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Management of Problematic Receivables in Islamic Banks: Monitoring, Strategies, and Risk Mitigation

Faris Zia Ulhaq[a], Kurniawan[b*], Dadang Husen Sobana[c]
[a,b,c]*UIN Sunan Gunung Djati, Bandung, Indonesia*

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ABSTRACT

This study examines the management of problematic receivables in Islamic banks, focusing on monitoring mechanisms, resolution strategies, and risk mitigation. The high Non-Performing Financing (NPF) ratio poses a significant challenge to Islamic banks, threatening their liquidity and reputation. This study evaluates the effectiveness of categorizing problematic receivables, from performing to non-performing financing. The findings indicate that rescue and resolution strategies can effectively reduce the NPF ratio. A case study of PT BPRS Harta Insan Karimah Parahyangan revealed that in 2023, the gross NPF ratio was 1.92%, and the net NPF ratio was 1.50%. Measures to further minimize the NPF ratio include: monitoring financing in the performing category and deposit funds, implementing rescue and resolution steps for problematic receivables, enhancing financing expansion with prudential principles, establishing Allowance for Earning Assets Losses (PPAP), and write-offs. Risk mitigation for problematic receivables can be carried out through.

Corresponding Author:

Kurniawan
UIN Sunan Gunung Djati
Jl. A.H. Nasution No. 105A, Cibiru, Kota Bandung, Jawa Barat.
Email: kkurniawan10@gmail.com

1. INTRODUCTION

In recent years, the issue of non-performing financing (NPF) has continued to be a serious challenge in the Islamic banking industry. The high NPF rate indicates inefficiencies in managing financing that is not repaid on time. This condition not only disrupts the bank's liquidity but also impacts the financial stability and reputation of Islamic banks. Additionally, global economic pressures and uncertain market dynamics further exacerbate credit risk, making proper handling an urgent necessity (Apriani, 2024)

Theoretically, the management of non-performing financing in the Islamic banking system differs from conventional banking, considering that Sharia principles prohibit usury and emphasize fairness in financing contracts. Several literatures suggest that Sharia approaches through financing restructuring such as qard al-hasan and musyawarah contracts have potential in resolving NPF issues (Fitriani, 2017). However, field practices often show unsatisfactory results due to weak monitoring and suboptimal implementation of resolution strategies. The discrepancy between theory and reality creates a gap that has not been fully addressed by existing literature, thus forming the main background of this research.

This study aims to analyze the effectiveness of monitoring systems in preventing and identifying non-performing financing in Islamic banks. Additionally, it evaluates resolution strategies such as financing

restructuring and identifies factors that cause NPF. Another objective is to examine the risk mitigation mechanisms applied to minimize loss impacts, while also formulating practical recommendations that align with Sharia principles. The research results are expected to contribute significantly to improving the management system of non-performing financing in Islamic banks, both operationally and regulatory-wise.

As part of efforts to understand and address NPF issues, classifying non-performing financing is a crucial initial step in the Islamic banking system. Non-performing financing is categorized into five main levels: current, special mention, substandard, doubtful, and loss, focusing on analyzing the payment risk levels faced by customers (Rahmany, 2017). These categories help banks identify problems as early as possible, especially in preventing financing from shifting from the current category to higher-risk categories. In this context, management according to Sharia principles poses its own challenges because banks cannot impose interest-based penalties or usury-based sanctions.

Furthermore, the main indicator used to assess the health level of a bank in managing receivables is the Non-Performing Financing (NPF) ratio (Munandar, 2020). This ratio reflects the proportion of problematic financing to the total financing provided. When the NPF ratio increases, its impact can extend to a decline in customer trust, a decrease in fund collection, and threats to the bank's liquidity. In practice, the causes of NPF can stem from internal factors, such as weaknesses in financing analysis and supervision, to external factors, such as weak customer management capabilities or unstable economic conditions (Zakiyah, 2021). Therefore, this research seeks to delve deeper into the rescue and resolution of non-performing financing in Islamic banks, while also evaluating how risk mitigation strategies can be applied to mitigate its negative impacts.

The importance of this research lies in the strategic role of Islamic banks in supporting financial inclusion and Sharia-based economic development in Indonesia. In this context, managing non-performing financing becomes a key element to ensure the operational sustainability of Islamic banks (Nugraha, 2022). A case study in this research involves the assessment and analysis of non-performing financing at PT BPRS Harta Insan Karimah Parahyangan. Based on empirical data and the theories presented, this research offers a holistic approach by integrating monitoring, resolution strategies, and risk mitigation. The proposed hypothesis is that the implementation of an effective monitoring system, supported by Sharia-based resolution strategies, can significantly reduce the NPF level. Thus, this research is not only academically relevant but also has broad practical implications.

2. RESEARCH METHOD

The research method used in this article is a literature study with a descriptive-qualitative approach. This study analyzes the concept of non-performing financing, the Non-Performing Financing (NPF) indicators, strategies for rescuing and resolving non-performing financing, and its risk mitigation based on various relevant literature sources. Additionally, this research integrates a case study using collectability data from the financial reports of PT BPRS HIK Parahyangan to identify the patterns of non-performing financing management that have been implemented. The analysis is conducted through the collection, evaluation, and interpretation of secondary data from related documents, scientific journals, and financial reports, aiming to provide a comprehensive overview of monitoring strategies, rescue efforts, and risk mitigation of non-performing financing in the context of Islamic banks.

3. RESULTS AND DISCUSSION

3.1. Classification of Non-Performing Financing in Islamic Banks

Non-performing financing, referred to in English as Non-Performing Financing (NPF), is equivalent to Non-Performing Loan (NPL) for credit facilities. It represents the ratio of non-performing financing to total financing and includes financing that falls into the categories of substandard, doubtful, and loss. In other words, non-performing financing/NPF is non-current financing ranging from substandard to loss (Liana, 2014).

The classification of non-performing financing in Islamic banks is a strategic step to identify risky financing and determine appropriate follow-up actions in accordance with Sharia principles. This process is crucial for maintaining the financial stability of the bank and ensuring compliance with the regulations of the Financial Services Authority (OJK). Generally, financing is classified into five categories based on the level of risk and the payment status of customers: Current, Special Mention, Substandard, Doubtful, and Loss (Apriani, 2024).

The Current category includes financing that shows no signs of problems. Customers in this category fulfill their obligations on time according to the schedule agreed upon in the contract. However, the bank continues to conduct periodic monitoring to ensure that the quality of financing remains intact. The

Special Mention category includes financing with payment delays of up to 90 days. Early indications of problems, such as declining cash flow or technical constraints in the customer's business, often serve as the main causes. Islamic banks typically pay extra attention to customers in this category to prevent further deterioration of financing (Rahmany, 2017).

In this classification, Islamic banks must adhere to Sharia principles, such as not imposing additional interest and avoiding usury practices. As an alternative, banks can offer restructuring through new contracts, such as mudarabah or musyarakah, which allow customers to continue meeting their obligations without violating Sharia principles (Nurnasrina, SE & P. Adiyes Putra, 2018). This classification of non-performing financing not only helps banks monitor their financing portfolio but also provides a foundation for developing more effective risk mitigation strategies. Additionally, this classification ensures transparency in financial reporting, thereby enhancing stakeholder trust.

Non-performing financing does not occur suddenly or in isolation; it is caused by several factors that can be categorized into internal and external factors, whether caused by the customers or the bank itself. The causes related to internal and external factors include (Apriani, 2024):

1. Weaknesses in Customer Character: This includes customers who are unwilling or lack good intentions, customers who fail in business competition, and customers who disappear.
2. Customer Carelessness: This includes deviations in the use of financing, and companies managed by unprofessional family members.
3. Weaknesses in Customer Capability: Such as the inability to repay financing due to disruptions in business operations, inadequate management skills, outdated production techniques, insufficient marketing capabilities, limited or inadequate experience, and limited or inadequate information.
4. Weaknesses in Financing Analysis: This includes financing analysis not based on accurate data or low-quality data, incomplete financing information, careless analysis, excessively long financing terms, excessively short financing terms, and lack of accountability in financing decisions.
5. Weaknesses in Financing Documentation: This includes poorly documented financing data and inadequate supervision of physical documents according to regulations.
6. Negative Economic Situations: Including economic crises that negatively impact currency exchange rates.
7. Adverse Domestic Political Situations: Such as changes in certain officials, diplomatic relations with other countries, and social unrest.
8. Adverse Natural Situations: For example, disasters that have negative effects on livelihoods (Munandar, 2020).

3.2. *Non-Performing Financing (NPF)*

Non-Performing Financing (NPF) is a key indicator for assessing the performance of banks. This term refers to problematic financing, which is credit where the principal or profit-sharing payments have exceeded 90 days past due, or financing that has a high potential for not being paid on time. Generally, NPF includes financing that faces difficulties in repayment, ranging from payments that do not meet minimum obligations to financing that is difficult to settle or even uncollectible (Munandar, 2020) Additionally, according to (Nugraha, 2022), NPF is defined as financing that encounters obstacles because its implementation has not or has yet to achieve the expected goals of the bank.

The NPF ratio can be formulated as follows:

$$NPF = \frac{\text{Total Non-Performing Financing}}{\text{Total Financing Provided}} \times 100\%$$

An increase in the NPF ratio at banks can lead to a decrease in the amount of deposits collected from customers. This occurs due to public concerns about the safety of their funds, resulting in a decline in interest in saving or depositing money in Islamic banks. Customers worry that their funds may not be fully returned or may only yield low profit-sharing (Rahmany, 2017).

Based on the credit history recorded in the OJK's SLIK, there are credit scores consisting of several types according to the Financial Services Authority Regulation Number 40/POJK.03/2019 concerning the Assessment of the Quality of Assets of Commercial Banks, namely:

1. Current: Installment payments are made on time, with no arrears, in accordance with the contract requirements, financial reports are submitted regularly and accurately, and documentation of receivables and collateral binding is well fulfilled.
2. Special Mention: There are arrears in principal or margin payments between 1 - 90 days, financial reports are still submitted regularly, and violations of the agreement's requirements are not principal.
3. Substandard: Arrears in principal or margin payments last more than 90 days up to 120 days, financial reports are irregular, agreement documentation is incomplete, and violations of the main agreement requirements begin to occur.
4. Doubtful: Arrears in payments have exceeded between 121 - 180 days, financial information from customers is inadequate or unreliable, and documentation and collateral binding are weak.
5. Loss: Arrears in payments have exceeded 180 days, and documentation of agreements and collateral binding is unavailable.

If not managed properly, non-performing financing can become a source of significant losses for banks, in addition to creating additional burdens. Banking plays a crucial role as an intermediary between groups of people with surplus funds (surplus spending units) and those in need of funds (deficit spending units). Article 37 of Law Number 21 of 2008 concerning Islamic Banking states that financing based on Sharia principles carries risks. Therefore, its implementation must adhere to sound Sharia financing principles to minimize these risks.

Muhammad (2005) mentions that the factors causing non-performing financing in Islamic banks can be categorized into two: internal factors and external factors. Internal factors may include: (1) weaknesses in financing analysis, (2) weaknesses in financing supervision, (3) weaknesses in collateral management. External factors include: (1) weaknesses in customer character, (2) customers unwilling or lacking good intentions, (3) customers disappearing, (4) weaknesses in customer capability.

3.3 Rescue and Resolution of Non-Performing Financing

The management of non-performing financing is a crucial part of the financing distribution process, considering that every financing has the potential to encounter issues. To prevent problems from escalating, appropriate handling measures need to be taken promptly. Management can be conducted through preventive efforts, which include analyzing financing data, drafting appropriate agreements, securing collateral, and monitoring financing, as well as through repressive/curative efforts to address existing financing issues, with the aim of resolving these problems (Nurjanah & Hilyatin, 2017)

The rescue of non-performing financing involves a series of restructuring efforts and measures undertaken by banks in accordance with applicable regulations, so that financing categorized as non-current (such as substandard, doubtful, and loss categories) can gradually return to the current category (Nurjanah & Hilyatin, 2017). A strategy that can be applied in the rescue process is restructuring.

Restructuring financing is a step taken by banks to support customers in fulfilling their obligations, including methods such as rescheduling, reconditioning, and restructuring (Damisa, 2018). The primary objective of Islamic banks in restructuring financing is to assist customers in meeting their obligations, in accordance with the principles of justice and mutual assistance taught in Islam. This is based on the values found in Surah Al-Baqarah, verse 280, which emphasizes the importance of alleviating the burden of debtors facing difficulties, as a form of implementation of Islamic financial ethics (Khairunisa, 2020).

وَاِنْ كَانَ ذُوْ عُسْرَةٍ فَنَظِرَةٌ اِلٰى مَيْسَرَةٍۗ وَاَنْ تَصَدَّقُوْا خَيْرٌ لَّكُمْ اِنْ كُنْتُمْ تَعْلَمُوْنَ

"If the debtor is in difficulty, grant him a delay until he is able to pay. And if you give charity (forgive the debt), it is better for you if you only knew." (Al-Baqoroh 280)

The Fatwa of the National Sharia Council (DSN)-Indonesian Ulema Council (MUI) Number 47/DSN-MUI/II/2005 serves as a basis for restructuring (Kurnia Aspari, 2018)The Bank Indonesia Circular Letter Number 10/34/DPbs dated October 20, 2008, regarding the Restructuring of Financing for Islamic Commercial Banks and Sharia Business Units, outlines the restructuring for each type of financing. Non-performing financing can be restructured in the following ways (Zulfikri et al., 2019):

1. Rescheduling
   Restructuring is carried out by extending the maturity period of the financing without changing the amount of obligations that the customer must pay to the Islamic Commercial Bank or Sharia Business Unit.

1. Reconditioning
   Restructuring is conducted by resetting the terms of financing, such as changing the payment schedule, installment amounts, maturity period, and/or providing discounts, as long as it does not increase the obligations that the customer must pay to the Islamic Commercial Bank or Sharia Business Unit.
2. Restructuring
   Restructuring is performed by converting remaining murabahah or istisna' receivables into ijarah muntahiyah bittamlik, mudarabah, or musyarakah.
   - Restructuring can also involve converting financing into Medium-Term Sukuk.
   - Restructuring can be done by converting financing into Temporary Capital Provision.

Several factors support the successful implementation of restructuring, enabling it to proceed effectively. These supporting factors are divided into two categories:

1. Internal Factors
   Internal factors that support financing restructuring stem from human resources (HR), which include the collection team, marketing business team, and legal team. The collection team is responsible for providing assistance and guidance to customers with non-performing financing, both through phone calls and direct visits. The marketing business team is responsible for offering available restructuring facility options, such as rescheduling, reconditioning, and restructuring. Meanwhile, the legal team handles the documentation and paperwork that must be fulfilled by the customers (Nafi'ah & Widyianingsih, 2021).
2. External Factors
   External factors that support financing restructuring come from the customers. Customers who are aware of their obligations to repay financing will demonstrate willingness and good faith in fulfilling their installment payments. Additionally, the cooperative attitude of customers and their readiness to comply with the conditions set by the bank are also important factors in the success of restructuring (Nafi'ah & Widyianingsih, 2021)

The resolution of non-performing financing can be achieved through the following methods:

1. Resolution Through Collateral (Execution)
   The resolution of financing through collateral execution is based on Fatwa Number 47/DSN-MUI/II/2005, using the following methods (Kurnia Aspari, 2018).
   a. Non-Litigation
   The non-litigation resolution of non-performing financing is an approach that prioritizes deliberation and consensus without involving legal channels. This approach is carried out through two main methods: deliberation and offset. Offset is a resolution method where the customer voluntarily surrenders their collateral assets to the bank as a step to settle the problematic financing obligations (Khairunisa, 2020).
   b. Litigation
   The resolution of non-performing financing through litigation is pursued through applicable legal channels. The first step in this process is to submit and issue a warning to the customer. A warning is issued if the bank's reevaluation shows that the customer no longer has a business, is uncooperative, and cannot fulfill their obligations, while restructuring is no longer feasible. If the customer still fails to meet their obligations, the bank will proceed to the litigation stage, including filing for the seizure of collateral through the judicial system as a final resolution effort (Khairunisa, 2020).
2. Write-Off
   Classification of Write-Off
   a. Book Write-Off: The removal of financing from the bank's books for all financing categorized as loss, but the financing will still be collected by the bank (Kurnia Aspari, 2018).
   b. Debt Write-Off: The removal of financing from the books and the cancellation of all claims for financing that has truly become uncollectible (Kurnia Aspari, 2018).

The write-off mechanism refers to Fatwa DSN Number 19/DSN-MUI/IV/2001 Rule One point 6b and Number 47/DSN-MUI/II/2005 point e. The decision for each write-off plan, whether it involves book write-off or debt write-off, must be submitted by the financing manager/account manager to the management. Based on the submitted customer data, the management will conduct research and provide approval or rejection (Kurnia Aspari, 2018).

Conditions for Write-Off:

1. Book write-off can only be performed for customers whose financing has been categorized as loss, but based on the bank's analysis, there are still resources (albeit limited) that allow the customer to fulfill their obligations.

2. Debt write-off can only be performed for customers whose financing has become uncollectible, and based on the bank's economic analysis, the customer clearly lacks the resources or ability to pay their obligations.

Sources of Financing Write-Off (Kurnia Aspari, 2018) :
1. The source for book write-off is the Mandatory Provision for Productive Asset Write-Off (PPAP WD). Repayments from customers that have been written off will be credited to the PPAP account.
2. The source for debt write-off is the zakat funds managed by the bank.

Regulations regarding the Provision for Productive Asset Write-Off (PPAP) in non-performing financing at Islamic banks are governed by the Financial Services Authority (OJK) in several regulations, including POJK No. 16/POJK.03/2023 concerning Special Treatment of Productive Assets of Islamic Banks and other supporting regulations. The OJK determines the level of provisions that must be established by banks based on asset classification (OJK, 2023):
1. Current: 0.5% of the productive asset balance.
2. Special Mention: 5% of the productive asset balance.
3. Substandard: 15% of the productive asset balance minus the value of received collateral.
4. Doubtful: 50% of the productive asset balance minus the value of collateral.
5. Loss: 100% of the productive asset balance minus the value of collateral.

The collateral considered must meet the requirements set by the OJK.

3.4 Case Study of PT BPRS Harta Insan Karimah Parahyangan

PT. BPRS HIK Parahyangan is a Sharia Rural Bank resulting from the acquisition of BPRS TOAT (established in 1994 by K. H. Anom Mubarok, BA). The acquisition process in 2006 marked the establishment of PT. BPRS HIK Parahyangan. PT. BPRS HIK Parahyangan began effective operations in September 2006, located at Jl. Percobaan No. 1 Cileunyi, Bandung Regency. In line with the vision of PT. BPRS HIK Parahyangan, the business development strategy continues to be enhanced, solidifying PT. BPRS HIK Parahyangan as one of the best Sharia Rural Banks in Indonesia (https://www.hikparahyangan.co.id/tentang-kami).

In the annual report of BPRS HIK Parahyangan, there is data on the collectability of financing provided by BPRS HIK Parahyangan, including:

Table 1. Collectability as of December 31, 2023, of PT BPRS Harta Insan Karimah Parahyangan (in thousands)

Collectability	Des 31, 2023	Des 31, 2024	Growth	
			Rp IDR	&
Current	1.463.870.624	1.276.543.319	187.327.305	14,67%
Special Mention	89.240.819	118.170.952	-28.930.133	-24,48%
Substandard	19.153.087	3.726.839	15.426.248	413,92%
Doubtful	4.843.953	3.500.000	1.343.953	38,40%
Loss	6.355.895	25.191.159	-18.835.264	-74,77%
	1.583.464.378	**1.427.132.269**	**156.332.109**	**10,59%**

Source: Annual Report 2023 of PT BPRS Harta Insan Karimah Parahyangan

From the data above, it can be observed that the outstanding financing provided by BPRS HIK Parahyangan in 2023 amounts to IDR 1.5 trillion, which is higher than the IDR 1.4 trillion recorded in 2022. For the current collectability, the outstanding amount in 2023 is IDR 1.4 trillion, an increase compared to IDR 1.2 trillion in 2022. This indicates an expansion in financing distribution and an improvement in the quality of financing conducted by BPRS HIK Parahyangan, with a growth of IDR 187 billion.

In the Special Mention category (DPK), there was a decrease in 2023 to IDR 89.2 billion from IDR 118 billion previously. This may be due to a decline in the quality of DPK, as evidenced by an increase in the amount classified as substandard, which rose in 2023 by IDR 19.1 billion from the previous IDR 3.7 billion.

In the Doubtful category, there was an increase in 2023 from IDR 3.5 billion the previous year to IDR 4.8 billion. However, in the Loss category, there was a decrease from IDR 25 billion in 2022 to IDR 6.3 billion in 2023. This reduction may be attributed to the resolution of non-performing financing undertaken by BPRS HIK Parahyangan.

The calculation of Non-Performing Financing (Gross) for the year 2023 is as follows:

$$\text{NPF Gross} = \frac{\textit{Total Non-Performing Financing}}{\text{Total Financing Provided}} \times 100\%$$

$$= \frac{19.153.087 + 4.843.953 + 6.355.895}{1.583.464.378} \times 100\%$$

$$= \frac{30.352.935}{1.583.464.378} \times 100\%$$

$$= 1{,}92\%$$

The calculation results indicate that the Gross Non-Performing Financing (NPF) of BPRS HIK Parahyangan is 1.92%. This means that out of all the financing provided, only 1.92% is classified as problematic. This figure reflects a relatively good quality of financing, as it is below the tolerance limit set by the Financial Services Authority (OJK), which is 5%. A low NPF ratio indicates that the bank is capable of effectively managing its financing risks, maintaining financial stability, and minimizing the negative impact of non-performing financing.

In the report, the Provision for Productive Asset Write-Off (PPAP) established by BPRS HIK Parahyangan in 2023 is IDR 6.6 billion. The PPAP serves as a financial safeguard for the bank in facing the risk of losses. In this case, the establishment of the IDR 6.6 billion PPAP successfully reduced the NPF from 1.92% to 1.50%. This reflects the bank's ability to anticipate losses due to non-performing financing (Antonio, 2001). Therefore, the calculation of the net NPF is as follows:

$$\text{NPF Net} = \frac{\text{Total Non-Performing Financing} - \text{PPAP}}{\text{Total Financing Provided}} \times 100\%$$

$$= \frac{(19.153.087 + 4.843.953 + 6.355.895) - 6.600.000}{1.583.464.378} \times 100\%$$

$$= \frac{23.752.935}{1.583.464.378} \times 100\%$$

$$= 1{,}50\%$$

The calculation results indicate that the Net Non-Performing Financing (NPF) of the Islamic bank is 1.50%, reflecting good risk management through the establishment of a Provision for Productive Asset Write-Off (PPAP) amounting to IDR 6.6 billion to cover potential losses from non-performing financing. This figure is lower than the Gross NPF (1.92%), indicating that non-performing financing has been effectively managed. Furthermore, the Net NPF ratio, which is well below the Financial Services Authority's (OJK) tolerance threshold of 5%, reflects the bank's compliance with applicable prudential regulatory principles (OJK, 2017). This also enhances investor and customer confidence as it demonstrates low financing risk and maintained financial stability.

Both Gross NPF and Net NPF play crucial roles in evaluating the quality of financing in Islamic banks. Gross NPF provides an initial overview of the extent of non-performing financing risk overall, making it a quick and easily calculated indicator for assessing asset quality, and assisting regulators, management, and investors in evaluating the initial condition of non-performing financing and the need for establishing the Provision for Productive Asset Write-Off (PPAP). On the other hand, Net NPF offers a more realistic picture by considering risk mitigation through loss reserves, thus demonstrating the bank's effectiveness in managing non-performing financing risks. Additionally, Net NPF provides a more accurate representation of asset quality after risk mitigation, serving as a better stability indicator for investors and stakeholders, and helping to evaluate compliance levels with reserve formation regulations. With these differences, the combination of both provides a more comprehensive insight into risk management and the financial health of Islamic banks (Antonio, 2001).

The steps that can be taken to minimize Non-Performing Financing (NPF) are as follows:

1. Monitoring financing in the current collectability and Special Mention (DPK) categories.
2. Implementing measures for the recovery and resolution of problematic receivables.
3. Increasing financing expansion with a principle of prudence.

4. Establishing provisions for the Provision for Productive Asset Write-Off (PPAP).
5. Writing off bad debts.

3.5 Mitigation of Non-Performing Receivables Risk

The management of problematic financing can be carried out through preventive and repressive/curative efforts. Preventive measures are implemented from the early stages of financing applications by customers, including careful analysis of financing data, drafting appropriate agreements, securing collateral that protects the bank's interests, and conducting supervision and monitoring of the disbursed financing. Meanwhile, repressive or curative efforts focus on rescue and resolution measures for non-performing financings (NPFs) to ensure that these issues can be effectively addressed (Madjid, 2018).
To ensure effectiveness in managing problematic financing, concrete steps need to be implemented according to the specific conditions of the financing faced. Each category of financing, whether performing, potentially problematic, substandard, or doubtful/default, requires a specific approach to maintain operational stability and minimize the risk of losses. The following outlines the management strategies for each category of financing based on the level of difficulty.

1. Performing Financing is managed through the following steps (Zulfikri et al., 2019).
   a) Monitoring the business activities of customers.
   b) Providing training and development for members.
2. Potentially Problematic Financing is addressed with the following strategies (Zulfikri et al., 2019).
   a) Intensive coaching for members.
   b) Sending warning letters to customers.
   c) Conducting field visits or maintaining relationships by the financing team with customers.
   d) Preventive measures through handling via rescheduling, which involves adjusting the installment schedule by extending the term or reducing the installment amount. An alternative is reconditioning, which involves adjustments such as reducing profit margins or profit-sharing portions.
3. Substandard Financing is handled through the following steps (Zulfikri et al., 2019):
   a) Sending warning or reminder letters to customers.
   b) Conducting field visits or maintaining relationships by the financing team with a more intensive and serious approach.
   c) Improvement efforts through rescheduling, which involves adjusting the installment schedule by extending the term and reducing the installment amount. An alternative is reconditioning, which involves reducing profit margins or profit-sharing portions.
4. Doubtful/Default Financing is resolved with the following approaches (Zulfikri et al., 2019) :
   a) Rescheduling, which involves rearranging the installment schedule by extending the term and reducing the installment amount.
   b) Reconditioning, which involves adjusting profit margins or profit-sharing to make it lighter for customers.
   c) Conducting transfer or refinancing in the form of qard al-hasan financing as a final effort.
5. Each financing is covered by life insurance and fire insurance for guarantees.

From the above discussion, the following steps can be taken in the mitigation of problematic receivables:

1. Disbursing financing with a principle of prudence and the four-eyes principle.
2. Providing life insurance and fire insurance for debtors.
3. Regular monitoring of debtors both online and offline.
4. Conducting training and development for members.
5. Restructuring.

4. Conclusion

The conclusion of the discussion emphasizes the importance of managing problematic receivables in maintaining the financial stability and reputation of Islamic banks. Effective management, including the classification of financing based on risk levels, is essential for addressing problematic receivables. There are two main approaches to resolving receivables: preventive efforts, which involve initial analysis and monitoring, and repressive efforts, which include the restructuring of financing. Restructuring serves as a primary solution to assist customers in fulfilling their obligations in accordance with Sharia principles, utilizing various methods such as rescheduling and adjusting terms. Additionally, risk mitigation must be carefully implemented through the principles of prudence, insurance, debtor monitoring, and training. The case study of PT BPRS HIK Parahyangan demonstrates good financing management with low NPF, reflecting the effectiveness of the risk mitigation strategies and management of problematic receivables applied at the bank.

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