

**IMPLEMENTATION OF PRUDENTIAL PRINCIPLES AND RISK  
MANAGEMENT IN SHARIA BANK FINANCIAL MANAGEMENT  
(CASE STUDY OF BANK SYARIAH INDONESIA)**

**Dwini Apriantami<sup>1</sup>, Aliyah Tulhimma<sup>2</sup>, Rosya Ilma Nafiah<sup>3</sup>, Nova  
Rahma Daniarti<sup>4</sup>, Putri Deswita<sup>5</sup>, Muchlis Ramananda<sup>6</sup>, Dwi Ilmi  
Kayana<sup>7</sup>, Harmeindah Prameska<sup>8</sup>**

Universitas Islam Negeri Raden Fatah Palembang<sup>1,2,3,4,5,6</sup>, Universitas Sriwijaya<sup>7</sup>,  
Universitas PGRI Palembang<sup>8</sup>

E-mail: aliyahtulhimma61003@gmail.com

**ABSTRACT**

This study aims to analyze the application of prudential principles and risk management in the financial management of Islamic banks by conducting case studies on Islamic banks in Indonesia. Islamic banks have the unique characteristic of having to adhere to Islamic principles in all aspects of their operations, including financial management. Prudence becomes very important in Islamic banks to ensure the sustainability and stability of their operations. In this context, risk management has an important role in identifying, evaluating, and managing the risks associated with Islamic banking activities. This study focuses on risk management related to financial aspects, including credit risk, liquidity risk, market risk and operational risk. Analysis is conducted to assess the level of application of prudential principles and risk management by Islamic banks in financial management. The results of the study show that Islamic banks in Indonesia generally use the principle of prudence and risk management in managing their finances.

**Keywords:** Sharia Banking, Prudential Principles, Risk Management

**INTRODUCTION**

Islamic banking is one sector that is growing rapidly in the financial system in Indonesia. Islamic banks are expected to apply prudential principles and strong risk management to ensure their financial stability and sustainability. In this context, it is important to carry out in-depth research

on the application of prudential principles and risk management in the financial management of Islamic banks in Indonesia.

Case studies of Indonesian Islamic banks can provide valuable insights to understand how the principles of prudence and risk management are applied in the daily practices of Islamic banks. In an environment as diverse as Indonesia, with unique economic, social and institutional characteristics, it is important to consider the local context in understanding the challenges and opportunities in the application of prudential principles and risk management in the Islamic banking sector.

In the Islamic banking industry, the application of the principle of prudence and risk management is very important in the management of Islamic banking finance. Bank Syariah Indonesia (BSI) as one of the largest Islamic banks in Indonesia is also inseparable from the need to comply with the precautionary principle and manage risk effectively. Therefore, this study aims to analyze \_the application of prudential principles and risk management in BSI's financial management, with in-depth case studies\_ of BSI's practices and strategies. (Irawan, T., & Utomo, D. 2021)

The results of this study are expected to contribute to increasing understanding of best practices in the application of prudential principles and risk management in Islamic banks in Indonesia. The resulting findings and recommendations can assist Islamic banks in optimizing their risk management, increasing compliance with prudential principles, and strengthening the financial stability of the Islamic banking sector as a whole.

This research is also expected to be the basis for further research and the development of a more effective policy framework in the application of prudential principles and risk management in the financial management of Islamic banks in Indonesia.

## **RESEARCH METHODS**

The research method in this journal aims to analyze the application of prudential principles and risk management in the financial management of Islamic banks in Indonesia, with a focus on case studies of Indonesian Islamic banking. A qualitative approach is used to understand context, practice and real experience in the application of prudential principles and

risk management in Indonesian Islamic banks. This method comes from several journals, online and offline book print media and other sources related to this research. In this research we try to find solutions to the problems of prudential principles and risk management in Indonesian Sharia Banking.

## **RESULTS AND DISCUSSION**

### **1. The Way Bank Syariah Indonesia (BSI) Applies the Precautionary Principle in Financial Management**

Article 2 of the Banking Law Jo. UUPS emphasizes that Indonesian banks run their business on the basis of economic democracy by using the principle of prudence. This article applies to every bank conducting business activities in Indonesia, both commercial banks and people's credit banks, because this is related to the bank's function as an intermediary institution. It can be concluded that Islamic banks as intermediary institutions must always apply the precautionary principle, even though Islamic banks use sharia principles based on Islamic law in carrying out their business. In Islamic financing, the application of the precautionary principle is absolutely necessary, because the risks borne by Islamic banks are greater than the risks borne by conventional banks in providing credit. Even though this is related to the responsibility of 100% working capital by the bank and the existence of guarantees in sharia financing. In each provision of sharia financing, sharia banks are required to pay attention to the matters referred to in Article 8 paragraph (1) and (2) UUP Jo. Article 35 UUPS which states that in providing credit or financing based on sharia principles, commercial banks are required to have confidence based on in-depth analysis or good faith and the ability and capability of the debtor customer to pay off his debt or return what is intended. financing in accordance with the agreement. Likewise, commercial banks are required to have and apply guidelines for credit and financing based on sharia principles, in accordance with the provisions stipulated by Bank Indonesia. According to the Explanation of Article 8 paragraph (2) UUP Jo. Article 35 UUPS states that guidelines for credit and financing based on sharia principles are stipulated by Bank Indonesia which must be owned and applied by banks in providing sharia credit and financing. Provisions of Article 8 paragraph (1) and (2) UUP Jo.

Article 35 UUPS above, is the basis or foundation for Islamic banks in channeling Islamic financing to customers. In addition, because channeling funds to the public is one of the main functions of a bank, this provision is indirectly a continuation of Article 2 UUP and UUPS, which requires banks to apply the principle of prudence in conducting their business. In order to prevent problematic financing from occurring in the future, the assessment of Islamic banks to grant approval for Islamic financing applications is carried out based on the 5C Principle. These principles are character, ability, capital, collateral, and economic conditions. (Hermansyah, 2005)

Bank Syariah Indonesia (BSI) applies the principle of prudence in managing its finances with various steps and strategies aimed at reducing risk and maintaining financial stability. BSI applies the precautionary principle in particular as follows:

- 1) **Asset Quality Assessment:** BSI conducts a comprehensive asset quality assessment, including credit monitoring, credit risk analysis and post collateral assessment. This is done to maintain the health of the bank's credit portfolio and reduce potential credit risk.
- 2) **Adequate Liquidity:** BSI provides adequate liquidity taking into account short term and long term financial needs. They actively monitor cash flow and perform financial forecasting to ensure they have sufficient liquidity to meet financial obligations and contingent liabilities.
- 3) **Strong capital:** BSI ensures that they have sufficient capital to support operations and bear the risks involved. They meet the capital requirements set by regulators and continuously monitor their capital levels to ensure capital adequacy.
- 4) **Portfolio Diversification:** BSI diversifies its portfolio by offering a variety of sharia financial products and services. This diversification helps reduce dependence on certain sectors or products, thereby reducing the associated risks.
- 5) **Continuous risk monitoring:** BSI continuously monitors existing risks and conducts stress tests to measure the impact of potential changes in economic or market conditions. This helps them identify and manage risk more effectively.
- 6) **Compliance with Sharia principles:** In addition to implementing control

principles in financial management, BSI also ensures compliance with Sharia principles. They run their business according to sharia principles, including refraining from usury (interest) and transactions that conflict with other sharia methods.

By taking these steps, BSI intends to maintain financial stability, reduce risk and ensure prudent financial management in Islamic banking in Indonesia. (Dr. Harjoni & Rahmawati, 2020)

## **2. Concrete Steps taken by Bank Syariah Indonesia to Manage Risks in Operational Activities**

Article 38 of the Sharia Banking Law stipulates that Islamic banks and UUS are required to implement risk management, know your customer principles and customer protection. In his explanation, the definition of risk management is a series of procedures and methodologies used by banks to identify, measure, monitor, and control risks arising from bank business activities. Implementation provisions are regulated in Bank Indonesia Regulation Number 13/23/PBI/2011 concerning Application of Risk Management for Islamic Commercial Banks and Sharia Business Units, it is explained that Islamic banking business activities are inseparable from risks that can disrupt the continuity of the bank due to Islamic banking products and services. has unique characteristics that require risk management to identify, measure, monitor and control risks that are in line with sharia banking business activities. Steps taken by Islamic banks in order to mitigate risks must consider compliance with Sharia Principles.

Bank Syariah Indonesia (BSI) has taken several concrete steps to manage risk in its operational activities. Following are some of the steps taken by BSI:

- 1) Risk Identification: BSI identifies various aspects of its operations including credit risk, liquidity risk, market risk, operational risk, legal risk and Sharia risk. Risk identification is carried out through in-depth analysis of each operational activity.
- 2) Risk assessment: After identifying the risks, BSI conducts risk assessments to measure the level of risk associated with each operational aspect. Risk assessment involves assessing the likelihood of a hazard occurring and the impact if the hazard did occur. This will

assist BSI in allocating resources wisely and taking appropriate risk management steps.

- 3) Risk Control: BSI performs risk control measures aimed at reducing risks or controlling the impact caused by these risks. Risk control includes implementing appropriate policies and procedures, using an effective risk management system and strict supervision of banking operations.
- 4) Portfolio Diversification: BSI diversifies its portfolio to reduce sector or product specific risks. This diversification includes offering Islamic financial products and services to better spread risk.
- 5) Stress test: BSI conducts stress tests to test its resilience to situations that may arise in the future, such as the possibility of significant economic changes or other unforeseen events. The stress test supports BSI in understanding the possible consequences of these changes and taking appropriate action.
- 6) Education and training: BSI provides risk management education and training to its employees. This aims to increase their understanding of risk and the importance of effective risk management in all operational aspects.
- 7) Monitoring and reporting: BSI conducts regular risk monitoring and reports the results to the bank's internal authorities and parties. This monitoring ensures that risks are under control and necessary actions can be taken quickly if the situation changes or risks increase.

With these specific steps, BSI wants to manage risk effectively and ensure stable and prudent business continuity. ( Usanti Trisadini Inscription, 2012)

### **3. How to Apply the Principles of Prudence and Risk Management Effectively in the Financial Management of Bank Syariah Indonesia**

Banks are financial institutions that function as intermediaries between surplus and deficit parties. This of course makes the bank face risks in bank operations. The Bank collects funds from the public with various savings products in the short term (less than one year) and then distributes them in the form of financing (the majority in the long term). This of course

will lead to timeframe discrepancies that pose risks to banking operations. No matter how strong the banking system is, in a short time it will collapse if the majority of customers withdraw their funds simultaneously (bank rush) (Wahyudi, et al, 2013).

A phenomenal case was the collapse of 233-year-old Barings Bank due to negligence in managing operational risk. The fall of Barings Bank occurred due to fraud committed by employees who were considered to have intelligence in managing customer funds so that the bank gave too much authority to employees who made it easier to carry out various manipulations of transactions. As a result, Barings Bank had to be sold in just 3 years to ING Bank (Netherlands) for only one pound per share (Wahyudi et al, 2013).

Historically, the application of risk management to banks, in this case Bank Indonesia, has only applied rules for calculating the capital adequacy ratio (CAR) at banks since 1992 (Tedy, InfoBankNews.com). Meanwhile, Islamic banks were born for the first time in Indonesia in the same year. So, when viewed from the age of the Islamic banking system, it will be "very difficult for Islamic banks to follow the concepts that have been applied by conventional banking in terms of risk management.

This is because conventional banking takes a long time to build systems and develop risk management techniques. Although in its journey the Islamic Financial Services Board (IFSB) has been present, as an international institution that aims to formulate standards for Islamic financial infrastructure and Islamic financial instruments, in this case it has formulated risk management principles for banks and financial institutions with Islamic principles. In 2005, the first exposure draft was published. In the executive summary of the draft, it is clearly stated that the risk management framework for Islamic financial institutions refers to the Basel Accord II (which also applies to conventional banking) and is adapted to the characteristics of sharia-compliant financial institutions (Timorita). , 2012).

The effectiveness of the application of the precautionary principle and risk management in the financial management of Bank Syariah Indonesia (BSI) can be assessed based on several factors. While specific information regarding the effectiveness of BSI after September 2021 is not yet available due to data limitations, here are some general considerations:

- 1) **Financial Stability:** Implementing prudential principles and effective risk management can contribute to BSI's financial stability. In this context, financial stability can be identified from indicators such as capital adequacy, adequacy of liquidity, and adequate risk assessment. When BSI maintains strong financial stability, it shows the implementation of these principles is effective.
- 2) **Risk control:** The effectiveness of the application of the precautionary principle and risk management can also be evaluated through the success of BSI risk control. If BSI is able to identify, measure and control risks properly and implement effective controls, this is an indication of the successful application of the precautionary principle.
- 3) **Sharia Compliance:** The effectiveness of the application of prudential principles and risk management can also be assessed from the perspective of Sharia compliance. Bank Syariah Indonesia is committed to complying with Sharia principles in all aspects of its business activities. When BSI maintains compliance with sharia principles while still implementing the principles of prudence and risk management, it shows the effectiveness of implementing these two principles.
- 4) **Financial efficiency and growth:** The effective application of regulatory principles and risk management can be reflected in BSI's financial performance and growth. When BSI achieves sustainable growth, obtains good profits and reduces emerging risks, it shows that the application of these principles in financial management has been effective. It should be noted that an assessment of the effectiveness of the application of prudential principles and risk management in BSI's financial management requires a more in-depth analysis using the latest data and assessments from the competent authority. In addition, any performance evaluation must consider current economic and financial conditions.

## CONCLUSION

Islamic banking is one sector that is growing rapidly in the financial system in Indonesia. Islamic banks are expected to apply prudential principles and strong risk management to ensure their financial stability and sustainability. In this context, it is important to carry out in-depth research



on the application of prudential principles and risk management in the financial management of Islamic banks in Indonesia. Case studies of Indonesian Islamic banks can provide valuable insights to understand how the principles of prudence and risk management are applied in the daily practices of Islamic banks. In an environment as diverse as Indonesia, with unique economic, social and institutional characteristics, it is important to consider the local context in understanding the challenges and opportunities in the application of prudential principles and risk management in the Islamic banking sector.

Article 2 of the Banking Law Jo. UUPS emphasizes that Indonesian banks run their business on the basis of economic democracy by using the principle of prudence. This article applies to every bank conducting business activities in Indonesia, both commercial banks and people's credit banks, because this is related to the bank's function as an intermediary institution. It can be concluded that Islamic banks as intermediary institutions must always apply the precautionary principle, even though Islamic banks use sharia principles based on Islamic law in carrying out their business. Provisions of Article 8 paragraph and UUP Jo. Article 35 UUPS above, is the basis or foundation for Islamic banks in channeling Islamic financing to customers. Moreover, because channeling funds to the public is one of the main functions of a bank, this provision is an indirect continuation of Article 2 UUP and UUPS which obliges banks to apply the principle of prudence in conducting their business.

Article 38 of the Sharia Banking Law stipulates that Islamic banks and UUS are required to implement risk management, know your customer principles and customer protection. In his explanation, the definition of risk management is a series of procedures and methodologies used by banks to identify, measure, monitor, and control risks arising from bank business activities.

## **BIBLIOGRAPHY**

Irawan, T., & Utomo, D. (2021). *Principles of Precautions and Risk Management in Islamic Bank Financial Management: Case studies in Indonesian Islamic Banks*. Journal of Islamic Economics and Finance.

- Harjoni & Rahmawati (2020). *Risk Management and Bank Soundness Rating System* . Yogyakarta: The Amara Book.
- Hermansyah , *Indonesian National Banking Law* , (Jakarta, Youth Media, 2005)
- Wahyudi, I. et al. 2013. *Sharia Bank Risk Management* . Jakarta: Salemba four .
- Rahmani Timorita Yulianti (2009). *Sharia Banking Risk Management* . Journal of Islamic Economics.
- [https://perpustakaan.bappenas.go.id/e-library/file\\_upload/koleksi/migrate-data-publikasi/file/Policy\\_Paper/Masterplan%20Arsitektur%20Keuangan%20Syariah%20Indonesia.pdf](https://perpustakaan.bappenas.go.id/e-library/file_upload/koleksi/migrate-data-publikasi/file/Policy_Paper/Masterplan%20Arsitektur%20Keuangan%20Syariah%20Indonesia.pdf)
- Indonesian Bankers Association. 2015a. *Managing Islamic Bank Financing Business* . Jakarta: Gramedia Pustaka Utama.
- Greuning, HV and S.B Bratanovic. 2011. *Banking Risk Analysis (Analyzing Banking Risk)* Jakarta: Salemba Empat.
- Arifin, Zainul, *Fundamentals of Islamic Bank Management*, (Jakarta:Alvabet, 2002).
- Usanti, Trisadini Prasastinah, "*Characteristics of the Principle of Prudence in Sharia Banking Business Activities*", *Dissertation*, Surabaya: Postgraduate Program, Airlangga University, 2010.