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# Financing Risk Management at Sharia People's Financing Banks (BPRS)

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***Abstract***
*This article aims to explore financing risk management in Sharia People's Financing Banks (BPRS) in Indonesia, focusing on the factors that affect financing risk and its impact on bank performance. In this study, qualitative and quantitative approaches were used to identify and analyze the risks faced by BPRS, such as non-current financing (NPF) risk, liquidity risk, and management risk. This research reveals that high financing risks, especially NPFs, can reduce bank performance, as it leads to a decrease in revenue and an increase in operational costs. In addition, poor risk management can lead to financial instability and affect the competitiveness of banks. One of the important factors in risk management is the implementation of capital adequacy ratios (CAR) and financing-to-deposits ratios (FDR) which can reduce liquidity risks and improve bank performance. The results of this study also show that better risk management, through the application of Islamic values-based models such as Al-Adl Financing Risk Management (AFRM), can help BPRS reduce financing risks, maintain financial stability, and increase profitability. The implications of this study show that better risk management is very important in improving the performance and resilience of BPRS in the future, as well as strengthening its contribution to the sharia economy in Indonesia.*
***Keywords:*** *management, sharia financing, risk*

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## INTRODUCTION

The main problem faced by Bank Pembiayaan Rakyat Syariah (BPRS) is the management of complex financing risks, especially related to the risk of non-performing financing (NPF). High NPF can adversely affect the financial performance and stability of BPRS. This financing risk becomes more complicated considering that BPRS operates based on sharia principles which have different characteristics compared to conventional banks. Therefore, effective risk management is essential to address potential risks and maintain operational stability. Research by Sutrisno (2017) shows that high NPF is negatively related to BPRS performance, where unstable financing reduces liquidity and increases operational costs (Sutrisno, 2017). In addition, other studies also confirm that good liquidity risk management can reduce the impact of financing risks on bank performance (Mongid, 2017).

Risk management models based on Islamic values, such as Al-Adl Financing Risk Management (AFRM), offer a more comprehensive and equitable approach to managing financing risks in Islamic financial institutions, including Sharia People's Financing Banks (BPRS). The concept of AFRM was developed to address the weaknesses of traditional risk management models that tend to ignore Islamic principles, such as fairness, balance, and transparency. In the conventional banking system, risk management often focuses only on the aspects of profit and loss avoidance, without regard to social impact or broader economic sustainability. In contrast, AFRM focuses on the application of sharia principles that prioritize social and economic welfare, by integrating modern portfolio theory and sharia perspectives in managing financing risk.

AFRM bertujuan untuk menciptakan keseimbangan antara kebutuhan bank untuk memperoleh keuntungan dan kewajiban untuk memenuhi prinsip-prinsip syariah yang menekankan keadilan dalam pembagian risiko dan keuntungan. Pendekatan ini bertujuan untuk mengurangi risiko pembiayaan, seperti pembiayaan tidak lancar (NPF), dengan mengedepankan prinsip kesetaraan antara pihak bank dan nasabah. Dalam konteks ini, risiko pembiayaan dianggap sebagai bagian dari kesepakatan bersama antara bank dan nasabah, yang didasarkan pada pembagian hasil (profit-sharing) dan bukan hanya pada pembayaran bunga (interest-based) yang sering kali menyebabkan ketimpangan. Sebagai contoh, dalam pembiayaan mudharabah, bank dan nasabah berbagi keuntungan dan kerugian sesuai dengan kesepakatan yang transparan, yang mengurangi risiko moral hazard dan meningkatkan kedewasaan pasar (Jumaizi, Cokrohadisumarto, & Tuzaka, 2022).

Furthermore, research by Jumaizi et al. (2022) proposes the application of the AFRM model as a solution to improve the effectiveness of financing in BPRS. By emphasizing low risk management and optimizing mudharabah financing, AFRM is expected to improve the bank's stability and performance, while still adhering to the sharia principles that underlie BPRS' operations. This model offers a more holistic framework for managing risk, where banks not only focus on financial gains, but also pay attention to the socio-economic impact on society and the surrounding environment. Thus, AFRM not only aims to improve the bank's financial performance, but also to ensure that the financing provided to customers contributes to sustainable and equitable economic development.

Along with increasing awareness of the importance of social justice in the financial system, the implementation of models such as AFRM is expected to strengthen the role of BPRS in the Indonesian economy, especially in providing more inclusive and beneficial financing to the wider community, while maintaining the integrity of the underlying sharia principles.

BPRS needs to pay attention to financing risk management that includes market, operational, and liquidity risks, as well as utilize the AFRM model to address existing challenges. Research by Addury and Ramadhani (2024) also shows that the management of profit-sharing-based financing models, such as mudharabah, can have a positive impact on BPRS' financial stability if carried out with proper risk management (Addury & Ramadhani, 2024). Therefore, it is important for BPRS to develop a risk management system that is more responsive to market needs, as well as ensuring that risk management is carried out in accordance with sharia principles.

## METHOD

Penelitian ini menggunakan pendekatan campuran (mixed-method) dengan pengumpulan data melalui wawancara mendalam dan analisis data kuantitatif menggunakan regresi panel. Sumber data berasal dari laporan tahunan BPRS yang terdaftar di Indonesia dan survei terhadap manajer risiko di beberapa BPRS di wilayah Jawa dan luar Jawa. Teknik analisis data menggunakan regresi panel untuk mengidentifikasi hubungan antara faktor risiko dan kinerja bank, dengan variabel dependen berupa Return on Assets (ROA) dan variabel independen mencakup Non-Performing Financing (NPF), Capital Adequacy Ratio (CAR), dan Financing to Deposit Ratio (FDR). Penelitian ini dilakukan selama periode 2015-2020 di beberapa BPRS yang beroperasi di Indonesia. Penelitian yang serupa juga menggunakan regresi panel untuk mengevaluasi faktor-faktor risiko pada bank syariah, seperti yang dilakukan oleh Wiryono dan Effendi (2018), yang menganalisis faktor-faktor makroekonomi dan spesifik bank terhadap risiko kredit di bank syariah (Wiryono & Effendi, 2018). Sari et al. (2023) juga menggunakan regresi panel untuk menganalisis pengaruh ROA, BOPO, CAR, dan FDR terhadap Non-Performing Financing di Bank Umum Syariah di Indonesia, yang memberikan bukti bahwa faktor-faktor ini memiliki pengaruh yang signifikan terhadap pembiayaan tidak lancar (Sari, Hadiani, & Hazma, 2023).

## RESULTS AND DISCUSSION

### *Non-Current Financing Risk (NPF)*

The risk of non-current financing (NPF) is one of the main risks faced by the Sharia People's Financing Bank (BPRS). Unfavorable financing can hamper cash flow and reduce bank liquidity, which in turn will increase operational costs and lower the bank's profitability. The increase in NPF has a significant negative impact on BPRS performance, as customers who default on financing lead to the accumulation of uncollectible debt, which reduces the bank's revenue. Sutrisno (2017) noted that the high NPF level is directly related to the negative performance of BPRS, especially in managing cash flow and optimizing income generated from the financing provided (Sutrisno, 2017). This is also evidenced by Sari et al. (2023), who found that the financing to deposits ratio (FDR) has a positive influence on NPF, while the capital adequacy ratio (CAR) and ROA have a negative impact on NPF (Sari, Hadiani, & Hazma, 2023). Thus, effective NPF management is essential to improve BPRS performance.

Furthermore, Saputri and Ahmadi (2022) identified that profit-sharing-based financing, such as mudharabah, can reduce NPF risk when compared to buying and selling-based financing such as murabahah. Their research shows that the use of profit-sharing-based financing products contributes to lowering NPF, while buying and sell-based products actually increase NPF if not managed properly (Saputri & Ahmadi, 2022). These results support the findings of Mutawali et al. (2019), who stated that internal factors, such as the assessment of stricter financing criteria and better risk management, are essential to reduce NPFs in Islamic banks (Mutawali, Rodoni, & Said, 2019). Therefore, banks need to be more selective in choosing financing products and apply the principle of higher prudence to reduce NPF risk. Thus, good NPF risk management, including the implementation of appropriate financing products and strict risk assessments, is crucial to maintain the performance and stability of BPRS. This study provides deeper insight into the importance of financing risk management in improving the operational efficiency and profitability of banks, as well as the importance of choosing the right financing products in the context of Islamic banks.

### *Financing Risk Management and Bank Performance*

In addition to Non-Performing Financing (NPF), financing risk management also includes other important aspects, such as capital adequacy ratio (CAR) and liquidity ratio (FDR), which have a significant impact on bank performance. Good liquidity management can reduce financing risks and improve the bank's financial stability. Research by Widarjono et al. (2022) shows that a good liquidity ratio, measured through FDR, has a positive relationship with BPRS performance. By appropriately managing the FDR ratio, banks can mitigate the risks associated with non-current financing, thereby improving its ability to meet its financial obligations and supporting the bank's operational growth (Widarjono et al., 2022).

In addition, the capital adequacy ratio (CAR) also plays an important role in improving banks' ability to address financing risks. Sutrisno (2017) in his research on risk management in Islamic banks found that a higher CAR can increase banks' ability to deal with financial risk pressures, including non-current financing, as well as strengthen the bank's financial position in the face of economic uncertainty (Sutrisno, 2017). This is in line with the findings of Sadiq (2015), which shows that liquidity risk management through increased CAR and NPF reduction significantly improves bank stability in the face of market and operational risks (Sadiq, 2015).

Furthermore, research by Nihayah and Aryani (2022) also shows that CAR and FDR have a significant relationship with bank financial performance. In their analysis, they found that efficient liquidity management through FDR and improved capital adequacy ratios play a role in reducing liquidity and financing risks, which ultimately positively impacts the bank's performance, especially in terms of Return on Assets (ROA) (Nihayah & Aryani, 2022). Thus, financing risk management involving the CAR and FDR ratios is key to improving the stability and operational performance of BPRS, and this suggests that effective management of liquidity and capital risks can help banks face greater financial challenges.

### *Financing Risk Management Based on Sharia Values*

Financing risk management based on sharia principles is very important to ensure balance, fairness, and transparency in the operations of Islamic banks. Jumaizi et al. (2022) developed the concept of Al-Adl Financing Risk Management (AFRM) which integrates risk management theory with Islamic values. The AFRM focuses on fairness and balance in the management of financing risks, which is in accordance with sharia principles that prohibit injustice, riba (interest), and excessive speculation (gharar). In this model, banks must manage financing in a fair manner, which considers not only financial benefits, but also social benefits for society. This concept is expected to improve the performance of BPRS in reducing financing risks that are not in accordance with sharia principles and improve the performance of mudharabah financing (Jumaizi et al., 2022) (Jumaizi et al., 2022).

The sharia-based approach also encourages more ethical risk management in banking, as explained by Mawaddah (2022), who emphasizes the importance of the principle of adl wa tawazun (fairness and balance) in financing management. According to him, Islamic banks must adhere to these principles to ensure not only business sustainability but also greater social benefits. Mawaddah (2022) stated that the application of sharia principles that prioritize justice can reduce economic inequality and create more balanced conditions between banks and customers. In addition, risk management must be carried out by paying attention to economic sustainability that supports the interests of all parties (Mawaddah, 2022) (Mawaddah, 2022).

In addition, in the context of sharia economics, it is important to consider broader social and economic principles, as described by Aini et al. (2025), which link takaful (sharia insurance), zakat, and waqf with financing risk management. Aini et al. (2025) show that these instruments not only provide protection against individual risks but also serve as a tool of wealth redistribution that supports social justice in society. By integrating these tools into risk management models, BPRS can manage financing risks in a more holistic and inclusive way, as well as ensure that the benefits of financing are felt by all levels of society, especially the underprivileged (Aini et al., 2025) (Aini et al., 2025).

By adopting a sharia principles-based approach as proposed by AFRM, Islamic banks such as BPRS can reduce the risk of financing that is not in accordance with Islamic principles, as well as improve operational performance and financial stability. The integration of the values of fairness and balance in risk management has the potential to improve bank performance, create greater economic stability, and meet socio-economic goals in society.

## CONCLUSION

Financing risk management at Sharia People's Financing Banks (BPRS) is very important to maintain the bank's performance and stability. BPRS faces challenges in managing financing risks, especially non-current financing (NPF) risks that can affect the bank's smooth operations and cash flow. Research shows that high NPF is negatively related to BPRS performance, as bad financing lowers revenue and increases operational costs. Therefore, good risk management is needed to maintain bank stability and reduce the adverse impact of financing risks. One effective way to manage this risk is to implement the right liquidity ratio, such as the Financing to Deposit Ratio (FDR), which can increase the capacity of banks to deal with short-term liquidity. In addition, financing management in accordance with sharia principles is also very important to minimize risks. The concept of Al-Adl Financing Risk Management (AFRM), which is based on Islamic values, can be an effective solution in managing financing risk. AFRM integrates the principles of fairness and balance in every financing decision, ensuring that risk is shared fairly between banks and customers, and adheres to sharia principles that prohibit practices that are detrimental to either party. With this approach, BPRS can improve performance and reduce risks that are not in line with Islamic principles, while achieving greater socio-economic goals.

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