



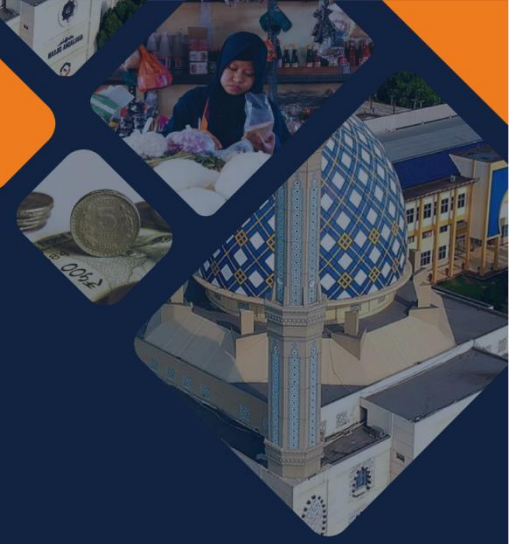
INSTITUT TAZKIA

Islamic Economics & Business • Law • Education

Tazkia Islamic University College

— Institut Agama Islam Tazkia —

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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 :



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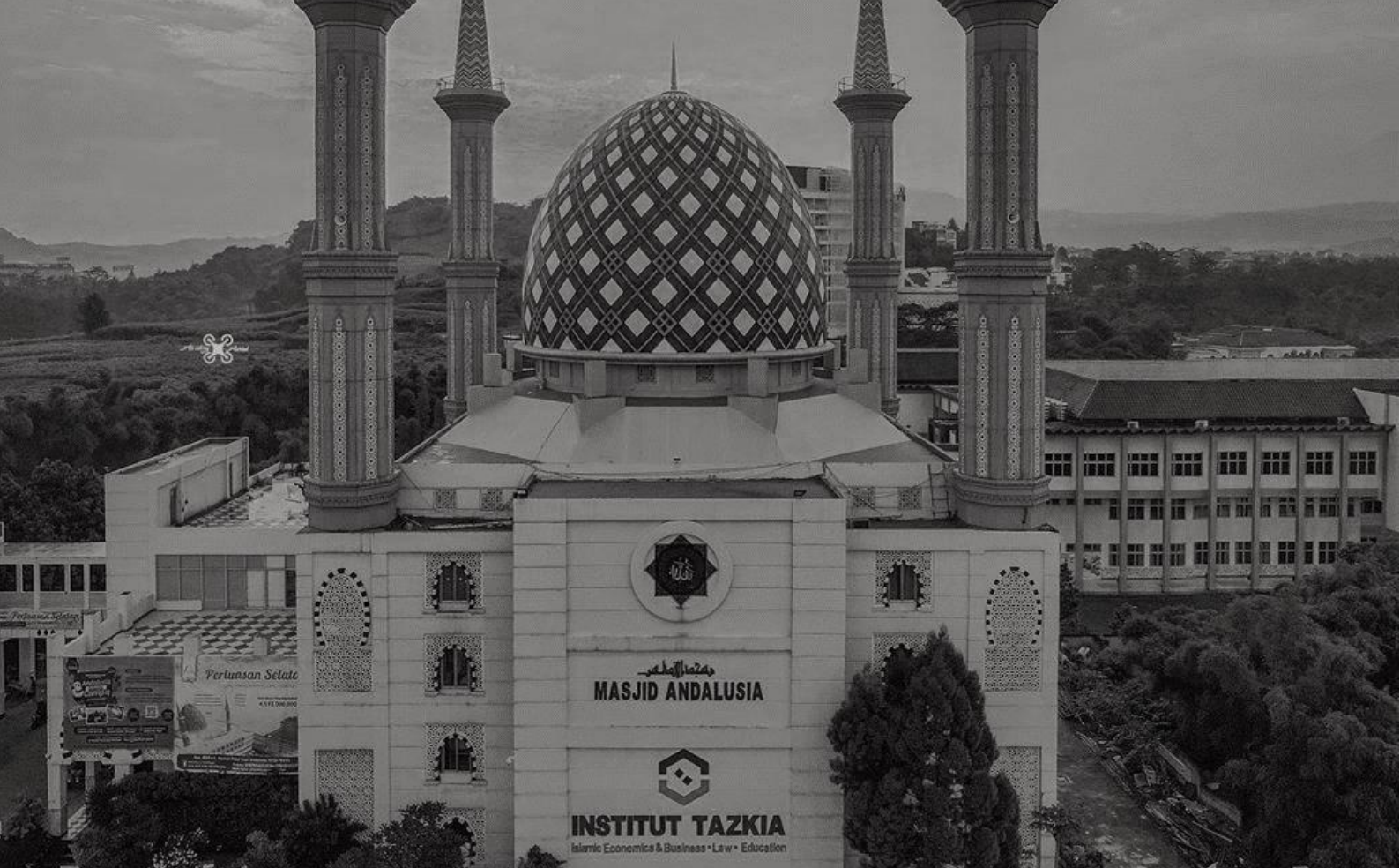


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Table of Contents

Table of Contents	i
Acknowledgement	vii
Rundown	ix
Islamic Finance's Contribution to the Helath Issues - Room A - Session 1	
Analysis of the Purpose of Islamic Law Against the Bazaar of Findings and Confiscated Items in the Clean Environment Section.....	1
BUILDING BRAND LOYALTY THROUGH CUSTOMER ENGAGEMENT OF BPJS HEALTHCARE	2
Resilience of Bruneian Economy Amidst Covid-19 Based on the United Nations Disaster Risk Reduction (UNDRR) Framework.....	3
Management and Development of Productive Endowments In The Hospital "Public Health Center (PKU) 'Aisiyyah" Boyolali City	4
Islamic Accounting and Governance - Room B - Session 1	
Analysis of Corporate Governance and Value Proposition on Baitul Maal wa Tamwil: Case Study BMT La Tansa Gontor	5
Auditors 's Perceptions on Shariah Audit Function: A Qualitative Approach.....	6
Effects of the Board of Director's Characteristics on Islamic Banks' Financial Soundness.....	7
CORPORATE PERFORMANCE ENHANCEMENT MODEL THROUGH WORKING CAPITAL EFFICIENCY ON THE PROFITABILITY AND SIZE OF COMPANY AS CONTROL VARIABLE.....	8
Political Stability and Human Development in the Organization of Islamic Cooperation (OIC) Countries.....	9
Fraud Identification Ability in the Effectiveness of the Role of Internal Auditors	10
Islamic Social Finance - Room C - Session 1	
التأصيل الشرعي للتصرف بالوديعة في المذهب المالكي وأثر ذلك على تكييف الحساب الجاري في المصارف الإسلامية	11
THE ROLE OF WAKAF AS SOCIAL FINANCING TOOLS TOWARDS STRENGTHENING ISLAMIC EDUCATION IN THE BANGSAMORO AREA, PHILIPPINES.....	12
Local Wisdom about Zakat in "Syair Nasihat" as a Welfare State System Development Alternative .	13
THE ANALYSIS OF PROBLEM IN DEVELOPING PRODUCTIVE WAQF BASED ON MASJID BY THE ANALYTIC NETWORK PROCESS (ANP) APPROACH METHOD	14
HOW IMPORTANT IS LITERACY IN ENHANCING CASH WAQF PARTICIPATION? EXPERIENCE OF BRUNEI DARUSSALAM	15
Poverty Alleviation Through Islamic Economic : A Case of Poto's Women.....	16

Islamic Social Finance - Room D - Session 1

استفادة أموال الوقف في معهد دار السلام كونتور: دراسة تحليلية بمنهج التحليل الشبكي 17

دراسة شرعية لممارسة الاحتكار وضرره على مجتمع ولاية نصرأوا نيجيريا 18

COMPLIANCE BEHAVIOR TOWARDS GIVING ZAKAT (ISLAMIC TAX) ON EMPLOYMENT INCOME: THE CASE OF SELECT MUSLIM EMPLOYEES OF MINDANAO STATE UNIVERSITY, MAIN CAMPUS 19

Role of Islamic Social Finance in Increasing Financial Literacy among Women Entrepreneurs: A Focus on Mompreneurs 20

A Preliminary Analysis on the Gap between *Zakah* Potential and Its Performance: Case of Indonesia 21

Islamic and Environmental, Social, and Governance (ESG) Portfolio: Evidence from Indonesia 22

Islamic Social Finance - Room E - Session 1

PROBLEM ANALYSIS ISLAMIC STOCK EXCHANGE IN INDONESIAN 23

Digital Asset and its Regulation in Malaysian Islamic Capital Market 24

Developing Islamic Green Stock Index in Indonesia: Issues and Prospects 25

ملخص الدراسة: معالجة التمايز الطبقي من خلال الزكاة دراسة تحليلية شرعية. 26

Model Design of Sociopreneurship: Development of SME Through Zakat Institution 27

***Waqaf Sukuk* Innovative Structures Using the Blockchain Technology: Its Role to Sustainable Food Security in post Covid-19 Pandemic..... 28**

Islamic Accounting and Governance - Room A - Session 2

Data Analytics Competencies And External Auditors' Performance 29

CORPORATE PERFORMANCE ENHANCEMENT MODEL THROUGH WORKING CAPITAL EFFICIENCY ON THE PROFITABILITY AND SIZE OF COMPANY AS CONTROL VARIABLE..... 30

A STUDY OF TRANSFER PRICING PRACTICE WITHIN MULTINATIONAL ISLAMIC BANKING GROUPS 31

FACTORS AFFECTING AUDITOR PERFORMANCE IN PUBLIC ACCOUNTING FIRM IN SEMARANG 32

Islamic Business and Halal Economy - Room B - Session 2

Investigation of Halal Value Chain Research in Supporting The Achievement of The Indonesian Islamic Economic Master Plan..... 33

THE EMPOWERMENT CONTRIBUTION OF TOURISM INDUSTRY IN COMMUNITY WELFARE 34

Perceptions of Tourism Stakeholders Towards Potency of Islamic Tourism Development: Case Study of Ngebel Lake Ponorogo..... 35

EXPLORING THE DETERMINANTS OF AGRICULTURAL FOOD PRODUCTION TO ACHIEVING FOOD SECURITY IN MALAYSIA THROUGH ISLAMIC FINANCIAL INSTRUMENTS	36
The Impact Of Covid 19 To Millenials' Halal Preference and Consumption Behavior	37
Behavior Preferences Of The Muslim Millennial Generation (Gen-M) Towards Halal Financial Industry In Jabodetabek, Indonesia.....	38
Islamic Finance and Banking - Room C - Session 2	
FACTORS THAT DETERMINE THE PERFORMANCE OF BAITUL MAAL WAT TAMWIL (BMT) IN INDONESIA: AN EMPIRICAL STUDY	39
A Comparative Study of Real Estate Finance Using Islamic Financing Instruments Based on the Concept of Indebtedness in Palestine	40
HUMAN VALUE DEVELOPMENT OF SALES TEAM: AN EFFORT TO STRENGTHEN SHARI'A INSURANCE INSTITUTION.....	41
Does Islamic Banking Financing Contribute in Economic Stability	42
ISLAMIC FINANCIAL LITERACY PROFILE OF EMPLOYEES AND CUSTOMERS BAITUL MAAL WA TAMWIL DAARUT TAUHID BANDUNG	43
LEGAL STATUS OF DEWAN SYARIAH NASIONAL MAJELIS ULAMA INDONESIA (DSN-MUI) IN INDONESIAN ISLAMIC FINANCIAL INSTITUTIONS	44
Islamic Finance and Banking - Room D - Session 2	
RISK MANAGEMENT MODEL FOR ISLAMIC BANK BASED ON INTEGRATED PORTOFOLIO STRATEGY.....	45
Learning Models In Sharia Economic Department In Forming Student Career Options In The Sharia Financial Industry	46
A COMPARATIVE ANALYSIS ON THE INFLUENCES OF INDUSTRIAL REVOLUTION 4.0 ERA AMONG ISLAMIC FINANCING INSTITUTIONS AND CONVENTIONAL FINANCING INSTITUTIONS IN THE BANGSAMORO AREA, PHILIPPINES	47
Shariah Board Governance, IFSA 2013 and Islamic Banks' Performance	48
Old Wine in a Shariah-Compliant Bottle?: An Empirical Comparison of SRI Sukuk, Social Impact Bonds, and Conventional Bonds	49
Legal Implications of Applying Smart Contract in Islamic Financial Products in Brunei Darussalam	50
Islamic Finance in Ethical and Maqashid Shari'ah Framework - Room E - Session 2	
ANTECEDENT OF CORPORATE SOCIAL RESPONSIBILITY TO THE VALUE OF THE COMPANY THROUGH PROFITABILITY WITH INSTITUTIONAL OWNERSHIP AS A MODERATING VARIABLE	51
Measuring the Performance of Islamic Banks Using Maqasid Sharia in Literature Review	52
State of the Art Review on Achievement-Oriented Leadership and Ihsan Values	53

Community Engagement and Spiritual Leisure: An Effort to Strengthen LAZIS Mentoring Model for SMEs	54
ENTRUSTING GOVERNMENT IN RESOLVING COVID 19 AS PER DISCUSSED BY SHARĪ'AH: ECONOMIC IMPACTS THROUGH GOVERNMENT SUPPORT SCHEME	55
STATE FINANCIAL MANAGEMENT IN ACHIEVING A SUSTAINABLE ECONOMY.....	57
Islamic Management and Entrepreneurship - Room A - Session 3	
The Framework of Strategic Agility in An Islamic Context	58
SMEs PERFORMANCE IMPROVEMENT MODEL THROUGH AGILE LEADERSHIP AND STRATEGIC AGILITY PLANNING.....	59
A Systematic Literature Review of Interpersonal Adaptive Capability: An Islamic Perspective of Human Value Development	60
Inter-Functional Coordination and Customer Relationship Performance: An Islamic Bonding Perspective	61
Islamic Finance and Banking - Room B - Session 3	
THE EFFECT OF INTELECTUAL CAPITAL AND GOOD CORPORATE GOVERNANCE (GCG) ON FINANCIAL PERFORMANCE AND CORPORATE VALUE OF BANKING COMPANIES IN INDONESIA	62
The Role of Islamic Education in Promoting Islamic Banking and Finance in the Philippines	63
Realising the MSME Islamic Financial Inclusion in Indonesia: An Institutional Theory Perspective .	64
Economic Thought of Zubair Hasan	65
Managing Islamic Financial Planning Inclusion in Indonesia	66
Islamic Social Finance - Room C - Session 3	
The Efficiency of Zakat Collection and Distribution in Indonesia	67
Christian Tithe <i>vis-a-vis</i> Islamic Zakat Concept: A Comparative Study in Socio-Economic Scope	68
The Strategy of Yogyakarta Jogokaryan Masjid in Economic Empowerment Program.....	69
DEVELOPMENT OF ISLAMIC SOCIAL FINANCE: A BRIEF REVIEW OF COMPARISON IN SELECTED ASEAN COUNTRIES	70
EFFICIENT ZAKAT DISTRIBUTION: IMPACT OF FINTECH ADOPTION AMONG ASNAF	71
The Role Islamic Crowd-Investing for Sustainable Agriculture in Indonesia	72
Islamic Social Finance - Room D - Session 3	
ZAKAT AS A SOCIAL FINANCING PLATFORMS TO END POVERTY IN LANA DEL SUR, BANGSAMORO AREA, PHILIPPINES	73
Economic Significance Of Mosque In Socio-Economic Development: A Preliminary Study	74
التحديات الشرعية في استخدام الوقف لمواجهة الجائحة العالمية كوفيد-19	75

A CONCEPTUAL PAPER ON DEVELOPING MUSHARAKAH MUTANAQISAH MODEL USING ZAKAT FUND FOR EMPOWERING REFUGEES	76
---	-----------

Islamic Digital Economy and Fintech - Room E - Session 3

Islamic Fintech Scheme in Indonesia: A Debate Among Sharia Scholars and a Proposed Model.....	77
--	-----------

IMPROVING PERSONAL FINANCIAL MANAGEMENT THROUGH FINTECH, SUBJECTIVE NORM, FINANCIAL CAPABILITY AND SPIRITUAL INTELLIGENCE	78
--	-----------

The Contribution of Social Media as a Strategy in Promoting a Sustainable Development for a Balance Ecosystem in the Bangsamoro Area, Philippines.....	79
---	-----------

Big Data Analytics to Navigate Covid-19 Economic Shocks in ASEAN	80
---	-----------

Shariah-Compliance of Islamic P2P Lending Practices: Identification of Issues and Way Forward..	81
--	-----------

THE ROLE OF DIGITAL BUSINESS COMMUNITY DURING COVID-19 PANDEMIC: AN ISLAMIC PERSPECTIVE.....	82
---	-----------

CAN DIGITAL BANKING STRENGTHEN ISLAMIC BANKING COMPETITIVENESS? BETWEEN TRUST AND SCEPTICISM	83
---	-----------

SHARING ECONOMY IN THE 4TH INDUSTRIAL REVOLUTION: ISLAMIC LAW'S PERSPECTIVE..	84
--	-----------

Islamic Social Finance - Room A - Session 4

EXPLORING BLENDED FINANCE AS A POTENTIAL TOOL FOR FINANCING SUSTAINABLE ECONOMIC RECOVERY POST COVID19 PANDEMIC	85
--	-----------

SALES LOAN MODEL (INSTALLATION) IN NON-BANK ISLAMIC FINANCIAL INSTITUTIONS (Case Study at Non-Bank Islamic Financial Institutions in Ponorogo City)	86
--	-----------

The Role of Zakat in Helping Local MSMEs Due to the Impact of Covid-19: A Case Study in Brunei	87
---	-----------

DETERMINANTS OF WAQF INTEREST THROUGH MONEY IN MILLENNIAL MUSLIM GENERATION (GEN-M).....	88
---	-----------

Islamic Finance and Banking - Room B - Session 4

SWOT ANALYSIS OF MARKETING STRATEGY ON SHARIA FINANCIAL INSTITUTION SERVICES (CASE STUDY IN BMT LA TANSA PONOROGO).....	89
--	-----------

ISLAMIC FINANCING FOR INFRASTRUCTURE PROJECT: THE CASE OF THE PROVINCE OF LANA DEL SUR, PHILIPPINES	90
--	-----------

THE INFLUENCE OF MUSYARAKAH, MURABAHAH AND QARDHUL HASAN ON FALAH PROFIT OF SHARIA COMMERCIAL BANKS.....	91
---	-----------

ANALYSIS OF PROCEDURE FOR RESOLUTION OF BANKRUPTCY AND DEBT DELAY.....	92
---	-----------

SRI <i>Sukuk</i> Models for Funding Affordable Housing: A Qualitative Inquiry into Stakeholders' Perspectives.....	93
---	-----------

Islamic Finance in Ethical and Maqashid Shari'ah Framework - Room C - Session 4

SPIRITUAL LEADERSHIP: WHAT ARE THE IMPORTANT ROLES DURING COVID-19	
---	--

CRISIS?	94
Revisited Determination of Social Value Toward Islamic Money Demand in Indonesia.....	95
A Comparative Analysis on the Performance of Investment Linked Plan for Insurance and Takafulin Malaysia	96
THE ROLE OF PHILANTHROPY ACTIVITIES IN ISLAMIC BANKING: A STRATEGY TO ACHIEVE SUSTAINABLE DEVELOPMENT GOALS.....	97
COMPETITIVE SOCIAL CAPITAL SEBAGAI COLLABORATIVE LEARNING ANTAR USAHA KECIL DAN MENENGAH MENINGKATKAN KINERJA	98
SKALA PRIORITAS DIRECTING CREATIVITY CHOICE SEBAGAI MODAL CAPITAL USAHA KECIL MENENGAH MENGHADAPI KRISIS	99
SHIFTING THE ENTREPRENEURIAL PARADIGM IN LINE WITH ISLAMIC FINANCE: KEY ISSUES IN HUMAN DEVELOPMENT AND WAYS FORWARD	100
Islamic Finance and Banking - Room D - Session 4	
Evaluate the Efficiency of Financing Risk Management Using the Return on Equity Modified Model (DuPont) Palestinian Islamic Banks Case Study	101
Fundamental Issues of Human Capital Skills to Growth of Islamic Banking in Pakistan: A KECS Framework.....	102
Towards Combining Principles and Core Practices: A Framework for Islamic Finance.....	103
RISKS MANAGEMENT PRACTICES AND DISCLOSURE IN ISLAMIC BANKS: A REVIEW OF THE LITERATURE.....	104
HOW WAQF SOLVES BACKLOGS.....	105
Upskilling and Re-Skilling in Islamic Finance Human Capital Development: A Multi or Inter Disciplinary Perspective?	106
COMPLEMENTARY CURRENCY FROM ISLAMIC PERSPECTIVE	107
Islamic Finance's Contribution to the Health Issues - Room E - Session 4	
Role of COVID-19 Pandemic on Retirement Plans Among the Working Population in Malaysia	108
Microtakaful for B40 Community: A Sustainable Tool during Covid-19 Pandemic.....	109
Financial Relief Under Pandemic Covid-19: Comparative Study on Malaysia, Brunei & Indonesia.	110
A Comparative Analysis on the Performance of Investment Linked Plan for Insurance and Takaful in Malaysia	111
The Emergence of Crowdfunding During Covid-19 in Brunei Darussalam: A Breakthrough.....	112

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 immediately 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 investments 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 Committee of Economy and Islamic Finance (KNEKS)
15.00 – 15.30	Break
15.30 – 17.30	Panel Speakers III

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

Day 2: Wednesday, November 25, 2020

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

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 <ol style="list-style-type: none"> 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 <ol style="list-style-type: none"> a. Colloquium b. Paper Presentation c. Project Video
12.00–13.00	Break (60’)
13.00-15.00	Parallel Session III <ol style="list-style-type: none"> a. Colloquium b. Paper Presentation c. Project Video
15.00–15.30	Break
15.30–17.30	Parallel Session IV <ol style="list-style-type: none"> 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
(mutamimah@unissula.ac.id, mtholib@unissula.ac.id)

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 Wadiyah 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 Markowitz (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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