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RISK ANALYSIS IN MURABAHAH FINANCING IN INDONESIAN SHARIA BANK

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Abstract

Murabahah financing is one of the main products in the Islamic banking system, often used to meet customer financing needs. Despite its simple and transparent structure, murabahah financing faces several risks that must be carefully managed by Islamic banks. The risks involved include credit risk, market risk, operational risk, and liquidity risk. This study aims to analyze these risks and provide mitigation strategies that Islamic banks can implement to reduce potential losses. Using a qualitative approach and literature review, the findings indicate that effective risk management will enhance the stability and sustainability of Islamic banks' operations in murabahah financing.

Keywords: *S*haria Bank; Risk Mitigation; and Murabahah Financing

Introduction

Since the promulgation of Law no. 21 of 2008 concerning Sharia Banking, the sharia banking system in Indonesia has developed rapidly. One of the financing products that is widely used by sharia banks is murabahah, which is designed to help meet customers' financing needs, both consumptive and productive. (Ii & Theory, 2012) linguistically, the word murabahah comes from Arabic with the root word ribh which means "profit". According to DSN Fatwa No.04/DSN-MUI/2000 dated April 1 2000, murabahah is selling an item by stating the purchase price to the buyer and the buyer pays a higher price as a margin.

Murabahah in Islamic banking is where the bank buys goods requested by the customer and then resells them at a higher price, accompanied by a pre-agreed profit margin. This financing is the choice of many people because it can meet their needs without involving the element of interest (riba), which is prohibited in Islamic law. In general, murabahah is easy to understand because it has a clear concept. In this contract, the price of goods and profit margins are agreed upon beforehand, which creates transparency in the transaction. (Jaelani et al.,2022) several banking techniques in implementing murabahah transactions, namely: 1) The bank acts as the seller while the customer is the buyer. The selling price is the bank's purchase price from the producer plus a profit (mark-up). Both parties must agree on the selling price and payment term; 2) The selling price is stated in the sale and purchase contract and if it has been agreed it cannot be changed before the contract takes effect. In banking, murabahah is usually done by installment payment.

The advantages of a murabahah contract are that the buyer knows all the proper costs and knows the cost of goods and profit (mark-up) which is defined as a percentage of the total price plus costs, the subject of sale is goods and commodities, the subject of sale is able to send it to the buyer, payment is postponed . (Asiva Noor Rachmayani, 2015).

Even though murabahah financing is considered safer and more transparent than other financing products, risks still exist. One of the biggest risks that Islamic banks must face in murabahah financing is credit risk, which occurs when customers fail to pay installments on time. Other risks include market risk, which is related to changes in the prices of goods sold by the bank, as well as operational risk, which arises due to errors in internal procedures or ineffective systems. Apart from that, liquidity risk is also an important issue, related to the bank's ability to meet short-term obligations. (Harjoni & Rahmawati,2020).

Good risk management is very important to ensure the smooth operation of Islamic banks, especially considering the strategic position of murabahah in bank financing products. Without appropriate risk mitigation strategies, Islamic banks can face significant losses, which can disrupt the financial stability and operations of the bank. Therefore, this research aims to identify various types of risks associated with murabahah financing and provide solutions to reduce these risks. With a deeper understanding of these risks, it is hoped that Islamic banks can manage their operations more effectively and maintain their continuity and growth. Technological developments and digitalization have had a major influence on the sharia banking system, especially in terms of murabahah financing. Currently, Islamic banks use digital platforms to speed up transactions, reach more customers and increase operational efficiency. However, this also presents new challenges, such as the increasing risk of cyber attacks, which can endanger the security of customer data and information. Therefore, Islamic banks need to adopt better security systems and strict data protection policies to maintain customer security and maintain good bank performance. In addition, macroeconomic factors such as changes in exchange rates, inflation and international interest rates also influence the risks faced by Islamic banks in murabahah financing.

(Hamizar et al., 2024) An increase in inflation, for example, can reduce purchasing power and the real value of Islamic financial investments. Likewise with increases in interest rates, which can increase borrowing costs and affect the profitability of Islamic financial institutions. This challenge is exacerbated by political and economic uncertainty in several countries that are centers of the Islamic financial industry. Internal conflict, political instability, and changes in government policy can create an unstable business environment and pose additional risks for Islamic financial institutions. In facing this challenge, Islamic financial management needs to adopt a holistic and risk-oriented approach. This involves in-depth analysis of changing global economic factors and developing adaptive and responsive strategies. Apart from that, cooperation between sharia financial institutions in overcoming common challenges is also important to strengthen the stability and resilience of the sharia financial industry in facing the ever-growing dynamics of the global economy. Economic instability can also cause the price of goods to rise or fall drastically, which will affect previously agreed profit margins. This requires banks to monitor economic and market conditions carefully in order to anticipate changes that could affect the bank's ability to fulfill its obligations. For this reason, Islamic banks need to have a comprehensive risk management policy, which includes ways to identify, assess and reduce various existing risks. One step that can be taken is to collaborate with external institutions such as regulators, auditors and risk consultants to gain broader insight and develop better mitigation strategies. With appropriate risk mitigation, Islamic banks can maintain their reputation, provide better services to the public, and ensure sustainable growth for the Islamic banking sector in Indonesia.

Risk mitigation is an effort to reduce or stop negative impacts (losses) that have already occurred. The relationship between risk management and internal control. The main meeting point is the importance of taking preventive action or building an effective early warning system or alert system in the company, where various risks are possible. Occurs and its impact can be identified, measured, and ultimately minimized as small as possible (controllable risk). (Barker, 2010). Sharia banking can implement risk mitigation, namely: First, determining guarantors and fixed assets as collateral. Second, determine the maximum ratio of operating costs to operating income. Third, the application of the principle of profit and loss sharing in capital investment contracts and revenue sharing in fund collection contracts (Rahayu, 2013). This research aims to discover the various meanings of murabahah, to provide a comprehensive picture of the risks faced by sharia banks in murabahah financing and to provide practical solutions that can help sharia banks manage these risks more effectively for the sustainability and growth of Syariah Banks in Indonesia.

Methods

This research uses a qualitative approach with a focus on a case study at one of the Indonesian Sharia Banks in Payakumbuuh City. Data was collected through in-depth interviews with officers responsible for risk management and financing at Islamic banks, as well as by analyzing annual reports and internal bank documents related to murabahah financing. The data collection process was carried out in two main stages: first, interviews with risk managers and competent financing officers, second, analysis of documents which included murabahah financing performance reports and internal bank policies related to risk management. After the data was collected, descriptive analysis was carried out to identify the types of risks that often occur in murabahah financing and how Islamic banks manage and reduce these risks.

Results and Discussion

Murabahah is one of the forms of financing in sharia banking that is most popular with the public. In Murabahah financing, the bank has determined the sale and purchase price of goods (meaning the cost of goods purchased plus a profit margin from the bank). Financing risk is the risk resulting from the failure of customers or other parties to fulfill their obligations to the bank according to the agreed agreement. Risk management is essentially a set of methodologies and procedures used in researching, measuring, mitigating, monitoring and managing risks that occur from bank activities in order to obtain sustainable profits (Nur & Wulandari, 2022).

The result about Credit Risk in Murabahah Financing shown that Credit risk is the main challenge in murabahah financing. The customer's inability to pay the loan according to schedule can becausing financing to become problematic (Non-Performing Financing/NPF). Based on interviews with sharia banking practitioners, Ahmad (2024) stated that the main factor causing payment failure is the inability to detect customers' financial conditions early. Therefore, it is important for banks to conduct more in-depth creditworthiness evaluations and use more sophisticated scoring systems to reduce this risk. On the other hand, Prasetiyo & Yanti (2024) added that collateral in murabahah financing also plays an important role in reducing credit risk. If the customer fails to pay, collateral can be used to cover losses. However, you need to pay attention to choosing the type of collateral item so you don't face the risk of a reduction in the price of the item. Credit risk, as found in this research, is the main challenge faced by Islamic banks. Many customers are entangled in installment payment difficulties, which in turn can disrupt the bank's cash flow. As a solution, Harjoni & Rahmawati (2020) suggest the importance of strict creditworthiness evaluation at the start of financing. The use of a more sophisticated and technology-based credit assessment system can help banks minimize this risk. Using a more effective and data-based credit scoring system can be the right step in identifying high-risk customers.

Market risk is related to changes in the prices of goods financed by banks. When the price of goods decreases, banks are at risk of experiencing larger losses than expected. Fathony and Rohmaniyah (2021) explain that price fluctuations, especially in the commodity and property sectors, can affect the profit margins generated by banks from murabahah financing. To reduce market risk, Islamic banks generally carry out regular market analysis and monitor developments in the prices of goods financed. Muchtar (2021) suggests that Islamic banks diversify the types of goods financed to reduce dependence on one type of market which can pose high risks. Market risk related to fluctuations in prices of goods is a factoraffect the results of murabahah financing. Instability of goods prices can reduce previously agreed profit margins, as explained by Hamizar et al. (2024). One way of mitigating market risk that can be implemented by Islamic banks is by carrying out hedging or hedging contracts to protect the bank from sudden price changes. Apart from that, banks can also consider using a more flexible pricing formula to anticipate fluctuations in the price of goods in the market.

Operational risk is related to failures in the bank's internal processes, such as administrative errors or technical problems in the system. Kurniadi (2021) found that errors in recording or processing transactions often cause problems in implementing murabahah financing. Therefore, it is very important for Islamic banks to have clear procedures and a good supervisory system. In addition, Mukhlis (2022) suggests using sophisticated information technology to support administration and financing transactions, in order to reduce the risk of operational errors. As explained by Barker (2010), operational risks are often rooted in internal procedural errors. In this case, it is important for Islamic banks to carry out regular internal audits and increase training for staff in carrying out appropriate procedures. Banks also need to develop a risk management system that allows problems to be identified before they have a major impact on bank operations. One approach that can be used is to build an early warning system that allows banks to anticipate and reduce operational risks early.

Legal risk arises when there is uncertainty in the application of sharia law or changes in regulations that affect murabahah financing. Rochmah & Fitriyani (2024) stated that changes in regulations or unclear legal decisions can cause confusion for banks and customers. To overcome this, sharia banks need to work together with sharia boards and follow developments in applicable regulations. Apart from that, it is important for Islamic banks to draw up clear and detailed contracts to avoid potential legal disputes in the future.

Liquidity risk can arise when customers fail to pay their financing installments, which will disrupt bank liquidity. In facing this challenge, sharia banks in Payakumbuh need to pay attention to the balance between long-term and short-term financing. As suggested by Rahayu (2013), banks need to have clear policies in managing the ratio of financing to operating income. One step that can be taken is to establish adequate collateral or guarantee payment with a third party guarantor.

The use of digital technology can indeed increase efficiency and speed up murabahah financing transactions. However, this also introduces the risk of cyber attacks that could damage the reputation of Islamic banks and endanger the security of customer data. Banks need to adopt a more sophisticated cyber security system and involve information technology companies that are experienced in maintaining the integrity of customer data.

Fluctuations in inflation, interest rates and exchange rates are external factors that banks cannot control. Hamizar et al. (2024) stated that these changes could affect people's purchasing power and bank profitability. Therefore, it is important for Islamic banks to monitor these macroeconomic indicators closely and adjust their financing strategies and interest rate policies according to existing conditions in the market.

Conclusion and Suggestions

Murabahah financing in Islamic banks faces various risks, including credit, market, operational, liquidity law risks, as well as external factors such as cyber risk and macroeconomic influences are the main challenges faced by Islamic banks in murabahah financing. To overcome these risks, Islamic banks need to implement a more effective risk management system, by utilizing digital technology for operational efficiency, and implementing more sophisticated and adaptive risk mitigation policies. In addition, paying attention to external factors that affect economic stability is also very important to maintain the operational continuity and growth of the Islamic banking sector in Indonesia. To manage these risks properly, Islamic banks need to implement effective risk management, such as conducting more in-depth credit evaluations, monitoring the market regularly, improving operational systems, and ensuring compliance with Islamic regulations. With these steps, Islamic banks can reduce potential losses and maintain the sustainability of their operations.

Islamic banks need to strengthen their risk management systems by using more modern technology, especially in terms of credit analysis and market risk monitoring. Regular training for staff on risk management is important to reduce operational errors. Islamic banks should be more active in coordinating with the sharia board to ensure that all financing products are in accordance with sharia principles and applicable regulations.

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