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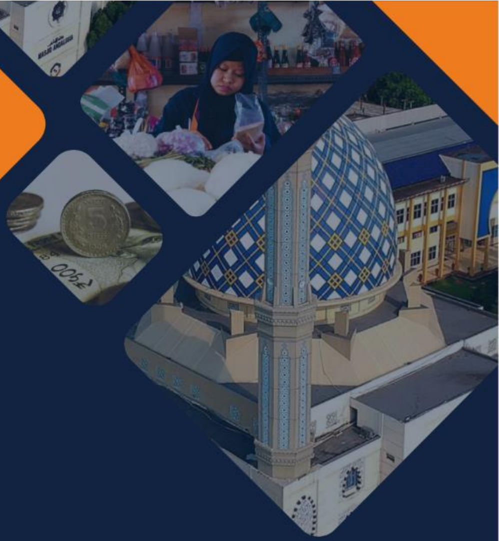

AICIF

ASEAN Universities International Conference on Islamic Finance

PROCEEDING 8th

November 24-26, 2020 AD
9-11 Rabiul Akhir 1442 H

"Islamic Finance's Contribution to Sustainable of Human Development in Asean"

Co Host :

INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA

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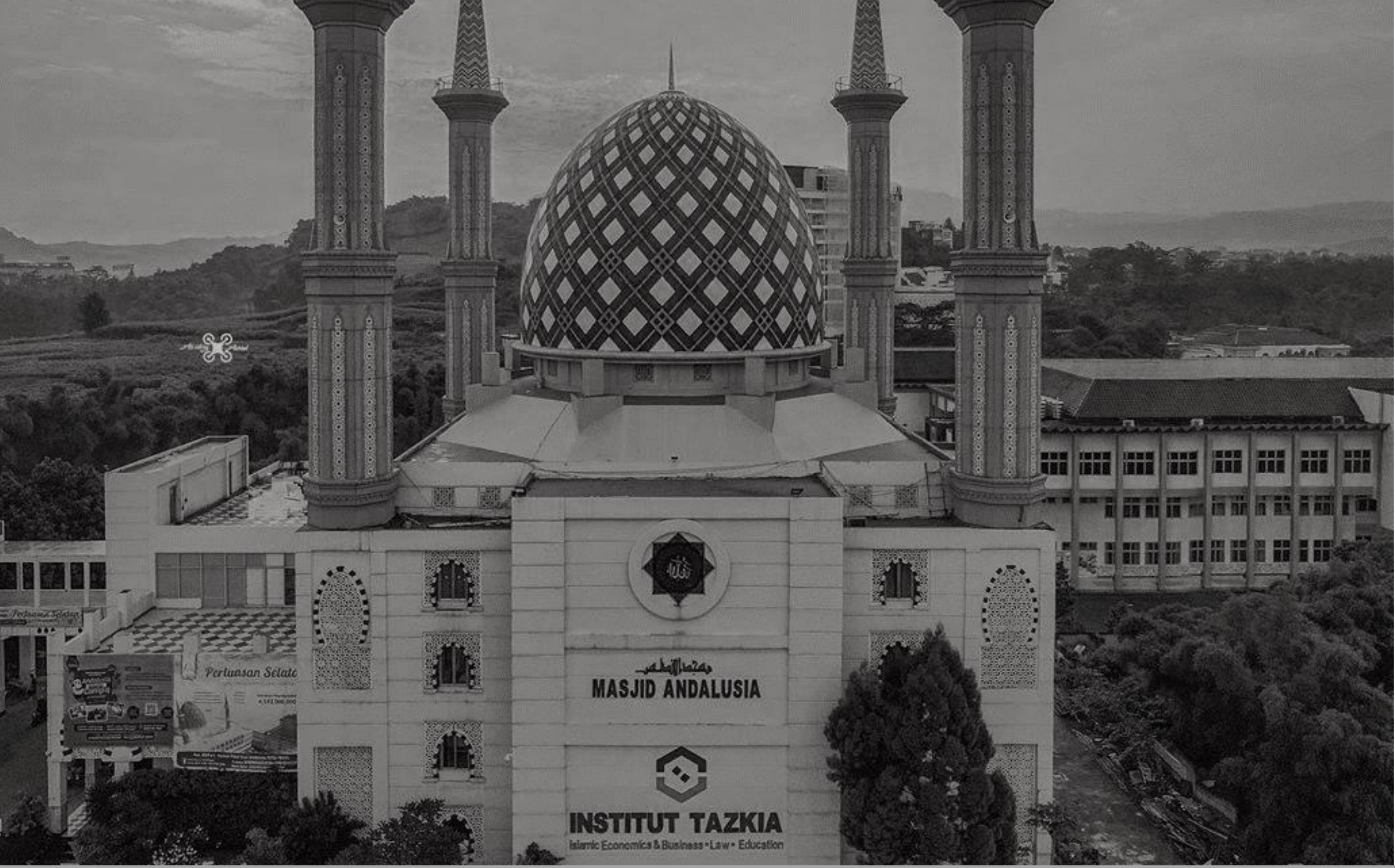

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Acknowledgement

Assoc. Prof. Dr. Murniati Mukhlisin, M.Acc, CFP
Rector of Tazkia Islamic University College

Assalamu'alaikum warahmatullahi wabarakaatuh

First of all, let us thank Allah SWT for permitting us to be here, despite the Covid-19 pandemic that still require us to limit our physical interaction. Secondly, I would like to express my gratitude to the organizing committee for their hard work and dedication in preparing the 8th AICIF conference this year. I sincerely thank the International Council of Islamic Finance Educators board, which is the engine behind the networking of ASEAN Islamic educators. The credit also goes to all co-organizers for their contribution to make this conference possible despite such a difficult situation we are in. *Jazaakumullah khairan katsiran.*

When I announced Tazkia's willingness to be the host of the 8th AICIF, in Unida last year, I immidiately promoted Bogor with all its places of interests that we could visit after the conference. Unfortunately, it is impossible now due to current travel limitation that we endure due to pandemic. Therefore, many of you are not able to physically enjoy the beauty of Bogor, however the organizer has prepared a virtual sightseeing which I hope you will find it exciting. The Covid-19 pandemic has impacted many people's live, just as what has been described in QS Al-Baqarah (2): 155 that Allah SWT tests mankind through fear, hunger, loss of wealth, lives and fruits. However, Allah SWT has promised that He would offer good tidings to those who remain patient. I still promise you that we will become a host again someday, and will entertain you with the real Bogor, so please be patient.

In my speech today, I would like to address whether we as educators and researchers have contributed something to the ummah through Islamic economics and finance. This may be too early to tell, but we should carry out serious research to respond to this question and seek recommendation for our future course of action.

In my early stage of research analyzing 250 Islamic economics papers from 2014-2020 shows that the contribution of Islamic economic studies toward economic growth has positive trend. Global Islamic Economy Indicator (GIEI) score released by Dinar Standard is shown to be significantly related to Gross Domestic Product (GDP) of each country. However, numbers of researchers, R&D cost, and gross enrollment are not significant enough to influence both GIEI and GDP. The research suggests that more invesments in all countries are required to ensure the increase in number of researchers and research costs which eventually would result to the increase in number of researches. When number of researches increases, it is expected that it would contribute more positively towards the GIEI and GDP of each country. This research also finds that research direction of the studies under review mostly employ post-positivism and constructivism–interpretivism paradigms with countries being researched are mostly Malaysia, UAE and Indonesia. That's from macro development perspective.

From micro development side, I have observed 21,193 participants attended Islamic personal finance training between 2011-2020, consists of 90 percent Muslim participants, 90 percent Indonesians living in 28 different countries. I found that 80% of the participants have not fully embraced shariah finance in their daily life. It covers right from engaging Islamic finance various products and services, understanding Islamic contracts, calculating personal zakat and resolving issues on inheritance. I even have observed that many Islamic economics and finance educators, researchers, practitioners have not embraced real shariah practices in their daily life. It seems to them, perhaps to us, Islamic economics and finance are mere formality.

Thus, I absolutely agree that we should ensure stability of the socio-economic and financial systems with the present challenges in advancing the human development. Therefore, I urge everyone here to form a solid cemented structure that is mentioned in QS As-Saff (61): 4 in order to address human development issues. Today, we have a very difficult task. Yes, we have successfully produced nearly a million alumni studied Islamic economics and finance in our respective universities but we are in grey area whether they spent years just to get a degree and a good career, or they turn up to be agents of change themselves and became better persons with *akhlaqul karimah*, as well as ready to deliver change in their societies.

Amidst with the current advancement in technology, Al-Qur'an remains valid to address to this pertinent question, let's shape our students with Al-Qur'an, integrate our academic curriculum and co-curriculum activities with Al-Qur'an, and change of research paradigm with Al-Qur'an. With that, I conclude my speech.

Thank you.

Wassalamu'alaikum warahmatullahi wabarakaatuh

Rundown

THE 8th AICIF TAZKIA ISLAMIC UNIVERSITY COLLEGE
“Islamic Finance's Contribution to Sustainable Human Development in Asean”
NOVEMBER 24 - 26, 2020

Day 1: Tuesday, November 24, 2020

Time	Agenda
08.00 - 08.30	**Registration (30”)**
08.30 - 09.00	**Opening, Recitation of Holy Qur’an, Video of Tazkia Islamic University College, Indonesia Raya & Hymne IAI Tazkia (30”)**
09.00 - 10.00	**Opening Session** **1. Opening Speech by Host of 8th AICIF 2020** **a. Assoc. Prof. Dr. Muhammad Syafi’i Antonio, M.Ec (20’’)** Founder of Tazkia Cendekia **b. Assoc. Prof. Dr. Murniati Mukhlisin, M.Acc, CFP (20’’)** Rector of Tazkia Islamic University College **2. Opening Speech by Co-Host of 8th AICIF 2020 (20’’)** **a. Prof. Al Makin, MA, Ph.D** Rector’s of UIN Sunan Kalijaga Yogyakarta
10.00 - 12.00	**Keynote Speaker** ▪ **Mr. Priyono (20’’)** **Director of the Department of Sharia Economics and Finance, Bank Indonesia** **Panel Speaker I** **Sub-Theme: ASEAN Halal Industry and Islamic Finance in Sustainable Development Programs** 1. **Assoc. Prof. Dr. Nurul Aini Muhamed (30’’)** University Sains Islam Malaysia 2. **Dr. Hakimah Yaacob (30’’)** **Senior Assistant Professor, Faculty of Islamic Economics & Finance, University of** Sultan Sharif Ali, Brunei Darussalam 3. **Dr. Indra, M.Si, (30’’)** Tazkia Islamic University College, Indonesia
12.00 - 13.00	**Break (60’’)**
13.00 - 15.00	**Panel Speakers II** **Sub-Theme: Islamic Finance and Sustainable Development Issues in Asean Perspective** **1. Professor Dr. Hasanuddin Abdul Aziz (30’’)** International Islamic University Malaysia **2. Assoc. Prof. Dr. Muhammad Abduh (30’’)** University of Brunei Darussalam **3. Dr. Sutan Emir Hidayat (30’’)** National Commitee of Economy and Islamic Finance (KNEKS)
15.00 – 15.30	**Break**
15.30 – 17.30	**Panel Speakers III**

	Sub-Theme: Islamic Social Finance and Sustainable Development Issues in Asean Perspective 1. **Prof. Dr. Salina Kasim (30'')** Dean of International Institute of Islamic Banking and Finance (IiiBF) 2. **Dr. Bayu Taufik Pasuma (30'')** Tazkia Islamic University College 3. **Prof. Dr. Zurina Shafii (30'')** University Sains Islam Malaysia
17.30 - 18.00	***Closing***

Day 2: Wednesday, November 25, 2020

Time	Agenda
08.30 - 09.00	**Registration (30")**
09.00 – 12.00	**Panel Speakers I** ***Sub-Theme: Islamic Finance Education and Community Development*** 1. **Assoc. Prof. Dr. Syed Musa Syed Jaafar Alhabshi (30'')** ICIFE/ International Islamic University Malaysia 2. **Dr. Khoirul Umam (30'')** University of Darussalam (UNIDA) Gontor 3. **Assoc. Prof. Dr. Abdurrahman Haqqi (30'')** University Islam Sultan Sharif Ali 4. **Dr. Afif Zaerofi, S.Pd., MM., (30'')** Tazkia Islamic University College 5. **Dr. Minombao P. Ramos-Mayo (30'')** Graduate School Mindanao State University, Marawi City Philippines
12.00 – 13.00	**Lunch Break and Dhuhur Prayer (60")**
13.00 - 15.00	**Panel Speakers II** ***Sub-Theme: The role of Islamic Banking in community Development*** 1. **Mr. Romy Buchari, (30'')** **PT Maybank Indonesia, tbk** 2. **Dr. Ken Sudarti, M.Si** Sultan Agung Islamic University (UNISSULA) ***Sub-Theme: Islamic Micro Finance and Sustainable Development Goals*** 1. **Dr. Yulizar Djamaluddin Sanrego, M.Ec, (30'')** University of Darussalam (UNIDA) Gontor 2. **Prof. Dr. Abdul Ghaffar (30'')** Universiti Sains Islam Malaysia (USIM)
15.00 – 15.30	**Break**
15.30 – 17.30	**Parallel Session I** a. **Colloquium** b. **Paper Presentation** c. **Project Video**

17.30 - 18.30	**Closing for Participants, Break for Committee**
19.30 - 20.30	**Discuss for ICIFE Members**

Day 3: Thursday, November 26, 2020

Time	Agenda
08.30 - 09.00	**Registration (30")**
09.00–10.00	**Rector's Talk** 1. **Assoc. Prof. Dr. Murniati Mukhlisin,M.Acc, CFP (20'')** Rector of Tazkia Islamic University College 2. **Prof. Dr. Amal Fathullah Zarkasyi, M.A(20'')** Rector of Darussalam Gontor University 3. **Prof. Dr. Bedjo Santoso(20'')** Rector of Sultan Agung Islamic University 4. **Dr. Habib W. Macaayong** President, MSU system, Philippines
10.00–12.00	**Parallel Session II** a. **Colloquium** b. **Paper Presentation** c. **Project Video**
12.00–13.00	**Break (60'')**
13.00-15.00	**Parallel Session III** a. **Colloquium** b. **Paper Presentation** c. **Project Video**
15.00–15.30	**Break**
15.30–17.30	**Parallel Session IV** a. **Colloquium** b. **Paper Presentation** c. **Project Video**
17.30- 18.00	**Appreciation for Best Paper and Closing**

RISK MANAGEMENT MODEL FOR ISLAMIC BANK BASED ON PORTFOLIO STRATEGY BALANCING

[1)] Mutamimah and [2)] Moch. Tholib
Department of Management, Faculty of Economics, UNISSULA, Semarang, Indonesia
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ABSTRACT

The performance of Islamic banks in Indonesia has experienced inconsistent growth year by year. This is indicated by the data that the growth of fund collection has fluctuated since 2015-2019 as follows; 6.35%; 20.84%; 19.89%; 11.14%; 10.28%. Likewise, the growth in distribution of funds from 2015-2019 fluctuated as many 7.06%; 16.41%; 15.24%; 12.21%; 14.15%. In shorth, the distribution of funds is largely dominated by murabahah contracts rather than mudharabah and musyarakah contracts. One of the reasons is because murabahah contract is less risky than the mudharabah and musyarakah contracts. Therefore, the aim of this study is to develop a risk management model for Islamic banks based on a portfolio balancing strategy. The research method is to review previous references related to the Islamic Bank and portfolio strategy, and analyze its weaknesses as a basis for developing a new model in Risk Management for Islamic Bank. The results show that the Risk Management Model for Islamic Bank Based on Portfolio Balancing Strategy is very appropriate to be applied in the risk management of Islamic Bank, so that it can minimize the risk of financing and risk of channeling funds, and can optimize the role of Islamic banks in empowering the real sector.

Keywords: risk management model, murabahah, mudharabah, musyarakah, portfolio strategy balancing.

[1).] ***Mutamimah, corresponding author***

I. Introduction

Islamic banks in Indonesia as sharia-based intermediation institutions have a performance that fluctuates year by year. This is shown by data from the Financial Service Authority (2019), both from raising funds and channeling funds. Funds collected fluctuated from 2015-2019 as follows 6.35%; 20.84%; 19.89%; 11.14%; 10.28%. Likewise, the distribution of funds also fluctuated, since 2015-2019 amounting to: 7.06%; 16.41%; 15.24%; 12.21%; 14.15%. In short, the distribution of funds is largely dominated by murabahah contracts rather than mudharabah and musyarakah contracts. One of the reasons is because the murabahah contract is less risky than the mudharabah and musyarakah contracts. As stated by the research results of Khan and Ahmed (2001) and Comcec (2017) that Profit Loss Sharing (PLS) financing schemes, such as Mudharabah and Musharakah, have a higher credit risk than murabahah financing. In general, Indonesia's Islamic bank financing portfolio does not reflect the spirit of profit sharing (Comcec, 2017). These results indicate that Islamic banks have not been able to play a maximum role in empowering the real sector as the essential objective of the existence of Islamic banks.

Every Islamic bank activity is always faced with achieving profits and minimizing risk. Therefore, Islamic bank managers must be able to manage assets and risks properly, so as to increase profits and gain the trust of the public. Risk management is a very essential activity, because if the manager of an Islamic bank is not able to manage risk well, it will have an impact on the decline in the performance of the Islamic bank, and even bankruptcy occurs in the Islamic bank. Risk is the probability of events that interfere with the achievement of Islamic bank goals. There are many types of risks faced by Islamic banks, including credit risk, liquidity risk, operational risk and reputation risk. Based on its nature, risk is divided into two, namely systematic risk and unsystematic risk (Yurdakul, 2014). Systematic risk is a risk that cannot be controlled, but can only be addressed by Islamic bank managers, such as exchange rate changes, political conditions, covid_19, market volatility, exchange rate changes, and changes in other macro conditions. Meanwhile, unsystematic risk is a risk that can be controlled by Islamic bank managers, and can be reduced by diversifying as described by Portfolio Theory, such as management, operational, financial and changes in customer preferences. The Theory portfolio was initiated by Harry Markowitz in 1952, that don't put your eggs in one basket, but put your eggs in many baskets. By diversifying, Islamic banks can reduce credit risk, because each type of credit financing contract and fundraising at Islamic banks have different levels of risk and return. Thus, if Islamic bank managers are able to carefully identify risk sources, types of risk, and are able to assess risks and mitigate risks appropriately, it will be able to reduce the risk of accumulation and risk of financing. Islamic banks that are not well diversified will be more vulnerable to external volatility. As stated by Trinugroho, Risfandy and Ariefianto (2018), the margin of Islamic rural banks is influenced by competition and diversification.

Various results of previous studies indicate that Islamic banks have implemented risk management, but the methods of implementing risk management have been inconclusive. Akram, H., et al. (2018) compared credit risk management between conventional banks and Islamic banks. Loan quality has a positive and significant effect on credit risk management in both conventional and Islamic banks. Asset quality has a negative impact on credit risk management in Islamic banks, however, asset quality has a positive effect on Credit risk management in conventional banks. Islamic bank risk management performance is better than conventional bank risk management performance. However, Abu Hussain and Al-Ajmi (2012) stated that the level of risk faced by Islamic banks is higher than the risks faced by conventional banks. It also means that Islamic bank risk management is worse than conventional bank risk management.

The existence of the gap phenomenon and the research gap above, motivated researchers to develop new concepts in managing Islamic bank risk, both in terms of raising funds and financing, namely the Risk Management Model for Islamic Bank Based on the Balancing Strategy Portfolio. This is becoming a novelty and expected that risk management in Islamic banks is better than before.

This study is different from previous studies, because they only explain the existence of risk management by carrying out a portfolio on the financing side only, even partially diversifying with different methods. However, this research explains a risk management by diversification with a portfolio strategy both in terms of raising funds and financing in a balanced manner. This is expected that Islamic bank as an intermediary institution has a very important role, both in raising funds and in credit financing, and these two functions influence each other. In addition, risk management cannot only focus on one side, so both must be managed in a balanced manner.

This article consists of several parts, which are introduction, literature review, research method, results and discussion, conclusion, limitation and future research.

II. Literature Review

Islamic Bank As An Intermediary Institution

Islamic bank as an intermediary institution that has the function of collecting funds from parties with excess funds, then channeling these funds to parties who need funds. Funds raise in Islamic banks in the form of demand deposits, savings and time deposits. The operational principles of Islamic banks in raising funds are the principles of wadi'ah and mudharabah. The Wadiah principle is a contract in which Islamic bank customers entrust their goods / funds to the Islamic bank, but Islamic banks as the recipient of the deposit are not allowed to use these goods / funds, but Islamic banks may accept the deposit fees / services (Syamlan and Bp, 2019). Mudharabah principle is a contract in which the customer acts as *shahibul maal* (owner of the capital) and the Islamic bank as the mudharib / fund manager. The results of the management of these funds are then divided according to the ratio agreed upon by the two parties (Heradhyaksa, 2018).

The funds raised by Islamic banks are then distributed to customers who need them. Customers can be only individuals, but also corporate customers. The principles of the fund-raising contract are: Mudharabah, Musharaka, Murabahah, Salam, Istishna and Ijarah (Khan, 2019). Mudharabah financing, indicated by the mechanism that Islamic banks provide capital for investment or working capital up to 100%, while the customer will manage the funds. The results are divided according to the agreement of the two parties. Musyarakah financing is a contract which is a syirkah between an Islamic bank and the customer as the fund manager. Islamic banks can channel some of the funds needed, the rest is borne by customers and the Islamic bank is also involved in the investment management. The proceeds from the management of the funds / investment will be shared according to the agreement of the two parties, called Profit-loss Sharing. Murabahah financing is a type of sale and purchase contract, where the Islamic bank buys the goods according to the customer's choice, then the customer pays the price of the goods plus a margin. Islamic banks will get a margin according to the agreement of both parties. Bai'as Salam is a sale and purchase contract in which the price of the goods being traded is paid in advance, while the delivery of the goods is carried out in the next period. Bai'as Salam is generally applied to financing in the agricultural sector for a relatively short period of 2 to 6 months, and to financing industrial goods such as garment products. Bai'al Istishna' is a sale and purchase contract in which the price of the goods ordered is paid in advance, but can also be paid in installments according to the agreement, but the goods purchased or produced are delivered later. Ijarah / lease / leasing is the transfer of rights over the benefits of the use of an asset as compensation for payment, without any transfer of ownership rights. Qardul Hasan is a financing contract that is given to customers who meet the requirements to receive funds in accordance with sharia. The funds can be used for business or urgent consumption needs. The customer is only obliged to pay back the principal of the loan, but the Islamic bank may not receive any compensation at all. Thus, Islamic banks are not only oriented to profit oriented activities, but also oriented to social interests.

Risk Management in Islamic Bank

According to Akram and Rahman (2018), risk is the possibility of loss, injury, damage, or other dangerous events that occur due to external or internal exposure. This risk will seriously disrupt the operations and achievement of Islamic bank goals. Even if the Islamic bank manager is not able to manage this risk well, it will reduce the performance of the

Islamic bank, even bankruptcy. Risk management consists of risk identification, collection or combination of similar risks, risk assessment, risk control and risk monitoring Rahman *et al.*, (2014). Risk management is highly recommended by Islam, in QS Yusuf verse 67, that "O my sons, do not enter through one gate, but enter through different gates. I cannot avail you anything against Allah. The decision rests only with Allah. Upon Him, I rely. And upon Him, let the reliant rely upon.". In addition, risk management is also explained by the hadith of Prophet Muhammad SAW, he asked a Bedouin who had left his camel untied, why do you not tie your camel? The Bedouin answered: I put my trust in God. The Prophet SAW then said: "tie up your camel first then put your trust in God".

Risks that often occur in Islamic banks include of credit risk, liquidity risk, operational risk, and equity investment risk (Khan and Ahmed, 2001). Credit risk is a potential creditor customer who fails to fulfill his obligations on time or fails to fulfill his obligations in accordance with the terms and conditions agreed upon in the previous contract. Liquidity risk is the probability of loss arising from the inability of an Islamic bank to fulfill its obligations to customers who have funds or the inability of Islamic banks to finance an increase in maturing assets. Operational risk is a potential loss caused by internal activity processes, people and systems that exist within the internal Islamic bank, even this occurs due to external events that cannot be predicted beforehand. Equity investment risk is the risk that arises because Islamic banks form partnerships with other parties to undertake or participate in a mudharabah or musyarakah financing contract or business activities that have been agreed in the previous contract.

III. Methodology

The research method is to review previous references related to Islamic Bank, Islamic bank risk management and portfolio strategy, and to analyze its weaknesses as a basis for developing a new model, namely the Risk Management Model for Islamic Bank Based on the Balancing Strategy Portfolio.

IV. Result and Analysis

Analysis of Previously Islamic Risk Management

Islamic banks have implemented methods to manage risk, so as to improve the performance of Islamic banks. Rahman *et al.*, (2014) found that the level of understanding risk management, risk assessment and analysis, risk control, and monitoring are important factors in risk management in Islamic banks in Malaysia than in Jordan. According to (Kozarević, 2014), there are several ways to mitigate risks in Islamic banks, which include standardizing certain contracts that carry high risks and then selling or submitting these contracts to other interested parties who are willing to take those risks. Other methods of risk management at Islamic banks are contractual risk mitigation, two-step and parallel contracts, balance sheet nets, and immunization. It can also be concluded that the theory of risk management in Islamic banks is different from their risk management practices (Rhanoui and Belkhoutout, 2019).

In addition, the avoidances of contractual risks are as follows (Kabir Hassan, Lewis Professor of Banking and Elgar, 2007): a). The usual procedure with a murabaha contract, with the aim of controlling one part of the risk by the contracting party by means of an advance payment. b). In istisna where the object of sale is deferred and the eligibility of the contract becomes a problem, especially regarding the qualitative specification of the contract. Therefore, If Islamic bank does not meet these specifications, it will be subject to a fine in accordance with the previous agreement, so that the party will have a greater commitment to fulfill its responsibilities. c). Islamic banks provide discounts on initial payments to get financial resources as quickly as possible and to reduce the risk of non-payment, with the aim of avoiding the risk of bad credit. This is done because future events are difficult to predict. d). If an Islamic bank operates in an environment where there are several policies that are against syar'i activity, then policies, and mechanisms can be determined with the client exactly about a particular contract so that risk can be reduced. Some of these models are less effective, because they are only applied to several schemes separately. In fact, the types of distribution of funds vary, from murabaha, mudharabah and musyarakah. In addition, Islamic banks are intermediary institutions that are systemic and interrelated between the functions of collecting funds and financing. These two functions are related to one another.

Risk Management and Portfolio Theory

Two theories of loan portfolio strategies are explained by the traditional banking theory and the corporate finance theory. The traditional banking theory according to Berger, et al (Akram and Rahman, 2018) is that banks, as delegated supervisors, must diversify their credit portfolios across various sectors of the economy, as this reduces the possibility of bankruptcy or the possibility of default. Banks that are not well diversified will be more vulnerable to economic volatility in sectors than banks that are well diversified. Corporate

Finance Theory according to Jensen (1986) that companies must specialize by concentrating their activities on a particular sector or line of business to enjoy the comparative advantage of developing expertise in their area of focus Banks become specialists in several sectors, developing the ability to better screen their borrowers, which reduces the problem of adverse selection and enables better collateral valuation (Adzobu, Agbloyor and Anthony, 2011). Therefore, Islamic banks intensively develop a system that can identify all types of risks and their mitigation.

The determination of an efficient portfolio is done by selecting a certain level of expected return and minimizing its risk, or determining a certain level of risk and then maximizing the expected return. Harry Makowitz (1952) defines that portfolio theory is concerned with investors' estimation of risk and return expectations, which are measured statistically to make portfolio financing. Markowitz describes how to combine assets into an efficient portfolio diversification. In this portfolio, risk can be reduced by adding the number of types of assets to the portfolio and the level of expected return can increase if there are differences in price movements of the combined assets. To distinguish the quality of fund management deposited by customers, Islamic rating is used (Radzi and Lonik, 2016).

Portfolio Strategy on Lending

The Credit Portfolio View is based on the argument that default and the likelihood of risk are strongly influenced by the business cycle and macro factors. The development of a healthy credit portfolio is only possible if useful precautions are taken to reduce credit risk. There are several contracts on Islamic bank financing, they are: mudaraba, musyarakah, murabahah. Risk for Islamic banks is divided into two components; systematic and unsystematic. Systematic risk arises from fluctuations in economic, social and political conditions and affects all financial markets (capital and monetary) and securities (financial assets) that are traded on the market (Yurdakul, 2014). Credit risk is not systematic depending on the characteristics of the industry in which the company operates. It consists of elements such as poor management, new innovations, technological developments, and changing consumer preferences. Management, operational, financial and industrial risks are identified as unsystematic risks (Yurdakul, 2014). (Adzobu, Agbloyor and Anthony, 2011) stated that loan portfolio diversification cannot increase bank profitability, and does not reduce bank credit risk. It is necessary to find a relationship between credit portfolio diversification that is able to reduce risk and increase profitability.

Portfolio Strategy on Fundraising

Risk does not only occur in distribution of funds, but also occurs in raising funds. This is very reasonable, because the funds raised by Islamic banks will also be managed so that they can provide attractive profit sharing for customers. There are several contracts on Islamic bank fundraising, they are: wadiah and mudharabah. If these funds are managed properly, it will generate high profit sharing with low risk. So far, it has been separated in the management of financing and collection of funds, even though the two things are interrelated or integrated. This is because Islamic banks are systemic and mutually integrated between the collection and distribution of funds. Thus, it is necessary to have a balance between the Portfolio Strategy on Fund Raising and distribution of funds. Among these models, the Credit Portfolio View (CPV) model developed by Wilson (Yurdakul, 2014) is the right approach commonly used to model bank credit risk using macro variables that are often difficult to predict.

Risk Management Model for Islamic Bank Based on Portfolio Strategy Balancing

Risk is an important thing that must be managed by Islamic bank managers. Islamic bank as an intermediary institution that has the function of collecting funds from parties with excess funds, then channeling these funds to parties who need funds. The Risk Management Model for Islamic Bank Based on Portfolio Balancing Strategy is very appropriate to be applied in Islamic Bank risk management, so that it will be able to minimize the risk of financing and risk of channeling funds, and can optimize the role of Islamic banks in empowering the real sector. Some of the advantages of the Risk Management Model for Islamic Bank Based on Portfolio Balancing Strategy are: a more comprehensive approach than the previous approach, because it uses two sides, risk management for Islamic bank both in raising funds and financing. This is very much in accordance with the role of Islamic banks as an intermediary institution in collecting funds and then channeling funds, both of which are interrelated and influence one another.

Some keys to success so that the Risk Management Model for Islamic Bank Based on the Balancing Strategy Portfolio can be implemented properly, including leadership, commitment of all members of the organization, a supportive culture, availability of an adequate budget, quality and quantity of human resources, and adequate infrastructure.

V. Conclusion

The results show that the Risk Management Model for Islamic Bank Based on Portfolio Balancing Strategy is very appropriate to be applied in the management of Islamic Bank risk, so that it will be able to minimize the risk of financing and risk of channeling funds, and can optimize the role of Islamic banks in empowering the real sector.

Several limitations and recommendations future research are as follows: a). This study is a conceptual paper, which still has to be studied empirically in the future. This model can be applied to Islamic Commercial Banks, Sharia Rural Banks, Islamic micro finance, Islamic pawning, Islamic insurance and other Islamic financial institutions. b). Contracts for raising funds and distributing Islamic bank funds are still very limited, so that the ideal portfolio strategy has not yet been implemented to diversify. Therefore, future research needs to examine the topics of Islamic banks in Indonesia related to product innovation and services that are more comprehensive according to the needs of society. Thus, the essential role and function of Islamic banks in empowering the real sector is well manifested, risks decline and Islamic performance increases and is sustained in the long term, especially in the increasingly competitive conditions of the financial industry.

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