JIEP
Journal of Islamic Economics and Philanthropy

JIEP: Journal of Islamic Economics and Philanthropy
Volume 6, Nomor 4, May 2024
E-ISSN: 2655-335X
https://ejournal.unida.gontor.ac.id/index.php/JIEP/index

Submitted 2023-10-30 | Reviewed 2024-01-28 | Revised 2024-04-29 | Accepted 2024-05-02

Investment Risk Management in Sharia Banking : A Literature Study

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Abstract

An incident that carries the possibility of causing financial loss is called a risk. In banking, investment risk is the risk that necessitates the bank to take a portion of the losses from a customer's business that has been financed through profit-sharing arrangements that include the profit and loss sharing and net revenue sharing methods. The purpose of this study is to examine the factors that influence investment risk and how they affect Islamic banking, as well as how investment risk management is applied there. The present investigation employs a literature study methodology to address the research objectives. Content analysis is the analytical technique employed in this study. According to the study's findings, there are variations in the investment risks associated with Islamic banking, namely between mudharabah and musyarakah investment risks.

Keywords: Banking; Investment Risk; Investment Risk Management

Abstrak

Suatu kejadian yang mempunyai kemungkinan menimbulkan kerugian finansial disebut risiko. Dalam perbankan, risiko investasi adalah risiko yang mengharuskan bank mengambil sebagian kerugian usaha nasabah yang dibiayai melalui pengaturan bagi hasil yang mencakup metode bagi hasil dan bagi hasil bersih. Tujuan dari penelitian ini adalah untuk menguji faktor-faktor yang mempengaruhi risiko investasi dan bagaimana pengaruhnya terhadap perbankan syariah, serta bagaimana manajemen risiko investasi diterapkan di sana. Investigasi ini menggunakan metodologi studi literatur untuk mencapai tujuan penelitian. Analisis isi adalah teknik analisis yang digunakan dalam penelitian ini. Berdasarkan temuan penelitian, terdapat variasi risiko investasi yang terkait dengan perbankan syariah, yaitu antara risiko investasi mudharabah dan musyarakah.

Kata Kunci: *Perbankan; Risiko Investasi; Manajemen Risiko Investasi*

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INTRODUCTION

The Islamic economy is currently experiencing very rapid development (Fanani 2023). A financial institution that follows Sharia law and whose job it is to gather and disburse funds to the general people is known as an Islamic bank. Everything pertaining to Islamic banks and business units, including institutions, business activities, and procedures and processes in carrying out their business activities, is covered by UU No. 21 of 2008 about Islamic Banking (Indonesia 2011). Islamic banks will always face a variety of hazards in their commercial operations. One of the riskiest financial intermediary industries is banking. Consequently, in order for banks to detect issues early and take appropriate action quickly afterward, they must enhance the efficacy of risk management and the application of sound corporate governance (Suhartini 2023). According to (Jallow 2023) there are currently 526 Islamic banking and financial institutions operating in 72 different countries, with a growth rate of 4.3% year on year. This indicates that the development of Islamic banks has been increasing recently.

Accordingly, the services they provide have a significant positive impact on ensuring resource distribution equity, reducing poverty in society, and, most importantly, promoting a nation's economic development (Aziz & Mohamad, 2015; Purnamasari, Syarifuddin, & Safitr,2023) 2.7 trillion dollars in total assets, or more than 6% of all banking and financial institutions worldwide. Many people's perceptions of Islamic banking have grown rapidly as a result of its methods of operation, which include asset-based transactions, profit-and-loss sharing, and the administration and payment of zakat. An incident that carries the possibility of causing financial loss is called a risk. Within the banking industry, risk refers to an unforeseen circumstance that may or may not be anticipated and could negatively affect bank operations (Phase 2016). Significant changes are occurring in the banking industry today, along with intricate potential hazards. Complex potential dangers necessitate more mature risk management from banks. Banks and banking supervisory authorities will both profit from systematic risk management (Phase 2016). According (Phase 2016) outlines multiple phases in risk management, including the identification, measurement, monitoring, and control of diverse hazards. In the banking sector, risk management is a crucial discipline. By anticipating and managing potential risks, banks may lower potential losses and improve their chances of accomplishing their objectives.

Compared to businesses operating in other industries, Islamic banks face more complex risks when it comes to implementing risk management. The intricacy of banking issues affects not just corporate entities but also consumers, the general public, and conditions of economic stability that are broadly applicable (Pramudya & Sukmaningrum 2020). Must be in line with the bank's capabilities and the degree of the business's complexity. Sharia law must be adhered to in applied risk management.

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Events that have an unfavorable effect on a bank's capital income, whether they can be anticipated or not, are considered risks in the banking industry. While they cannot be completely eliminated, they can be managed and controlled. Regulation Number 13/23/PBI/2011, which relates to the implementation of risk management for sharia commercial banks and sharia business units, was released by Bank Indonesia in 2011. This rule explains that risk limitations, policies, and processes must be established by Islamic banks and Islamic business units. The goal of using risk management is to protect the business's operations from the issues that arise in Islamic banks. Risk management needs to come up with plans on how to maintain business operations in the event that Islamic banks encounter serious issues. Understanding the risk and being well-prepared to manage it are the keys to successful risk management. Good risk management can help improve an organization's overall performance and efficiency. By reducing unwanted risks, organizations can better focus on achieving their key business goals (Tucci 2023). An effective risk management program aids in an organization's consideration of all the dangers it may encounter. The relationship between various business risks and the potential domino effect they may have on an organization's strategic objectives is another topic covered by risk management (Tucci 2023).

It is true that the goal of any risk management program, including Islamic banking, is to make wise risk judgments in order to maintain and increase the overall value of the business rather than to completely eradicate all hazards (Tucci 2023). According to the summary given above, the author's research aims to investigate the variables that impact investment risk and their implications for sharia banking, along with the ways in which investment risk management is used in this context.

THEORETICAL REVIEW DAN METHODOLOGY

Risk Management

A risk is a certain event that has the potential to create a loss (Suhartini, Atiah and Najib 2023). In general, the risks facing Islamic banking are relatively the same risks as those facing Islamic banking conventional banks (Syafii and Sirega 2020). But apart from that, Islamic banks also face risks that have their own unique characteristics, because they have to follow sharia principles. Banks must face credit risk, market risk, operational risk and liquidity sharia. This unique risk arises because the balance sheet contents of Islamic banks are different from those of conventional banks. In this case the divide pattern The results of sharia banks increase the possibility of other risks emerging. Such as withdrawal risk, fiduciary risk, and displaced Commercial Risk are examples of unique risks that sharia banks must face. Fluctuating conditions The economy, both domestic, regional and international, also contributes to risk formation banking (Syafii and Sirega 2020).13 risks that banks may face include credit/financing risk, market risk, liquidity risk, operational risk, legal risk, reputation risk, strategic risk, compliance risk, and so on.The financial

institution needs to be certain that the financing it provides will be repaid before offering a financing facility. Prior to the financing being disbursed, the outcomes of finance assessments provide this confidence. Financial institutions can evaluate funding through appropriate assessment techniques, which will help them establish confidence in their consumers (Khan 2008).

The process of locating, evaluating, and controlling hazards related to an organizational activity is known as risk management. The primary goal of risk management is to lessen the likelihood of losses or unfavorable effects that could compromise an accomplishment. The typical evaluation criteria that financial organizations must use in order to acquire consumers who are deserving of their services are Character, Capacity, Capital, Collateral, and Economic Condition (also known as the 5C analysis). The analysis's main goal is to prevent or reduce the likelihood of funding risks. Since the future is unpredictable and uncertain, risk arises from uncertainty in all its forms and sources and cannot be isolated from any activity (Pratama, 2018). Risk is linked to the potential for unintended or unforeseen losses. Financing, on the other hand, refers to money given by one party to another in order to support planned investments, whether they are made by an institution or an individual. 21 Therefore, financing risk is an event that can be anticipated or not that occurs from loans made by financial institutions to clients if the bank is unable to recoup the loan principal and profit sharing (Khan 2008).

In risk management, risk identification is needed, according to this it involves identifying potential risks that can affect the organization or project (Peter S. Rose 2012). Risks can come from various sources, including internal processes, external factors, natural disasters, and others. After identifying the risk, a risk assessment is carried out. After the risk is identified, the risk is assessed to determine the likelihood and potential impact. This assessment helps determine which risk priorities need to be addressed first. The next thing to do is risk mitigation. After assessing the risk, a strategy is developed to mitigate or reduce the possibility or impact of the risk. This may involve implementing new processes, investing in technology, purchasing insurance, or other actions. The next thing to do is risk monitoring and control, risk management is a continuous process, risks need to continue to be monitored to ensure that the strategies implemented are effective and new risks can be identified and addressed when they arise. The next process is risk communication. effective risk communication is very important both internally within the organization and externally to stakeholders. Clear communication helps ensure that everyone understands the risks involved and the strategies implemented to manage them. Lastly risk reporting, regular reporting on risk management activities helps keep stakeholders informed about risk status and the effectiveness of risk management strategies.

Investment Risk

According to the National Sharia Council of the Indonesian Ulema Council's Fatwa, profit sharing is determined not only by the debtor's income or sales volume but also after subtracting the debtor's basic expenses. If the customer receives the operating profit of their firm or the net profit, the investment risk may increase. The bank may forfeit the principle of the funding it supplied to the customer in the event that the customer's business files for bankruptcy.

Investment risk is a kind of risk-sharing whereby the bank bears a portion of the losses incurred by the customer's business, which is financed through profit-sharing techniques such as profit and loss sharing and net revenue sharing. This risk appears when a bank offers its clients profit-sharing financing where the customers also bear the risk of their losses. As a result, the computation of profit sharing is derived from the business profit that the customer personally earns rather than from the quantity of money or sales that the customer makes. The primary amount of funding that the bank supplied to the customer will not be recouped in the event that the business files for bankruptcy. Profit sharing can be computed by subtracting capital from income using the method of income. The risk associated with participating in finance by contributing money to share capital is known as investment risk. Investment risks in mudharabah and musyarakah contracts are present for Islamic banks.

All investors invest with the intention of making a profit. Naturally, concerns related to inflation or market risk will surface as the investment moves forward. Investors can lower future intraday losses by building investment portfolios that lower investment risk (Lisdayanti, Rossidha and Hakim 2021). (Dewi et al., 2018) assert that each investor has a choice free from risk. Investors choose to purchase a sufficient number of investment items, particularly for students who must consider how to use them for minimally risky daily consumption demands.

According (Chong 2003) investment risk has several factors, the first is market fluctuations. Financial asset prices can fluctuate due to various factors such as economic conditions, geopolitical events and investor sentiment. The second factor is interest rate Risk. Changes in interest rates can affect the value of certain investments, especially fixed income securities such as bonds. The third factor is Inflation Risk. If the inflation rate exceeds investment returns, the purchasing power of the investment can decrease over time. The fourth factor is credit risk, credit risk is the risk that the issuer of bonds or other debt instruments may fail to pay the payments. Fifth factor liquidity risk, Some investments may be difficult to sell quickly without significantly affecting their price, resulting in potential losses. The sixth factor is currency risk. If the investment is in foreign currency, changes in exchange rates can affect its value when converted back to the investor's home currency. The seventh factor is political and regulatory risk. Changes in government policies, regulations, or political instability in a country can have an impact on investment.

Lastly business risk, every company can face risks related to its operations, competition, management, or industry trends. To manage these risks, Islamic banks must have strong policies and procedures, and carry out regular supervision and monitoring. In addition, strict regulations and strict compliance with sharia principles are also very important in minimizing the risks associated with Islamic banking operations.

Sharia Banking

Islamic banking products are those that apply the principles of islamic economics (Marimin & Romdhoni, 2015). Banks are financial organizations that engage in the following activities: they gather public funds, reinvest them in the community, and provide additional banking services (Kasmir, 2004). Sharia Banking are Banks that carry out their business activities based on Sharia Principles and by type consist of Islamic Commercial Banks and Islamic People's Financing Banks (Trimulato and Tambusai 2023). Sharia banks aim to support the implementation of national development to support togetherness and equal welfare among the community (Rohmadi, et al. 2024).

Islamic banking is not merely an intermediation institution but also is a sharia banking customer partner must protect customer interests, Therefore, it is mandatory to uphold the principle of prudence so that sharia banking can be implemented hold the trust in a controlled, liquid, solvent and profitable condition. On belief that is based on faith, and is based on the value of monotheism, that what is a responsibility is an act of worship, so that is the goal of the bank Sharia does not merely seek profit, but also seeks prosperity in this world and in the afterlife (Trisadini 2013).

Islamic banks are a subset of banks that do business without applying interest and according to the fundamentals of Islamic sharia (Putri & Tdkw, 2020). The nisbah is a way for Islamic banks to take profits, while conventional banks use the interest. It is clear that both of them aredifferent in the issue of financial principles (Purnamasari, Fani and Safitri 2023). Article 1 of Law No. 21 of 2008 about Islamic banking states that the term "Islamic banking" refers to all topics pertaining to Islamic banks and businesses, including establishments, ventures, operations, procedures, and methods used in the conduct of such ventures (Rasyidin, 2016).

The July 16, 2008, promulgation of UU 21 of 2008 regulating Sharia Banking further legitimized and accelerated the growth of the national Islamic banking sector. Its remarkable growth allowed it to reach an average annual growth of more than 65% in just five years. It is anticipated that the Islamic banking industry would continue to strengthen its support for the national economy in the years to come (Ansari 2017). Islamic banks will constantly have to deal with a variety of risks and issues when conducting business. Islamic banks must therefore be able to recognize the hazards that they are exposed to. Islamic banks must be able to recognize the dangers they face because like other financial institutions, they are also involved in managing funds and society has a big responsibility

for the security and transmission of the financial system. Islamic banks are also an integral part of the overall financial system. Therefore, they have a responsibility to ensure that their operations do not threaten the stability of the financial system generally. Recognizing and managing systemic risks that can arise from their activities is important. Besides that, the business environment is always changing, both in terms of technology, regulations and market trends. Islamic banks must be able to identify and adapt to these changes in order to remain competitive and relevant in the financial industry. By recognizing and managing the risks they face, Islamic banks can ensure the continuity of their operations and maintain the trust of the public and shareholders.

METHODOLOGY

The subject under investigation is described in this article through a literature review. Examining literature on topics related to the researcher's topic from a variety of sources, including books, the internet, and research journals, is one method of gathering data.

DISCUSSION

Seven pertinent journal papers were discovered after a literature search using the keywords "Investment Risk, Islamic Banks, Risk Management" and Google Scholar. These articles are Investment Risk Management in Sharia Banking (Fadilah and Jalaludin 2019), Sharia Banking Risk Management in Indonesia (Fasa 2016), Risk Management in Islamic Banking (Farid and Azizah 2021), Risk Management in Islamic finance: an analysis from the objective of shari'ah perspective (Agha and Sabirzyanov 2015), Risk Management of Islamic Banking: an Islamic perspective (Islam and Barghouthi 2017), Risk Management in Islamic banks (Dr. Ismail Younes Yamin, 2017), Developments in risk management in Islamic finance: A review (Rahahleh, Bhatti and Misman 2019). Based on the analysis of the articles and reference journals above, they are categorized as follows:

First, the determinants of investment risk in Islamic banking

The primary distinction between Islamic banks and conventional banks is that the latter do not engage in equity-based assets, which pose risks such as unstable revenue (Fadilah and Jalaludin 2019) (Islam and Barghouthi 2017) (Rahahleh, Bhatti and Misman 2019). Investment risk is the risk involved in participating in financial goods or other contracts-covered initiatives, as well as in the process of lending money to each other to support riskier ventures. The Islamic bank is the one that loses out in a mudharabah contract when a customer loses money, and it is not within its rights to demand that the party it is financing find a means to provide the necessary rate of return. As opposed to musyarakah contracts, which group capital-rich entrepreneurs together. Both mudharabah and musyarakah contracts rely on profit sharing, which has the potential to have loss issues but cannot guarantee a fixed return.

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Since legal concerns are taken into consideration when assessing risk and have the ability to effect investment performance, they warrant careful attention (Ansari 2017). Tariffs, quotas, subsidies, and tax regulations are some of these factors that impact investment viability and quality. Dealing with investments and other transactions requires caution because they can reduce the principal invested. Islamic banks have the risk of not having sufficient reliable information, such as a deficient financial control system, to assess investments. Additionally, because of its partner location, the bank can be held accountable for legal difficulties pertaining to customers (Fadilah and Jalaludin 2019) (Fasa 2016).

According to (Fadilah and Jalaludin 2019), (Rahahleh, Bhatti and Misman 2019) and (Farid and Azizah 2021) investments can be classified into several types, they are asset-based investment, investments based on influence, investments based on sources of financing and Investment by shape. Investment based on aspects is divided into 2 Real assets(real assets), investments are stated as real assets, namely those that can generate income and experience tangible investment flows (depreciation), such as buildings, vehicles, and so on and financial assets(securities), in the form of documents traded in the money market such as deposits, commercial paper, and money market securities (SBPU), besides financial assets are also traded in the capital market such as bonds, stocks, warrants, options, and others. Influence-based investments are divided into 2 Autonomous investment (stand-alone), namely investment that is not affected by the level of income, is speculative, such as buying securities and Induced investment (affects, causes), namely investment that is affected by increased demand due to goods and services and income levels, such as transitory income (income earned other than working).

Investments based on sources of financing are divided into 2 investments originating from within the country / PMDN are domestic investments whose activities are investing to conduct business in the territory of the Republic of Indonesia carried out by domestic investment, investors from within the country and Investments sourced from foreign capital, investment financing sourced from foreign investors. Investment based on the form is divided into 2 direct investment, made by the owner himself, such as building a factory, constructing a contractor's building, buying a total, or acquiring a company and indirect investment, often referred to as portfolio investment, indirect investment is made through the capital market with securities instruments, such as stocks, bonds, and mutual funds based on their derivatives. Whether they like it or not, Islamic banks must be ready for delays brought on by changes in cash flow patterns and potential roadblocks to the distribution of earnings, even though this can be arranged well in advance.

Second, the impact of investment risk on Islamic banking

Investment risk is a risk caused by a financial institution that participates in bearing the losses of the customer's business that is financed in profit- and loss-sharing financing (Fadilah and Jalaludin 2019) (Fasa 2016). Investment risk arises when the bank also bears

the risk of loss because the profit-sharing calculation is also based on the profits generated, not only sales and income. If the customer suffers a loss, then the principal amount of the financing that has been given will not be returned.

There are several features of investment risk (Fasa 2016) (Agha and Sabirzyanov 2015), First Mudharabah and musyarakah are contracts that contain profit and loss sharing agreements that will face the risk of loss of capital even though they have been supervised. This relatively high level of risk when compared to other investments requires high caution for Islamic banks and choosing projects to reduce the losses they face. Second equity investment needs more supervision in reducing asymmetric information. These actions are correct financial disclosure, transparency in reporting, closer involvement with the project, and supervision at every stage of project implementation from appraisal to completion. Third equity investments are not likely to provide a stable income nor can capital gains be a way of return. Because of the uncertainty of cash flow, it will make it difficult to estimate and manage it.

The main difference between mudharabah and musyarakah investment risks is that in mudharabah financing (Rahahleh, Bhatti and Misman 2019) (Fadilah and Jalaludin 2019), if the business financed by the customer suffers a loss, the Islamic bank will bear all the losses and the bank cannot require the customer being financed to take action to generate the expected rate of return. Another weakness of mudharabah financing is that customers as users of funds tend to overstate (more emphasis on) spending because the level of spending is a burden on the bank while the return of consumption is in the hands of entrepreneurs. In musyarakah financing, the entrepreneur has capital at stake, these two contracts use a profit-sharing contract so that they do not provide a fixed return, but are explicitly prone to disruption in the event of a loss.

The level of investment risk is quite high so this risk becomes an important consideration in risk assessment. Partner quality, type, as well as the underlying business activities and operational continuity, make it an important concern in investment risk. Investment by its nature is related to the risks of business activities and partner operations in musyarakah and mudharib. Investment aims to desire a better life in the future, reduce inflationary pressures, and encourage tax savings. For this goal to be achieved, a decision-making process is needed when investing, especially the benefits that will be obtained from the risks it faces.

The steps to be taken in the investment decision (Fadilah and Jalaludin 2019), (Agha and Sabirzyanov 2015) determine investment policy, Securities analysis, Portfolio Formation, Revise portfolio, and Portfolio performance evaluation. The emergence of investment risk comes from several factors. According to Kamaruddin Ahmad, these factors can occur simultaneously or only appear once, including Interest rate risk in the event of an increase, Purchasing power risk due to inflation, Bear and bull risks (down and up market trends), Management risk (errors in management), The risk of failure in the

company's finances, Liquidity risk (difficulty in disbursing), Callback risk (buyback of securities by issuers), Conversion risk (asset exchange), Political risk, Industry risk (emergence of homogeneous product competition).

Third, the implementation of investment risk management in Islamic banks

Effective risk management protects assets and profits by reducing potential losses and mitigating the impact of risk losses that occur, thereby ensuring a speedy recovery. Risk management is a continuous process that depends directly on changes in the bank's internal and external environment (Farid and Azizah 2021) (Suhartini, Health Analysis of Private Banks during the Covid-19 Pandemic with the RGEC Approach 2023). Islamic banks must have strategies, risk management, and adequate reporting processes concerning investment risk characteristics including mudharabah and musyarakah investments, Islamic banks must establish an exit strategy in capital investment activities with DPS approval (Rianto, 2013). Risk management can increase shareholder value, provide an overview to bank managers regarding possible future bank losses, improve systematic decision-making methods and processes based on the availability of information, which are used as accurate measurements of bank performance, and create risk management infrastructure that is strong to increase bank competitiveness (Rivai & Arifin, 2013).

Islamic banks are required to have an adequate strategy, risk management, and reporting process concerning the characteristics of investment risks including mudharabah and musyarakah investments (Fadilah and Jalaludin 2019). Risk mitigation carried out by Sharia institutions for investment risk in mudharabah contracts (Islam and Barghouthi 2017) (Fasa 2016), namely:

a. Institutions must know their debtors by properly applying the KYC (know your customer) principle. It is better to use a marabahah contract that can only be done for customers who have previously been debtors and have experience in transacting with banks.
b. Institutions can involve customers in determining profit-sharing ratios so that customers have a moral interest in implementing mudharabah contracts.
c. Guarantee policies must be adjusted to the level of credibility of the customer.
d. Creating a new division that specifically handles managerial, spiritual, and motivational customer development, creating a new division specifically for data and information validation, creating a rating system integrated with the selection system and determining business financing term policies, working with independent rating agencies to give customer ratings routinely.
e. banking continues to strive for customers to surrender profit sharing to banking rights as institutions have sought to recover other people's receivables.
f. implementing an investment approval process with a contract using an effective profit-sharing system by setting limits of authority and a mechanism for making investment decisions with a contract using a profit-sharing system.

g. Supervision and monitoring of the concentration of distribution of funds using a profit-sharing system contract by the bank's risk appetite.

Developing policies and channeling of funds using a profit-sharing system contract as well as guidelines for adequate investment risk management by carefully managing the level of risk in several characters such as quality, concentration, security of collateral, time of maturity, and others. Islamic banks must assess and measure the risks associated with the potential for manipulation of reporting results which can lead to overstatement/understatement of income from partnerships (Fadilah and Jalaludin 2019). Reporting of income can be gross or net. Islamic banks can approve mudharib or musyarakah partners for the involvement of independent parties to carry out audits and evaluations of investments. Done properly and correctly, this measurement will help ensure transparency and objectivity in the assessment and distribution of profits in determining the amount to be given (Rahahleh, Bhatti and Misman 2019). There are cases of loss where the business improves and prospectively, Islamic banks can add a period (Phase 2016) (Rahahleh, Bhatti and Misman 2019). The expectations of Islamic banks must be based on a reasonable and reliable assessment that there will be a turnaround in the business which will be seen in the final results and there is a belief that the investment will recover within a certain time and make a profit.

Because Islamic banks sometimes lack the liquidity required to distribute profits, they must guarantee the ongoing operations of the business and the entity in which the investment is made (Rahahleh, Bhatti and Misman 2019). Thus, in order for investment partners to implement the retained earnings technique by the investee (the company where the investment is made), Islamic banks must grant their approval.

CONCLUSION

Risk is a condition that any individual or business that is focused on the potential for loss will undoubtedly encounter. Investment risk is any risk related to money or business operations that is part of a contract and involves contributing money to share capital in a venture that carries a certain amount of risk. In the context of banking, investment risk is a risk that necessitates the bank to share in losses incurred by the customer's business that has been supported through profit-sharing. Islamic banking may be subject to investment risk in contracts for musyarakah and mudharabah. The degree of investment risk is such that it warrants careful consideration when evaluating risk. Given the significant impact of investment risk, it is imperative for a company, particularly in the Sharia banking industry, to have an effective investment risk management system. Increased shareholder value, a summary of potential losses, more systematic decision-making processes and procedures based on available data and facts, and the development of a robust risk management infrastructure are all goals of risk management. The goals of investment risk management

in banking are to lower inflationary pressures, improve future living standards, and stimulate tax-saving behavior.

Creating an investment risk policy that outlines the specifics of managing investment risk in Islamic banking is also a top priority when it comes to risk management. Increasing shareholder value, summarizing potential losses, more systematic decision-making processes and procedures based on available data and facts, and developing a strong risk management infrastructure are the objectives of risk management. The aim of investment risk management in banking is to reduce inflationary pressures, improve future living standards, and stimulate tax saving behavior. Creating an investment risk policy that outlines the specifics of investment risk management in sharia banking is also a top priority in risk management. Investment risk in Islamic banking is influenced by various factors, similar to conventional banking but with certain differences due to adherence to Islamic principles such as the application of Sharia. Several factors determining investment risk in sharia banking Sharia Compliance, Market Risk Credit Risk, Liquidity Risk, Operational Risk, Legal and Regulatory Risk, Political and Economic Risk Sukuk Market Risk. In a mudharabah contract, the Islamic bank loses out when a customer experiences financial loss, and it is not authorized to insist that the entity it is funding find a way to provide the required rate of return. Unlike musyarakah contracts, which unite capital-rich business owners. Contracts for mudharabah and musyarakah both rely on profit sharing, which can have problems with losses but cannot ensure a set return.

It is mandatory for Islamic banks to possess sufficient strategies, risk management systems, and reporting procedures concerning the risk characteristics of assets, such as mudharabah and musyarakah investments. The first step in a Sharia institution's risk mitigation strategy for investment risks in mudharabah contracts is for the institution to be aware of its debtor. The ideal option is to employ a marabahah contract, which is available only to clients with prior debt and bank transaction experience. To give clients a moral incentive to implement mudharabah contracts, institutions can let consumers choose the profit-sharing ratio. Policies for guarantees need to be modified based on how credible the customer is. Establish a new division dedicated to the development of customer, managerial, and spiritual motivation; establish a new division for the validation of data and information; develop a rating system that is integrated with the selection process and determines business financing term policies; and work with independent rating agencies to regularly provide customer ratings. In keeping with institutions' efforts to collect other people's receivables, banking continues to aim for customers to transfer profit sharing to banking rights. establishing the boundaries of authority and procedures for using a profit sharing system to make investment decisions with contracts in order to carry out the investment approval process with contracts in an efficient manner. Use a profit-sharing plan to oversee and keep an eye on the concentration of fund distribution while taking the bank's risk tolerance into consideration.

JIEP
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E-ISSN: 2655-335X
https://ejournal.unida.gontor.ac.id/index.php/JIEP/index

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