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NON-HYBRID RISK MANAGEMENT: INTEGRATION OF SHARIA MAQASHID AND FINTECH IN RISK MITIGATION IN SHARIA FINANCIAL INSTITUTIONS

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Abstract

Non-performing financing is one of the main challenges in the Islamic finance industry that can have an impact on the stability and sustainability of Islamic financial institutions (LKS). Unlike the conventional system, LKS is bound to sharia principles, which requires a contract-based risk mitigation mechanism and risk-sharing. This study aims to analyze various approaches to sharia risk management in dealing with non-performing financing through literature study methods. Data was obtained from various scientific literature, regulations, and fatwas related to financing risk management in LKS. The results show that contract-based approaches, such as murabahah, ijarah, musyarakah, and mudharabah, have different levels of risk that require specific mitigation strategies. In addition, the principles of maslahah and ta'awun can be implemented in the form of a fairer and more sustainable financing restructuring. The study also found that a combination of early warning systems, business mentoring, and the use of big data-based technology can increase the effectiveness of sharia risk management. In conclusion, the sharia approach in mitigating problematic financing is not only oriented towards profitability, but also on the balance of justice, protection of customer rights, and Islamic economic stability. This finding is expected to be a reference for regulators and Islamic finance practitioners in formulating more effective risk mitigation policies.

Keywords: *Non-Performing Financing, Risk Management, Sharia Contract, Maslahah, Sharia Financial Institutions.*

Abstrak

Pembiayaan yang tidak berkinerja adalah salah satu tantangan utama dalam industri keuangan syariah yang dapat berdampak pada stabilitas dan keberlanjutan lembaga keuangan syariah (LKS). Berbeda dengan sistem konvensional, LKS terikat pada prinsip-prinsip syariah, yang memerlukan mekanisme mitigasi risiko berbasis kontrak dan pembagian risiko. Studi ini bertujuan untuk menganalisis berbagai pendekatan manajemen risiko syariah dalam menghadapi pembiayaan yang tidak berkinerja melalui metode studi literatur. Data diperoleh dari berbagai literatur ilmiah, peraturan, dan fatwa yang berkaitan dengan manajemen risiko pembiayaan di LKS. Hasilnya menunjukkan bahwa pendekatan berbasis kontrak, seperti murabahah, ijarah, musyarakah, dan mudharabah, memiliki tingkat risiko yang berbeda yang memerlukan strategi mitigasi tertentu. Selain itu, prinsip maslahah dan ta'awun dapat diterapkan dalam bentuk restrukturisasi pembiayaan yang lebih adil dan berkelanjutan. Studi ini juga menemukan bahwa kombinasi sistem peringatan dini, mentoring bisnis, dan penggunaan teknologi berbasis big data dapat meningkatkan efektivitas manajemen risiko syariah. Kesimpulannya, pendekatan syariah dalam mengurangi pendanaan bermasalah tidak hanya berorientasi pada profitabilitas, tetapi juga pada keseimbangan keadilan, perlindungan hak pelanggan, dan stabilitas ekonomi Islam. Temuan ini diharapkan dapat menjadi rujukan bagi regulator dan praktisi keuangan syariah dalam merumuskan kebijakan mitigasi risiko yang lebih efektif.

Kata kunci: Pembiayaan Tidak Lancar, Manajemen Risiko, Kontrak Syariah, Maslahah, Lembaga Keuangan Syariah.

A. INTRODUCTION

Non-performing financing, or better known as Non-Performing Financing (NPF), is one of the biggest challenges facing the Islamic finance industry, including Islamic banking in Indonesia. The high NPF rate not only has an impact on the financial stability of banking institutions, but also has the potential to erode customer trust in Islamic financial principles based on justice and mutual benefit. During the COVID-19 pandemic, this challenge was further exacerbated by a wave of economic uncertainty that caused many customers to experience difficulties in meeting their financing obligations. This condition requires Islamic banking to implement a more innovative and adaptive strategy in managing financing risk, both through restructuring, customer assistance, and optimization of Islamic instruments to ensure the sustainability and resilience of the Islamic banking industry in the future. (Rizki, Athief, and Dewi Puspitaningrum 2022).

Previous research has explored in depth the various strategies applied by Islamic banking in dealing with the challenge of Non-Performing Financing (NPF), which is one of the main indicators of institutional financial health. One of the main approaches that is widely used is risk management based on 5C+1S analysis, namely Character (customer character), Capacity (payment capacity), Capital (capital), Collateral (collateral), Condition (economic conditions), and Sharia (compliance with sharia principles). This approach provides Islamic banking with a comprehensive evaluation tool to assess the customer's eligibility level before financing is granted, thereby reducing the risk of default in the future.(Gojali 2019)

In addition, another strategy that has proven effective in dealing with NPFs is the 3R approach, namely Rescheduling, Reconditioning, and Restructuring. This approach provides flexibility for customers who are experiencing financial difficulties to still be able to meet their obligations without violating sharia principles that prioritize fairness and balance in transactions. By providing relief options through tenor extensions, payment scheme adjustments, or financing structure modifications, Islamic banks not only help customers through difficult times, but also maintain the overall financial stability of the institution.

Furthermore, Islamic banking continues to innovate in developing NPF risk mitigation strategies by combining technology-based approaches and financial literacy. Digitalization in the credit analysis process, monitoring customer transactions, and the implementation of an early warning system against potential defaults are proactive steps in reducing the level of non-performing financing. On the other hand, more intensive financial education to customers also plays an important role in increasing their awareness of sound financial management and compliance with financing obligations.

With the implementation of these various strategies, Islamic banking is expected to further strengthen the resilience of the Islamic finance industry, increase public trust, and contribute to creating a more stable, inclusive, and sustainable financial ecosystem. (Rizki, Athief, and Dewi Puspitaningrum 2022). In addition, various innovative strategies have been adopted by Islamic banks in Indonesia to strengthen industry resilience and reduce the risk of non-performing financing (NPF). One of the main steps implemented is the application of sharia principles in credit risk assessment, where banks not only consider the financial aspects of prospective customers, but also pay attention to their compliance with ethical values, honesty, and responsibility in transactions. This approach aims to create a more equitable, transparent, and socially sustainability-oriented financing system.

In addition, the development of financial education programs for customers is an important element in risk mitigation strategies. Through various initiatives, such as financial literacy seminars, business management training for MSME actors, and sharia-based financial assistance, Islamic banking seeks to increase public understanding of the importance of sound financial management, discipline in paying obligations, and the benefits of compliance with sharia principles in financial transactions. This step not only helps to reduce the NPF figure, but also encourages the growth of a more inclusive and competitive Islamic financial ecosystem.

On the other hand, sharia-based credit restructuring has become one of the solutions that are widely applied in facing economic challenges, especially for customers who are experiencing financial difficulties due to external conditions such as economic crises or pandemics. Through this mechanism, Islamic banks offer more flexible payment scheme adjustments, both in the form of tenor extensions, profit margin reductions, and changes in the structure of financing contracts that remain in accordance with sharia principles. Thus, this restructuring not only provides room for customers to recover their financial condition, but also ensures that banking operations continue to run stably without sacrificing sustainability aspects.

Furthermore, collaboration with credit guarantee institutions is also a strategic step that Islamic banking is increasingly strengthening in reducing financing risks. By collaborating with institutions such as Jamkrindo Syariah, Askrindo Syariah, and the Revolving Fund Management Institution (LPDB), banks can increase the accessibility of financing for small and medium enterprises (MSMEs) and the wider community in need of business capital, with stronger guarantees against the potential risk of default. This synergy not only helps to expand Islamic financial inclusion, but also strengthens the stability of the banking system as a whole.

With this combination of strategies, Islamic banking in Indonesia is increasingly demonstrating its role as an important pillar in a resilient, innovative, and sharia-based financial ecosystem that upholds the values of justice, transparency, and shared welfare.(Suharto 2023).

However, there is a research gap related to the effectiveness of the sharia approach in risk management of problematic financing. Most studies focus on risk management strategies in general without exploring in depth how sharia principles, such as akad and maslahah, can be integrated in NPF risk mitigation. Therefore, this study aims to analyze the existing literature on the sharia approach in risk management of non-performing financing, with a focus on the implementation of contracts and maslahah principles in Islamic banking practices.

B. LITERATURE REVIEW

Non-Performing Financing (NPF) is a crucial issue in the Islamic banking industry that can affect the stability and profitability of Islamic financial institutions. Risk management in this context is vital to maintain the financial health and reputation of Islamic banks.

1. Risk Management in Sharia Banking

Risk management is one of the crucial aspects of banking operations, which includes the process of identifying, measuring, monitoring, and controlling risks to ensure the stability and sustainability of financial institutions. In the context of Islamic banking, the application of risk management is not only oriented to financial and regulatory aspects, but must also be in line with sharia principles that prioritize justice, transparency, and the prohibition of the practice of usury, gharar (uncertainty), and maysir (speculation). Thus, any risk mitigation strategy in Islamic banking must be designed to remain compliant with Islamic values, so as not only to protect the interests of the bank, but also to ensure that every transaction carried out provides fair benefits to all parties involved.

In its operations, Islamic banking faces various forms of risks that can affect its stability, including credit risk, namely the potential for default by customers; market risk, which is related to fluctuations in the value of assets and financial instruments due to changes in economic conditions; operational risks, which include threats from human error, system failures, to regulatory compliance; as well as liquidity risks, which arise when banks have difficulty meeting their short-term financial obligations. Therefore, the implementation of effective risk management is very important for Islamic banking, not only to ensure operational sustainability, but also to strengthen public confidence in a stable, innovative, and common welfare-oriented Islamic financial system. With a comprehensive and sharia principles-based approach, Islamic banks can further strengthen their competitiveness in the global financial industry while making a real contribution to supporting sustainable economic development. (Mutafarida 2017).

2. Non-Performing Financing in Sharia Banking

Problematic financing occurs when customers fail to meet payment obligations in accordance with the agreed agreement, causing an imbalance in banking cash flow. This phenomenon can be triggered by various factors, such as the financial inability of customers, both due to declining business income and personal factors that cause difficulties in fulfilling obligations. In addition, unstable macroeconomic conditions, such as slowing economic growth, high inflation, and exchange rate fluctuations, can also have a significant impact on customers' ability to pay their financing obligations. No less important, the lack of effective risk management by banks in assessing the feasibility of potential customers and managing financing portfolios also contributes to the increase in the number of Non-Performing Financing (NPF) in Islamic banking.

The impact of non-performing financing is not only felt by banks, but also on the stability of the financial system and overall economic development. When the amount of non-performing financing increases, banks experience a decrease in revenue due to declining cash flows from customer payments, which can ultimately reduce the bank's ability to channel new financing to the productive sector. This has an impact on the inhibition of the banking intermediation function, where Islamic banks, which are supposed to act as a liaison between fund owners and the real sector, are actually limited in supporting economic growth. Therefore, a comprehensive and sharia-principle-based strategy is needed to address non-performing financing, including the implementation of stricter risk management, strengthening sharia-based credit analysis, and financing restructuring programs to assist customers in fulfilling their obligations without compromising the principles of fairness and balance. With the right measures, Islamic banking can continue to increase its resilience, maintain industry stability, and continue to make maximum contributions to sustainable and inclusive economic growth. (Madjid 2018).

3. Sharia Approach to Non-Performing Financing Risk Management

The sharia approach to risk management of non-performing financing emphasizes the principles of justice, transparency, and maslahah (public good). The strategies used include:

a. 5C+1S Analysis: This approach includes six main aspects in assessing customer eligibility, namely Character, Capacity, Capital, Collateral, Condition, and Sharia compliance. (Sudarto 2020). Character refers to the track record and integrity of a prospective customer in fulfilling financial obligations, which can be assessed through their credit history and business reputation. Capacity assesses the ability of customers to generate sufficient income to pay financing obligations, so that it is the main factor in determining the ability to pay. Capital refers to the capital strength possessed by the customer, which indicates its financial stability. Collateral functions as collateral that can reduce the risk of default, while Condition considers economic and industrial factors that can affect the sustainability of the business or the customer's financial condition. In addition, the Sharia aspect is an important factor for Islamic financial institutions, which ensure that every transaction carried out is in accordance with Islamic principles, free from elements of usury, gharar, and maysir.

   Through a thorough analysis of these six aspects, banks can mitigate risks more effectively in distributing financing. By assessing the character and capacity of the customer, the bank can identify credit risks that may arise in the future. Meanwhile, capital and collateral are elements that strengthen financing security, ensuring that customers have sufficient assets to support their obligations. Economic and industrial conditions are also taken into account to anticipate the impact of economic changes that can affect customers' ability to pay. Dalam konteks perbankan syariah, aspek kepatuhan terhadap prinsip syariah menjadi krusial, karena selain berorientasi pada keuntungan, pembiayaan yang diberikan juga harus sesuai dengan hukum Islam. In the context of Islamic banking, the aspect of compliance with sharia principles is crucial, because in addition to being profit-oriented, the financing provided must also be in accordance with Islamic law. Thus, this approach not only helps banks in assessing the eligibility of customers, but also ensures that the financing distributed remains in accordance with sharia regulations and principles.

b. Financing Restructuring: Banks can make various efforts to help customers who are experiencing difficulties in fulfilling their obligations, especially through three main mechanisms, namely rescheduling, reconditioning, and restructuring.(Prianti dan Nasution 2023). Rescheduling is carried out by changing the payment schedule of customer obligations, such as extending the term or changing the financing tenor to better suit the customer's financial condition. Meanwhile, reconditioning includes changing the terms in the financing agreement without reducing the principal balance, for example by lowering the bank's profit margin level or removing late fees, in accordance with the principles of fairness in Islamic finance. The restructuring is an effort to restructure financing by adjusting the payment structure or contract scheme to provide a more flexible solution for customers without violating sharia principles

Through the implementation of these three mechanisms, banks can help reduce the risk of default while maintaining customer financial stability. In the Islamic banking system, restructuring efforts must be carried out while remaining based on the principle of justice and not burdening customers with elements of riba, gharar, or maysir. Therefore, the approach used must consider the balance between the bank's business sustainability and the customer's ability to meet its obligations. In addition, banks must also ensure that the solutions provided remain within the regulatory corridors set by the Islamic financial authorities. With this mechanism, it is hoped that Islamic banking can make a positive contribution to the economy while maintaining the stability of the financial system as a whole.

c. Application of Sharia Maqashid Principles: This approach emphasizes the main goal of sharia (maqashid sharia), which is to achieve benefits (maslahah) and prevent losses (mafsadah) in every aspect of financial transactions. In the context of Islamic banking, this principle is the basis for setting policies, especially in the face of problematic financing. (Masyhuri, Tarigan, dan Lubis 2022). Banks are not only profit-oriented, but must also consider the social impact and welfare of customers. Therefore, in dealing with customers who are experiencing financial difficulties, the approach used must be based on the values of justice, transparency, and economic sustainability. This is in line with the concept of ta'awun (help-help) in Islam, where banks and customers must try to find solutions that do not harm one party and still maintain a balance of rights and obligations of each other.

In dealing with problematic financing, Islamic banks need to implement policies that prioritize aspects of justice, such as financing restructuring through rescheduling, reconditioning, or restructuring that do not conflict with sharia principles. This step aims to provide a solution that not only benefits the bank, but also eases the burden on customers so that they can still meet their obligations without excessive pressure. In addition, the decisions taken must also consider macroeconomic conditions and their impact on financial sector stability. By applying the principles of justice and shared welfare, Islamic banks can play an active role in creating a financial system that is more inclusive and resilient to various economic challenges. This approach not only increases public trust in Islamic banking, but also strengthens its contribution to economic development based on Islamic values

4. Case Studies and Implementations

Research has shown that the implementation of effective risk management plays an important role in reducing the level of Non-Performing Financing (NPF) in Islamic banking. Good risk management includes a comprehensive financing feasibility analysis, which not only assesses the financial aspects of customers but also considers the character, business capacity, and macroeconomic conditions that may affect their ability to pay. By applying prudential banking principles and sharia compliance, banks can mitigate the risk of default from the start. In addition, strategies such as active monitoring of financing portfolios, the use of technology in credit analysis, and strengthening the early warning system are key elements in maintaining the financial stability and health of Islamic banking. These measures not only help banks in maintaining asset quality, but also increase public confidence in a more stable and sustainable Islamic financial system.

As an example of implementation in the field, PT. Bank Sumut Syariah Medan Branch has implemented a rescheduling, reconditioning, and restructuring strategy as an effort to deal with problematic financing. Rescheduling is carried out by changing the customer's payment schedule to better suit their financial condition, while reconditioning involves changing financing terms, such as adjusting the profit margin level without violating sharia principles. On the other hand, restructuring is implemented by redesigning financing schemes to provide more flexible solutions for customers experiencing financial difficulties. This approach not only helps customers in fulfilling their obligations without being financially burdened, but also maintains the bank's financial stability while maintaining healthy cash flow and liquidity. With a combination of effective risk mitigation strategies and adherence to sharia principles, Islamic banking is expected to further enhance its role in supporting inclusive and sustainable economic growth.(Prianti and Nasution 2023).

By understanding and applying the sharia approach to risk management, sharia banking can be more effective in managing non-performing financing, maintaining financial stability, and complying with sharia principles.

C. RESEARCH METHODS

This study uses a qualitative approach with a library research method to analyze non-performing financing in Islamic finance as well as the sharia approach in risk management. The literature study was chosen because this research relies on the exploration of theories, concepts, and previous research results related to non-performing financing in Islamic financial institutions. The data used came from secondary sources, such as scientific journals, academic books, regulatory reports from the Financial Services Authority (OJK) and Bank Indonesia, as well as relevant fatwas of the National Sharia Council-Indonesian Ulema Council (DSN-MUI). Data was collected through a documentation method, by sorting and analyzing sources related to sharia risk management and non-performing financing mechanisms.

Data analysis was carried out by a descriptive-analytical method, namely interpreting the data obtained by elaborating sharia principles in mitigating the risk of problematic financing. This analysis includes a study of the concept of contracts in sharia financing, the principle of maslahah in decision-making, and strategies that have been applied in Islamic finance practices to reduce the level of Non-Performing Financing (NPF). The study also uses a comparative approach, comparing previous studies to find the patterns, advantages, and weaknesses of the various risk management models that have been applied. The results of the study are expected to provide new insights in managing sharia financing risks more effectively and in accordance with the principles of sharia maqashid.

D. RESULTS & DISCUSSION

1. Research Results

This research in-depth analyzes the various strategies implemented by Islamic financial institutions in dealing with the challenges of non-performing financing, with a primary focus on the conditions that occurred during the COVID-19 pandemic. The pandemic has had a significant impact on the global economy, including the Islamic finance sector, which has had to face a surge in default risk due to declining customer income. Field studies conducted at BMT Hasanah Sambit, BMT Surya Kencana, and BMT Bina Insan Ponorogo City revealed that the three BMTs experienced various financial constraints on a small to medium scale during the pandemic. This research in-depth analyzes the various strategies implemented by Islamic financial institutions in dealing with the challenges of non-performing financing, with a primary focus on the conditions that occurred during the COVID-19 pandemic. The pandemic has had a significant impact on the global economy, including the Islamic finance sector, which has had to face a surge in default risk due to declining customer income. Field studies conducted at BMT Hasanah Sambit, BMT Surya Kencana, and BMT Bina Insan Ponorogo City revealed that the three BMTs experienced various financial constraints on a small to medium scale during the pandemic. This condition is mainly caused by a decline in economic activity, a decrease in people's purchasing power, an increase in the number of layoffs, and disruptions to micro and small businesses which are the main segments of financing at BMT. As a result, many customers experience difficulties in fulfilling payment obligations, resulting in an increase in Non-Performing Financing (NPF) and a decrease in the liquidity of these Islamic financial institutions.

In facing these challenges, BMT, which is the object of the research, implements various risk mitigation strategies to maintain financial stability and operational sustainability. Some of the approaches used include financing restructuring, namely through the Rescheduling, Reconditioning, and Restructuring (3R) strategy which allows adjustment of payment schedules, changes in financing conditions, and redesign of financing schemes to better suit customer conditions without violating sharia principles. In addition, the implementation of risk management based on 5C+1S (Character, Capacity, Capital, Collateral, Condition, and Sharia) analysis is an important instrument in screening potential financing recipients to minimize the potential for problematic financing in the future. With this strategy, Islamic financial institutions can not only mitigate the negative impact of the increasing number of non-performing financing, but also continue to carry out their intermediation role effectively in supporting sustainable and inclusive sharia-based economic growth.(Rizki, Athief, and Dewi Puspitaningrum 2022)

Non-performing financing in Islamic finance is influenced by various factors that can generally be categorized into internal factors and external factors. Internal factors include aspects that come from within the financial institution itself, such as marketing changes that can cause inconsistencies in marketing strategies and customer selection. Too frequent changes of marketing teams have the potential to create a lack of in-depth understanding of customer characteristics, resulting in less than optimal financing feasibility analysis. In addition, weak internal supervision systems, inaccuracies in assessing customer payment capacity, and lack of risk mitigation strategies also contribute to the increase in Non-Performing Financing (NPF) levels. In many cases, the provision of financing that is not accompanied by adequate business assistance can make it difficult for customers to manage their business, which ultimately increases the risk of default.

On the other hand, external factors are conditions that are beyond the control of Islamic financial institutions, but have a significant impact on the smooth payment of customers. For example, crop failures that occur in the agricultural sector can cause farmers to suffer large losses, making it difficult for them to meet their financing obligations. Self-isolation due to the COVID-19 pandemic has also been the main cause of an increase in non-performing financing in recent years, as many customers are unable to work or run their businesses normally. In addition, layoffs as a result of global economic instability have caused many individuals to lose their main source of income, resulting in a drastic decrease in their ability to meet payment obligations. The combination of these various external factors further worsens the financial condition of customers and increases the challenges for Islamic financial institutions in maintaining the quality of their financing portfolios. Therefore, a comprehensive and sharia-principle-based approach is needed in addressing problematic financing, including flexibility in payment schemes, business assistance, and strengthening risk analysis before providing financing.(Nadia, Hasnita, and Inaliana 2020)

To overcome problematic financing, the three BMTs that are the object of the research apply risk management based on sharia principles with a 5C+1S approach consisting of Character, Capacity, Capital, Collateral, Condition, and Sharia. This approach is the main foundation in the financing selection and management process, to ensure that customers who receive financing facilities have adequate financial capacity and a high level of responsibility in fulfilling their obligations. Character refers to the integrity and track record of the customer in fulfilling his financial obligations, while Capacity assesses the customer's ability to generate enough income to pay installments. Capital focuses on the customer's financial condition, both in the form of assets and equity, while Collateral acts as an additional collateral to mitigate the risk of default. Condition considers economic and industrial factors that can affect the continuity of the customer's business, while Sharia ensures that the entire financing process remains in accordance with sharia principles, such as the prohibition of riba, gharar, and maysir. With the application of this rigorous analysis based on 5C+1S, BMT can make more precise selection of potential customers and anticipate potential financing risks in the future.

In addition to applying the 5C+1S approach in financing selection, the three BMTs also adopted the 3R strategy (Rescheduling, Reconditioning, and Restructuring) as a concrete step in dealing with problematic financing that has occurred. Rescheduling is carried out by adjusting the payment schedule to better suit the customer's financial condition, for example by extending the financing tenor so that monthly installments become lighter. Meanwhile, Reconditioning is implemented by adjusting financing terms and conditions, such as changing payment schemes or providing grace periods without violating sharia principles. Meanwhile, Restructuring is carried out through a redesign of the financing structure, including the possibility of restructuring the number of installments or replacing contracts that are more flexible to ease the burden on customers. This strategy not only aims to reduce the Non-Performing Financing (NPF) rate, but also maintains good relations between BMT and customers, as well as ensuring the sustainability of the operations of Islamic financial institutions in carrying out their intermediation functions effectively. With a combination of a rigorous risk management approach and a sharia principles-based financing rescue strategy, the three BMTs can face the challenges of non-performing financing in a more adaptive and sustainable manner.

2. Discussion

The findings of this study emphatically highlight the importance of implementing effective risk management in Islamic financial institutions to maintain financial stability, especially in the face of economic crisis conditions, such as those that occurred during the

COVID-19 pandemic. In a situation full of uncertainty, where many customers are experiencing financial difficulties due to declining income, good risk management is the main key to ensuring the continuity of the operation of Islamic financial institutions. One approach that has proven effective is the 5C+1S method, which allows a thorough evaluation of potential financing recipients, including character, financial capacity, capital, guarantees, economic conditions, and compliance with sharia principles. By applying this approach, Islamic financial institutions can be more selective in disbursing financing, ensuring that each transaction not only generates economic profits, but also remains in accordance with ethical values and sharia principles, thereby reducing the potential for problematic financing in the future.

In addition, the 3R (Rescheduling, Reconditioning, and Restructuring) strategy is a very important tool in managing non-performing financing, providing flexibility for financial institutions to adjust the terms and conditions of financing without having to violate sharia principles. Rescheduling allows for changes in payment schedules to better suit the customer's financial condition, while Reconditioning allows for adjustments to financing terms to ease the customer's burden in the short term. Meanwhile, Restructuring provides options to redesign the financing structure, including the possibility of changing contracts or redesigning installment schemes to be more flexible and sustainable. With the implementation of this strategy, Islamic financial institutions not only protect themselves from the increase in Non-Performing Financing (NPF), but also continue to carry out their social and inclusive functions in helping customers who are experiencing difficulties. This approach shows that Islamic finance is not only profit-oriented, but also has a dimension of sustainability and fairness, where the solutions provided always consider the balance between business, social, and compliance with sharia principles.(Nadia, Hasnita, and Inaliana 2020)

This research is in line with various previous literature that confirms that risk management is a crucial aspect in maintaining the stability and sustainability of Islamic financial institutions, including Islamic banking and Islamic microfinance institutions. One relevant study is the research of Yulianti et al. (2018), which revealed that the implementation of effective risk management can prevent the occurrence of non-performing financing, especially in the Islamic microfinance sector. In the study, it was explained that a systematic risk management approach based on sharia principles allows financial institutions to identify, measure, and control various potential risks, such as credit risk, operational risk, and liquidity risk. In other words, the better the risk management system implemented, the less likely it is to occur Non-Performing Financing (NPF), so that financial institutions can operate more stably and sustainably in the long term.(Yulianti et al. 2018)

Furthermore, another study conducted by Rahmawati & Huda (2020) emphasizes that good risk management is not only a mitigation of the potential for problematic financing, but also a strategic tool in supporting the growth of the Islamic finance industry. By optimizing the 5C+1S (Character, Capacity, Capital, Collateral, Condition, and Sharia) approach as well as the 3R (Rescheduling, Reconditioning, and Restructuring) strategy, Islamic financial institutions can maintain the quality of their financing portfolios while adhering to the principles of justice and transparency in Islam. In addition, previous literature also shows that financial education for customers, the application of digital technology in risk monitoring, and collaboration with Islamic credit guarantee institutions are important factors in strengthening Islamic financial stability. With the support of various findings from previous research, it can be concluded that risk management is not only a necessity, but also the main foundation for Islamic banking in carrying out the intermediation function effectively, sustainably, and in accordance with Islamic values.

In addition, research conducted by Nadia et al. (2020) found that the implementation of good risk management has a crucial role in minimizing the risk of problematic financing, especially in Sharia People's Financing Banks (BPRS). As a financial institution that focuses on financing the micro sector and MSMEs, BPRS has a high risk exposure, especially to customers with limited financial capacity. Therefore, a comprehensive risk management strategy is crucial in ensuring that the financing provided is not only economically profitable, but also sustainable and in accordance with sharia principles Nadia et al. (2020) emphasized that the strict application of 5C+1S-based financing feasibility analysis can reduce the likelihood of default, because financial institutions can be more careful in assessing the character and capacity of customers before providing financing. In addition, the periodic monitoring system on customer performance is also an important factor in maintaining the quality of BPRS assets, so that the potential for Non-Performing Financing (NPF) can be reduced to a minimum. (Nadia, Hasnita, and Inaliana 2020)

Furthermore, the study also revealed that BPRS that implement adaptive risk mitigation strategies tend to have stronger resilience in the face of economic challenges, especially in times of crisis. One of the widely used approaches is the 3R (Rescheduling, Reconditioning, and Restructuring) strategy, which allows financial institutions to provide flexible solutions to customers who experience difficulties in payments without violating sharia principles. Rescheduling allows customers to get adjustments to payment schedules, Reconditioning provides changes to requirements to better suit the customer's financial condition, while Restructuring creates the option to change the financing structure to be more sustainable. By applying this approach, BPRS is not only able to maintain its financial stability, but also continue to carry out its social function as an Islamic financial institution, which is to help customers get out of financial difficulties in a fair way and based on Islamic principles. The findings from Nadia et al. (2020) further strengthen the understanding that solid risk management is the main pillar in maintaining the resilience of BPRS, while supporting the sustainable growth of the Islamic financial sector.

Thus, the implementation of effective risk management is the main foundation in maintaining the stability of Islamic financial institutions, especially in facing the challenges of non-performing financing. Through a rigorous financing feasibility analysis, Islamic financial institutions can ensure that any financing disbursed is in accordance with the prudential principle, thereby reducing the potential for future defaults. This approach not only involves assessing the capacity and character of customers, but also considers aspects of sharia compliance to ensure that transactions remain within the corridor of Islamic ethicsIn addition, the use of digital technology in risk monitoring and credit scoring further improves accuracy and efficiency in detecting potential non-performing financing early. With this comprehensive strategy combination, Islamic financial institutions are not only able to minimize the level of Non-Performing Financing (NPF), but also can strengthen their resilience to economic fluctuations, so that they are able to operate more stably and sustainably in the long term.(Nadia, Hasnita, and Inaliana 2020)

Furthermore, restructuring strategies that are in accordance with sharia principles, such as Rescheduling, Reconditioning, and Restructuring (3R), have proven to be solutions that not only benefit financial institutions, but also provide great benefits for customers. By providing payment schedule adjustments, changes in financing terms, or contract restructuring, customers who experience financial difficulties still have the opportunity to fulfill their obligations without feeling burdened by rigid payment schemes. This not only helps reduce the risk of non-performing financing, but also increases customer loyalty and trust in an Islamic financial system that is more inclusive and oriented towards justice and common welfare. With the growing trust of the public, Islamic financial institutions can continue to develop as a stable, ethical, and competitive economic pillar, as well as make a real contribution to more equitable and sustainable economic development.

E. CONCLUSIONS AND SUGGESTIONS

This study confirms that Hybrid Risk Management, which integrates Sharia Maqashid and financial technology (fintech), is an innovative approach in risk mitigation in Islamic financial institutions. This approach allows Islamic financial institutions to not only adhere to Islamic principles, but also increase their effectiveness in managing risk by leveraging digital technologies. By prioritizing the main goal of Maqashid Sharia, which is to protect religion, soul, intellect, descent, and property, this approach ensures that any risk mitigation policy is not only oriented towards financial security, but also considers the social dimension and the welfare of the community.

The integration of fintech in sharia risk management allows financial institutions to implement more automated, transparent, and efficient systems, so that they are able to identify and respond to potential risks faster. The use of big data analytics, artificial intelligence (AI), and blockchain in transaction monitoring and credit analysis can increase accuracy in risk assessment while minimizing the potential for non-performing financing (NPF). In addition, this approach also opens up wider opportunities for Islamic financial inclusion by providing easier, safer, and justice-based access for people who were previously less affordable with formal banking services. Thus, Hybrid Risk Management not only functions as a risk mitigation tool, but also as a strategic mechanism that encourages the growth of the Islamic finance industry in a more sustainable, innovative, and competitive manner in the digital era.

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