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# Analysis of Risk Management in Addressing Non-Performing Financing at the Ukhuwah Bintang Ihsani Islamic LKM Cooperative

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**Abstract**

This study aims to analyze risk management in addressing non-performing financing at the Ukhuwah Bintang Insani Islamic LKM Cooperative. This study uses a descriptive method with a qualitative approach, with data collected through interviews and documentation. The results show that the implementation of risk management has proven to help the cooperative reduce the level of non-performing financing, although obstacles remain, such as limited human resources, suboptimal monitoring technology, and the fluctuating economic conditions of members. This study affirms that strengthening risk management is a strategic step to maintain financial stability, improve the effectiveness of supervision, and ensure the operational sustainability of Islamic cooperatives. Overall, the risk of non-performing financing in the cooperative is considered to have been managed fairly effectively, but improvements in systems and competencies are still needed for better results. The cooperative applies an analysis of members' character and capacity and an evaluation of economic conditions and collateral, and it carries out routine monitoring through field visits to detect potential defaults early. The strategy for handling non-performing financing is carried out in stages through direct visits, rescheduling, restructuring, and asset seizure in accordance with Sharia principles and applicable legal provisions.

***Keywords:*** **Risk Management, Non-Performing Financing , *Ukhuwah Bintang Ihsani Islamic***



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## INTRODUCTION

In the era of growth of Indonesia's Islamic economy, Islamic financial institutions have increased in both number and the variety of products they offer. One entity that has grown is the Islamic cooperative, which provides financing to its members through Sharia-compliant contracts (akad) such as murabahah, ijarah, mudharabah, and musyarakah. The financing provided aims to support the empowerment of members and of micro, small, and medium enterprises within a framework of Sharia morality. However, despite its potential contribution to financial inclusion, this financing is not free from the risk of repayment failure. This risk arises when members are unable to fulfil their obligations, resulting in non-performing financing. Sources indicate that risk management is essential for the sustainability of Islamic cooperatives.

To address the risk of non-performing financing, Islamic cooperatives need to implement risk management comprehensively, from risk identification and measurement to monitoring and control. The principles of this risk management are not merely technical; they must also conform to Sharia principles such as justice, compliance with contracts, and the avoidance of riba and gharar. With a good management system, Islamic cooperatives can minimize the emergence of non-performing financing and maintain the stability of their business activities.

Non-performing financing (NPF) is a crucial challenge for Islamic cooperatives because, besides threatening liquidity and solvency, it also hinders the social and economic objectives they seek to achieve. For example, research on Islamic cooperatives shows that a high NPF level indicates that control over the financing process is not yet optimal. The causes may be internal (such as weak analysis of prospective financing recipients and inadequate monitoring) or external (a decline in members economic conditions and changes in the business environment). When non-performing financing grows, the risk is not only financial loss but also damage to the reputation and sustainability of the cooperative as an Islamic institution founded on profit-sharing and justice.

The concept of risk management in Islamic cooperatives must also be viewed as an integral part of good governance and of strategic decision-making at every level of the organization. Procedures and checklists alone are not enough; a risk culture needs to be built so that every element of the organization – from the board and managers to the members – understands and anticipates the potential for financing failure. Research shows that cooperatives that implement Sharia risk management well tend to have a lower ratio of non-performing financing.[4] Accordingly, investment in a risk management system is not a burden


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but a strategic effort to ensure that the vision, mission, and objectives of the Islamic cooperative are achieved sustainably.

Nevertheless, the challenges of implementing risk management in Islamic cooperatives are not light. Obstacles often arise, such as limited human resources with competence in Sharia risk analysis, inadequate monitoring technology, and a dynamic external environment (such as economic changes, natural disasters, or regulatory changes). In many cases, non-performing financing arises not only because of the financing recipient but also because of internal management that is insufficiently anticipatory. These conditions demand more adaptive mitigation strategies: from rescheduling and financing restructuring to the optimal use of collateral so that losses can be minimized.

## RESEARCH METHOD

This study uses a descriptive method with a qualitative approach. The qualitative approach is used to answer the research question concerning the application of risk management analysis in addressing non-performing financing at the Ukhuwah Bintang Ihsani Islamic LKM Cooperative.

The data were obtained through interviews with informants who are employees directly involved in financing activities. The data sources in this study consist of primary data, which were obtained through direct surveys of respondents by means of interviews and documentation.

## RESULTS AND DISCUSSION

### A. Risk Management

Risk management is a systematic process for identifying, assessing, and controlling potential threats, such as financial, legal, strategic, and security risks, that can hinder an organization from achieving its objectives. The purpose of risk management is to minimize negative impacts, increase business resilience, and exploit opportunities in an integrated manner.

Risk is an inseparable element of every business activity and is inherent in all organizational activities. Risk management cannot be avoided because risk is present in every form of activity, in both the public and private sectors. Risk reflects uncertainty about events and outcomes that may occur in the future, which can potentially become obstacles to the achievement of organizational objectives.

Risk management itself is a systematic approach used to identify, assess, and control all forms of risk faced by an entity. Accordingly, risk management is an important


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part of effective management practice and of decision-making at every level of the organization. Good implementation of risk management will strengthen support for the organization's vision, mission, and objectives through the formation of a risk-aware culture within it.

**B. Non-Performing Financing**

1. Financing

The term *pembiayaan* (financing) etymologically means "I trust" or "I place my trust," which reflects an element of *trust* in the relationship between the provider and the recipient of funds. In the context of Islamic financial institutions, the institution, or *shahibul maal*, entrusts the customer to manage the disbursed funds in accordance with the trust (amanah) placed in them. The funds must be used properly and fairly, and on the basis of a clear agreement that benefits both parties. This principle of trust is also in line with the word of Allah in the Qur'an, Surah An-Nisa', verse 29, which forbids Muslims from consuming one another's wealth unlawfully, except through transactions conducted by mutual consent among the parties involved.

Financing is one of the main functions of a bank in channeling and utilizing funds. Under Law Number 10 of 1998 on Banking, financing is defined as the provision of funds or equivalent claims, made on the basis of an agreement between the bank and the financing recipient, with the obligation to return the funds within a certain period accompanied by compensation or a profit-sharing arrangement. The main purpose of financing is to increase business capital and to raise the income or profit of both the financed party and the financial institution. However, financing activities also carry a fairly high level of risk, so the application of risk management is very important to maintain the sustainability and stability of the financial institution.

2. Definition of Non-Performing Financing

Non-performing financing is a form of risk inherent in every financing activity carried out by a financial institution. This risk arises when a customer or member is unable to repay the financing at the agreed time or beyond the term of the agreement. Although the main purpose of financing is to help members develop their businesses, in practice obstacles often arise in the form of late or failed payments, whether caused by intentional factors or by circumstances beyond the members' control.

3. Types of Islamic Financing



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In Islamic cooperatives, there are several Islamic financing products that are common in Indonesia, including:

a. Murabahah (Sale-and-Purchase Financing)

Murabahah is a form of financing based on a sale-and-purchase contract, in which the price of the goods has been determined and agreed upon by both parties. Under this mechanism, the Islamic financial institution first purchases the goods needed by the customer and then resells them with a profit margin that has been mutually agreed upon. Payment for the transaction can be made in installments in accordance with the agreement that has been set.

- Legal basis of the murabahah contract:

  Qur'an, Surah Al-Baqarah (2): 275

  ....وَاَحَلَّ اللّٰهُ الْبَيْعَ وَحَرَّمَ الرِّبٰوا....

  Meaning: *"... and Allah has permitted trade and forbidden riba..."* (Qur'an, Surah Al-Baqarah (2): 275)

b. Ijarah (Leasing)

Ijarah is a type of financing based on the principle of leasing, in which the lessee pays compensation for the use of an object or service. The ijarah contract is generally applied to the financing of assets or vehicles that are leased for a certain period in accordance with the agreement between the two parties.

c. Mudharabah (Profit Sharing)

Mudharabah is a form of financing based on the principle of profit sharing, in which the owner of the funds (*shahibul maal*) hands over capital to the business manager (*mudharib*) to carry out business activities. The profit earned is then divided according to a ratio (nisbah) or proportion agreed beforehand, while losses are borne by the capital owner, unless the loss results from negligence or error on the part of the manager.

## C. Sharia Principles in Risk Management

Risk management of non-performing financing is carried out through two approaches, namely the preventive and curative approaches. Preventive measures are taken by the financial institution from the stage at which the customer submits a financing application, and include careful analysis of financing data, drafting financing agreements that comply with regulations, legally binding the collateral, and



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monitoring or supervising the use of the financing funds. Meanwhile, repressive (curative) measures are handling efforts focused on rescuing and resolving financing that has already become problematic.

In the study by Eko (2018) it is explained that efforts to anticipate financing risk can be made by applying certain principles that help financial institutions select prospective customers who are eligible and suitable to receive financing. These principles are known as the 5C + 1S concept, which forms the basis for assessing the feasibility of financing.

a. Character
   Officers will look at the family conditions and surrounding environment of the prospective customer applying for financing in order to obtain valid data on the character of the customer or prospective customer.
b. Condition of Economy
   In addition, economic conditions also need to be considered, since political, social, economic, and cultural conditions can affect the business of the customer or prospective customer. Good economic conditions will have a positive impact on the development of the customer's business, which in turn also has a positive impact on the development of the customer's financing at the Islamic bank.
c. Capacity
   Capacity refers to the financial ability of the customer or prospective customer. Islamic financial institutions need to ensure that the party applying for financing has a sufficiently stable and adequate financial condition, so that it is able to meet its obligation to repay the financing in accordance with the agreement that has been made.
d. Capital
   An evaluation of the amount of capital is carried out before a financing decision is realized. This step aims to reduce potential risk in the future if the capital owned by the customer turns out not to meet the standards or provisions that have been set.
e. Collateral
   The collateral submitted by the customer needs to be examined carefully. The aim is to ensure that the value and physical condition of the collateral handed over to the Islamic financial institution comply with the provisions and reflect its true market value.


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f. Sharia

This principle is applied by ensuring that the line of business of the party applying for financing does not conflict with Sharia provisions. In addition, the suitability between the financing needs and the principles of Islamic economics is also examined further so that financing activities continue to run in accordance with Sharia values.

## D. Risk Management of Non-Performing Financing in Islamic Cooperatives

At the Ukhuwah Bintang Insani Islamic LKM Cooperative there are several main components carried out to prevent or address the risk of non-performing financing, as follows:

1. Risk Identification

Risk identification emphasizes the 2C analysis, namely character and capacity. The cooperative needs to understand the characteristics of the customer in relation to the borrower's capacity to fulfil their responsibilities. In addition, we can also observe the character of the individual who will receive the financing. From the cooperative's perspective, the limit or capacity of the customer or borrower to meet their obligations is only an initial step. It is not comprehensive, because a customer may or may not be able to manage their costs, which tends to be viewed from the customer's initial standpoint.

The following are the results of the interview conducted with the Ukhuwah Bintang Insani Islamic LKM Cooperative.

*"We analyze it, yes, to prevent risk, to see whether this person will default or not. As it happens, here at this LKMS, we have not yet opened to the general public; we still work with foundations, Yayasan Alfida and Yayasan Khairunnas, you see. To prevent risk, we use salary deductions. Because the LKMS has only just started working with foundations and institutions and is not yet open to the public; we have not gone out to the public. So, to prevent risk, as I said, to keep us from having too much risk here, we only channel the financing to colleagues at the institutions of Yayasan Alfida and Yayasan Khairunnas. That reduces risk, because why? Because it is deducted from their salaries every month; that is one way to keep the risk down." Said Mr. A (interview, 2025).*

2. Risk Measurement

The financing risk measurement system at the Ukhuwah Bintang Insani Islamic LKM Cooperative must take the following into account:



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a. The characteristics of the various types of financing risk, the customer's financial situation, and the provisions of the financing contract.
b. The duration of the financing, which is related to changes in the circumstances that may arise around the customer.
c. Collateral elements. The likelihood of default (wanprestasi).
d. The capacity to bear failure.

3. Risk Monitoring and Risk Control

The risk monitoring and control carried out by the Ukhuwah Bintang Insani Islamic LKM Cooperative is done through visits by the financing team once a week or every day during working hours. In this way, they can detect risks from the outset. Before customers encounter problems with payments, we take mitigation steps to prevent losses, such as intensive collection. In theory, identifying risks related to character and capacity is very important. In addition, in measuring risk, attention must be paid to the type of risk, its potential, the collateral, and ways of dealing with the possibility of failure. Furthermore, risk monitoring and management are carried out by following the established framework.

4. Handling of Financing Risk

From the interviews conducted with the Ukhuwah Bintang Insani Islamic LKM Cooperative, information can be obtained about how they handle risks related to non-performing financing. This handling refers to efforts to correct and resolve problems so that they can be properly controlled. The steps taken include:

a. Direct visits. These visits aim to understand the condition of the customer's business and, at the same time, to collect on the financing that has been taken.
b. Rescheduling. This step is taken to address financing problems in the hope of minimizing risk for the cooperative. The extension of time is carried out after it is agreed upon by the customer and the cooperative, on the condition that the customer is willing to continue paying the installments.
c. Restructuring. Restructuring means adding to the capital owned by the customer to support the smooth running of the business. The cooperative will add to the customer's capital on the following conditions:
    i. The customer's business is still in good condition
    ii. The customer has been a member of the cooperative for a long time
    iii. The customer has the intention to repay the installments
    iv. The previous financing ran smoothly.


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5. Implementation of Asset Seizure

Asset seizure in Islamic cooperatives basically follows the civil or criminal legal procedures that apply in Indonesia; however, in the context of resolving non-performing financing, the approach must still be grounded in Sharia principles. The general process is as follows:

a. Warning/Summons (Somasi): Before proceeding to legal action, an Islamic cooperative must make persuasive efforts and issue repeated warnings, on the basis of Sharia principles, to the member or party experiencing the problem (default).
b. Resolution through Family-Based Settlement/Deliberation (Musyawarah): The main approach in Islamic cooperatives for resolving financing problems is to hold deliberation (musyawarah) in order to reach an agreement.

## CONCLUSION

This study concludes that risk management at the Ukhuwah Bintang Insani Islamic LKM Cooperative has been carried out through four main stages, namely risk identification, measurement, monitoring, and handling. At the identification stage, the cooperative assesses potential default through an analysis of members' character and capacity. Financing that is still limited to the foundation environment helps reduce risk because of the salary-deduction mechanism. At the risk measurement stage, the cooperative considers collateral, the members' financial condition, the duration of the financing, and the possibility of default. However, this process is still manual and not yet supported by more comprehensive risk evaluation instruments.

Risk monitoring is carried out actively through routine weekly and daily visits so that potential non-performing financing can be detected earlier. In terms of handling, the cooperative applies a staged strategy consisting of direct collection, rescheduling, financing restructuring, and asset seizure in accordance with Sharia provisions and applicable law. The deliberation approach remains the main choice before legal action is taken.

Although risk management has been implemented, its application remains simple. The cooperative still faces various obstacles, such as limited human resources with competence in Sharia risk analysis, a lack of monitoring technology support, and the dynamics of members' economic conditions that affect their ability to pay. Overall, the implementation of risk management in this cooperative has contributed to controlling non-performing financing, but it needs strengthened systems, improved human resource capacity, and use of technology so that risk management can be carried out more effectively and sustainably.



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