementation only planned for April 2024. This limits the bank's current ability to produce precise customer risk profiles. Fourthly, the financing risk measurement framework has not been independently evaluated, which is essential to ensure objectivity and alignment with industry standards.

1) Inherent Risk Measurment
   a. Pillars of asset portfolio composition and level of financing concentration

Parameters of the ratio of productive assets to total assets

$$\frac{Rp.220{,}096{,}577}{Rp.221{,}888{,}335} = 99{,}19\%$$

For the second semester of 2023, the ratio of productive assets to total assets is ranked second in terms of low risk (low to moderate) due to the calculated ratio of over 95%, specifically 99.19%. BPRS BDW is at low risk of experiencing risk in the distribution of funds, including financing, due to counterparties (banks and non-banks) failing to fulfil their obligations.

Parameters of the ratio of financing to total productive assets

$$\frac{Rp.159{,}668{,}471}{Rp.220{,}096{,}577} = 72{,}54\%$$

In December 2023, the ratio of financing to total productive assets was ranked 1 (low) due to the calculated ratio being ≤75%, at 72.54%. It is very unlikely that BPRS BDW will experience financing risk due to customers and other parties failing to fulfil their obligations to BPRS.

Ratio parameters of the 25 largest debtors to total financing

$$\frac{Rp.49{,}716{,}662}{Rp.159{,}668{,}471} = 31{,}14\%$$

The ratio of the total financing provided to the 25 largest debtors is 31.14%. This result indicates a risk rating of 2 with a low-risk category (low to moderate). This indicates that the 25 largest debtors at BPRS BDW are capable of meeting their obligations. Financing has been provided to these 25 large debtors, whose risks have been managed, so there is little chance of them experiencing default. However, monitoring will continue until the end of the financing period (Fatmawati et al., 2023).

Parameters of the ratio of financing per economic sector to total financing

$$\frac{Rp.\ 76{,}683{,}037}{Rp.159{,}668{,}471} = 48{,}03\%$$

The financing ratio for the total economy is 48.03%, with a risk rating of 1, meaning the risk level is very low. This indicates that BPRS BDW is at very low risk of experiencing financing risk due to the concentration of financing in three economic sectors, so if financing originating from these sectors experiences default, BPRS BDW will incur minimal losses.

Parameters of the ratio of profit-sharing financing to total financing

$$\frac{Rp.35{,}822{,}667}{Rp.\ 159{,}668{,}471} = 22{,}44\%$$

The ratio of profit-sharing financing to total financing is 22.44%, with a risk rating of 2 (low to moderate). Due to the concentration of profit-sharing financing, BPRS BDW has a low probability of experiencing financing risk, so if the profit-sharing financing fails to pay, the losses incurred by BPRS will not be too large.

b. Asset quality pillar

Parameter of the ratio of non-performing productive assets to total productive assets

$$\frac{Rp.10{,}574{,}714}{Rp.220{,}096{,}577} = 4{,}8\%$$

The ratio of non-performing productive assets to total productive assets is 4.8%, which is very low (Low) with a risk rating of 1.

Parameters of the ratio of net non-performing financing to total financing (NPF net)

$$\frac{Rp.9{,}791{,}488}{Rp.159{,}668{,}471} = 6{,}13\%$$

The ratio of net non-performing financing to total financing (NPF net) was 6.13%, with a risk rating of 2 (Low to Moderate). The risk of BPRS BDW experiencing losses is low.

Ratio parameter of low-quality financing to total financing

$$\frac{Rp.23{,}518{,}426}{Rp.159{,}668{,}471} = 14{,}73\%$$

The ratio of low-quality financing to total financing is 14.73%, which has a risk rating of 2 (Low to Moderate). This ratio enables BPRS BDW to incur minimal losses.

Ratio parameter of low-quality profit-sharing financing to total financing

$$\frac{Rp.7{,}031{,}063}{Rp.159{,}668{,}471} = 4{,}4\%$$

The ratio of low-quality, profit-sharing financing to total financing is 4.4%, which has a risk rating of 1 (very low).

Parameters of the ratio of financing for problematic profits to total financing

$$\frac{Rp.2{,}589{,}557}{Rp.159{,}668{,}471} = 1{,}62\%$$

The ratio of problem profit-sharing financing to total financing is 1.62%, with a risk rating of 2 (low to moderate).

Ratio parameter of low-quality profit-sharing financing to total profit-sharing financing

$$\frac{Rp.7{,}031{,}063}{Rp.35{,}822{,}667} = 19{,}63\%$$

The ratio of low-quality profit-sharing financing to total profit-sharing financing is 19.63%, which has a risk rating of 2 (Low to Moderate).

Parameters of the ratio of problematic profit-sharing financing to total profit-sharing financing

$$\frac{Rp.2{,}589{,}557}{Rp.35{,}822{,}667} = 7{,}23\%$$

The ratio of problematic profit-sharing financing to total profit-sharing financing is 7.23%, which has a risk rating of 2 (low to moderate).

c. Fund distribution strategy pillar: BPRS BDW's financing growth is above the industry average, with most of the financing channelled to controlled economic sectors. If there are any uncontrolled sectors, the portfolio remains low. This indicates that BPRS BDW has a risk rating of 2, which is categorized as low (low to moderate).

d. External factor pillar: Changes in external factors impact customers' ability to repay financing, resulting in arrears, but do not affect the quality of financing. In the second half of 2023, external factors were still present due to the ongoing impact of the pandemic, but the situation was improving thanks to the government's relaxation of pandemic restrictions, which were then stopped in the second half of 2023. When these regulations were stopped in the first semester of 2023, Indonesia's economic conditions improved in general, and the absence of PPKM allowed customer business development to recover. Although the ratio has not returned to pre-Covid levels, customers' ability to pay can return.

Based on risk calculations and self-assessment of value, the inherent financing risk at BPRS BDW is rated 2, which is low to moderate. Considering the business activities carried out, the possibility of losses that BPRS could face from financing risks is relatively low over a certain period in the future. Taking into account the business activities carried out by BPRS, the possibility of losses faced by BPRS BDW from inherent risks is also classified as very low over a certain period in the future.

2) Measuring the assessment and determining the level of KPMR (Quality of Implementation According to Risk)

Principles of Supervision	Evaluation Parameters	Parameter Value
Directors and Commissioners	Financing risk management policy	1
	Directors' ability to mitigate financing risks	1
	HR management policies	1
	Approval of the Board of Commissioners regarding risk management and evaluation policies	1
	Evaluation of the board of commissioners regarding the accountability of the directors and follow-up to the evaluation results	1
Shariah Supervisory Board (DPS)	DPS evaluation of financing risk management	1
	Evaluation of the directors' responsibilities regarding Sharia compliance	1
Adequacy, Policies, Procedures, and Limits	The organization's adequacy in handling financing risk management	2
	Risk management policies that consider the vision and mission	1
	DPS supervision of directors' accountability regarding Sharia principles	1
	The organization's adequacy in handling investment risk management	1
Risk Management Information Systems and Processes	Financing risk management process inherent in BPRS business activities related to risk	2
	Financing risk management information system	2
Comprehensive Internal Control System	Implementation of SKAI or PEAI audits	1
	Internal control of financing risk	1
Total KPMR value		**19**
Average value		**1,26**
Self-assessment		**1**

The results of the Quality of Risk Management Implementation (KPMR) assessment and determination show that BPRS BDW's financing risk level is at risk level 1 in semester II of 2023. This level is categorized as very adequate, as minor weaknesses can be ignored. BPRS BDW has an excellent financing risk management system. All parties involved, from directors to staff, have a deep understanding of, and are committed to, risk management. The risk management process is carried out thoroughly and effectively, supported by competent human resources, good information systems and robust internal controls. The evaluation results show that the BPRS BDW risk management system has performed as expected.

3) Determination of risk levels for each type of risk

The results of the inherent risk measurement are ranked at level 2 (low to moderate), and KPMR is at level 1 (strong). It can then be seen that the BPRS BDW Risk Matrix Assessment is categorized as very low (level 1), which is also known as (Low).

Fig. 4. Risk Matrix Assessment

4) Determination of risk levels

Based on the Risk Matrix Assessment method, the risk rating held by BPRS BDW can be interpreted to mean that BPRS BDW's risk profile is included in the ranking. This ranking generally has the characteristics of the possibility of losses faced by BPRS BDW from inherent risks, which are classified as very low for a certain future period when the business activities are taken into consideration. The KPMR value is adequate if there are minor weaknesses, which can be ignored.

C. Monitoring Financing Risk

The monitoring of financing risk at BPRS BDW is conducted systematically through periodic reporting to the Board of Directors to support mitigation strategies and necessary decision-making. In accordance with SEOJK No. 10/SEOJK.03/2019, the process involves preparing, developing and implementing backup record systems, carrying out periodic checks and reassessments, and applying basic principles to monitoring activities. Based on interview results, financing risk monitoring at BPRS BDW, particularly that caused by low-quality and problematic financing, is carried out in several ways. First, regular visits are made to customers after the contract has been finalized to ensure that the funds are being used in accordance with the terms of the contract. Furthermore, the bank periodically visits customers to maintain good relationships and obtain updates on their business conditions. If a customer is deemed problematic, their account is transferred to the remedial recovery unit for further analysis to identify the root cause of the default. Additionally, Account Officers (AOs) carry out monthly visits to monitor customer performance, conduct analyses and maintain relationships, ensuring that potential problems can be detected and resolved promptly. This monitoring framework, as confirmed through interviews with the PEMR and the BPRS BDW Board of Directors, reflects the bank’s structured approach to financing risk management.

The risk management process at BPRS BDW is well structured, particularly at the monitoring stage. This is evidenced by the preparation of periodic reports for the Board of Directors, which support risk mitigation and decision-making. Based on statements from the PEMR and the Board of Directors, the bank has developed and implemented a comprehensive system of procedures to facilitate effective monitoring. While the existing management information system has been helpful, there is still room for improvement in several areas. Nevertheless, the monitoring procedures have proven effective in identifying problematic assets and other transactions, ensuring that they receive appropriate attention. In addition, BPRS BDW regularly conducts stress tests to anticipate and manage risks amid regulatory changes. The monitoring framework encompasses various aspects, including assessing counterparties' financial conditions, monitoring compliance with contractual terms, evaluating collateral, identifying payment irregularities, analyzing problematic financing and determining the overall level of financing risk.

The monitoring process at BPRS BDW involves multiple parties and is structured to ensure compliance with the terms of the financing agreement, taking into account the characteristics, size and complexity of the bank’s portfolio, as emphasized by the Board of Directors. Regular monitoring and evaluation are carried out through monthly financing risk exposure assessments, the results of which are reported directly to the Director and compared with predetermined risk limits. This systematic approach enables the bank to identify changes in financing risk over time and implement corrective or mitigation measures promptly, safeguarding the soundness of its financing portfolio.

The PEMR periodically produces reports on financing risk developments, reflecting BPRS BDW's commitment to continuous tracking and monitoring. These efforts provide a solid basis for effective risk management, enabling the bank to respond proactively to changes in the business environment. Written procedures support the monitoring process, facilitating the early identification of shifts in the risk profile, whether stemming from potential or actual reductions in financing risk. However, the Board of Directors has not yet conducted regular independent evaluations of these monitoring procedures. Such evaluations would strengthen the objectivity of the process, provide a more critical assessment of its effectiveness and enhance the credibility of the overall risk monitoring framework.

BPRS BDW has taken concrete steps to implement the core principles of financing risk monitoring. The results of this process are documented in written procedures that enable shifts in the risk profile arising from potential or actual reductions in financing risk to be detected early. Additionally, the bank has implemented structured monitoring procedures to determine asset quality and evaluate administrative costs. Periodic reporting of financing risk measurements provides relevant stakeholders with a clear picture of risk developments. However, these monitoring procedures have not been regularly evaluated by an independent party. Such reviews would enhance objectivity, provide a more critical assessment of effectiveness and strengthen the overall reliability of the monitoring framework. Together, these efforts demonstrate BPRS BDW's dedication to identifying, evaluating and managing financing risks to ensure the health of its portfolio.

In line with previous research, BPRS BDW actively helps customers to address financing problems using a structured process covering identification, measurement, monitoring and control. When customers encounter repayment difficulties, the bank first issues a series of warning letters. These are then followed by direct engagement to identify the underlying problems and seek mutually beneficial solutions. If the customer's business is deemed viable, the bank offers restructuring through rescheduling, reconditioning or restructuring (3R) to restore repayment capacity. However, if restructuring fails and no goodwill is demonstrated, the collateral can be confiscated and sold at auction [18] [19].

Interviews with the PEMR and the Board of Directors suggest that the majority of BPRS BDW's financing risk monitoring practices align with SEOJK No. 10/SEOJK.03/2019. This is reflected in the bank's development of backup systems and comprehensive procedures designed to prevent disruption to the monitoring process. Regular checking, monitoring and reassessment are embedded as core principles, demonstrating the bank's commitment to ensuring that financing risks are consistently identified and evaluated. Nevertheless, a key gap remains in the absence of regular evaluations by independent parties of the units applying monitoring procedures. Such external evaluations are essential for ensuring objectivity, preventing conflicts of interest, and enhancing the effectiveness of monitoring frameworks. Therefore, implementing independent evaluations would further strengthen BPRS BDW's capacity to manage financing risks effectively and impartially.

D. Financing Risk Mitigation

Based on SEOJK No. 10/SEOJK.03/2019, several steps must be taken in the process of mitigating financing risks. Firstly, banks must ensure that employees or work units handling financing and transactions exposed to financing risks perform their functions adequately. Financing risk exposure must be kept consistent, and the financing process must comply with both prudential and Sharia principles. Secondly, banks must control risks by implementing mitigation measures, such as determining the level of authority in the fund distribution approval process and conducting regular concentration analyses. Thirdly, banks must establish an effective system for identifying problematic financing, while ensuring that employees responsible for resolving such issues are separate from those responsible for financing decisions.

Interviews reveal that BPRS BDW implements financing risk mitigation through several measures, including strengthening the customer initiation process to emphasize coaching and monitoring of disbursed financing. The bank has also reinforced its organizational structure, human resources, internal regulations and tools to support implementation. These measures aim to minimize financing risks, particularly those arising from low-quality or problematic financing. In practice, BPRS BDW seeks to reduce risk while ensuring that operations remain sound and aligned with prudential and Sharia principles.

Interviews with the PEMR and the Board of Directors suggest that BPRS BDW has ensured the effective operation of the relevant employees and units involved in financing and related transactions. Efforts have been made to enhance HR competencies and enforce performance standards consistently in financing functions. Financing risk exposure is also managed within set limits, in accordance with both prudential and Sharia principles. The financing initiation process includes a verification stage, particularly for transactions exceeding certain thresholds. In some cases, direct involvement from the Director is required. Following verification, further identification processes are conducted, such as collateral analysis, before confirming a customer's financing eligibility. After disbursement, monitoring is carried out regularly, at least seven times per month. Any problems that arise are referred to the remedial and recovery division, particularly for financing that falls into higher collectibility categories. This division follows established guidelines for identification and mitigation actions.

Overall, BPRS BDW has taken the necessary steps to ensure that financing activities are managed prudently and in line with Sharia principles, while effectively controlling financing risks. Measures to mitigate risk include setting authority levels for financing approval, performing regular funding concentration analyses and arranging monthly visits by Account Officers (AOs) to assess customers until financing is fully repaid. Employees responsible for problematic financing are separated from those involved in financing decisions within the remedial and recovery division. Additionally, the bank employs an effective system for identifying problematic financing. This includes routine AO visits and daily updates of non-performing financing (NPF) data via its information system (SIM), enabling timely monitoring. Internal control systems have been implemented at all organizational levels in accordance with risk management policies and procedures, taking into account operational complexity and the overall risk profile.

As part of its risk mitigation strategy, BPRS BDW carries out a general Provision for Productive Asset Losses (PPAP). These consist of a general provision of IDR 783,226,000 and a special provision of IDR 820,867,000. PPAP serves as a reserve for potential losses arising from the inability to recover productive assets. According to POJK No. 29/POJK.03/2019, general reserves must amount to at least 0.5% of current productive assets [20]. However, BPRS BDW's current general reserve ratio is 0.37%, which is below the regulatory minimum. This indicates that the bank needs to increase its reserves to comply with regulations and protect itself against potential losses from adverse market conditions. Similarly, the bank's special reserve ratio of 0.35% also falls short of the regulatory requirement, posing a risk in the event of increased non-performing assets.

Overall, the financing risk mitigation process at BPRS BDW complies with the requirements of SEOJK No. 10/SEOJK.03/2019. Key measures taken by the bank include: (1) ensuring the adequacy of employees and units responsible for financing risk management, while maintaining consistent risk exposure and compliance with prudential and Sharia principles; (2) implementing risk control measures through clear approval authority and regular concentration analyses; and (3) establishing an effective system for identifying problematic financing, with clear separation of responsibilities between those involved in financing decisions and those responsible for resolutions.

However, there is scope to strengthen several areas to enhance the effectiveness of risk mitigation. Firstly, engaging independent parties in monitoring and evaluation would help to identify weaknesses and improve processes more objectively. Secondly, improving early detection systems would enable BPRS BDW to anticipate risks more proactively. Thirdly, continuous HR development through training in risk management and Sharia compliance would enhance institutional capacity. Finally, regular internal audits and revisions of mitigation procedures in line with audit findings would reinforce adherence to standards. Addressing these areas would make BPRS BDW better prepared to manage risks and maintain operational resilience.

Furthermore, in addition to implementing mitigation procedures, BPRS BDW's financing risk profile requires adequate capital support in accordance with risk-weighted assets (ATMR). Based on the calculations, the minimum amount of capital that must be reserved to protect against financing risk is IDR 15,658,659,920. This figure represents the threshold required for the bank to securely provide financing while complying with prudential principles and regulatory standards. Therefore, beyond operational controls, sufficient capitalization is crucial in ensuring BPRS BDW's resilience against potential financing risk exposures.

IV. CONCLUSION

Based on interview results, we identified, measured and monitored financing risks at BPRS BDW. We then compared these with the regulations in SEOJK No. 10/SEOJK.03/2019 and found that most of them comply with these regulations. However, several aspects of the financing risk identification process have not yet been implemented, namely that BPRS BDW has not yet set a portfolio risk limit and the Board of Directors has not yet considered the results of identifying the causes of financing concentration risk.

The risk matrix assessment results for BPRS BDW in the second half of 2023 are 1 (low). This indicates that BPRS BDW's exposure to potential losses from inherent risks is minimal over a given timeframe, and KPMR is sufficient despite minor weaknesses, which can be disregarded. The BPRS BDW monitoring process has not yet been carried out, nor has it been evaluated periodically by parties independent of the work units that apply monitoring procedures. So far, evaluation has only been carried out by the Board of Directors.

The financing risk mitigation process at BPRS BDW is based on interviews with key informants and compared with the regulations stated in SEOJK No. 10/SEOJK.03/2019; most of these regulations are in place. BPRS BDW has ensured this conformity by (1) ensuring that work units and employees function adequately to ensure compliance with prudential and Sharia principles, (2) carrying out risk control by mitigating risks and determining the level of authority in the process of approving fund distribution and analysis. They also concentrate regularly and have an effective system for detecting problematic financing, with employees handling the resolution of problematic financing being separate from those handling the decision-making process.

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