بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ
RISK MANAGEMENT IN ISLAMIC FINANCIAL INSTITUTIONS
NEGARA BRUNEI DARUSSALAM
AN ANALYSIS CASE STUDY

PUTRI RENO KEMALA SARI
13MR506

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Sultan Sharif Ali Islamic University
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SUPERVISION

RISK MANAGEMENT IN ISLAMIC FINANCIAL INSTITUTIONS
NEGARA BRUNEI DARUSSALAM
AN ANALYSIS CASE STUDY
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I hereby declare that the work in this thesis is my own except for quotations and summaries which have been duly acknowledged.

I also solemnly declare that this work has not been submitted or published earlier and it shall not, in future, be submitted by me for obtaining any other degree from this or any other university or institution.

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Registration Number: 13MR506
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ACKNOWLEDGEMENT

_In the name of Allah, The Most Gracious, The Most Merciful_
First and foremost, I would like to extend my greatest gratitude to Allah (SWT), whose Power and Blessing have been continuously wrapping me throughout my life. My true indebtedness goes to My Creator, Who blessed me with a loving family, supportive and critical supervisors, helpful and knowledgeable academics, practitioners, friends and colleagues.

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Putri Reno Kemala Sari
2015
To my amazing Papa, H. Sutan Rusmansyah, your sacrifices and support have helped me complete this accomplishment and I am grateful for all you have done.

To my lovely Mama, Hj.Dra Artalina, for encouraging me always and was strong enough to send her child to the unknown in pursuit of higher education. You have always inspired me to do my best and have supported me in every decision I made.

To all my brothers and sisters in Islam, I hope you will benefit from this research.

“*We will show them Our signs in the horizons and within themselves until it becomes clear to them that it is the truth. But is it not sufficient concerning your Lord that He is, over all things, a Witness*” The Holy Quran (41, 53)
ABSTRACT

RISK MANAGEMENT IN ISLAMIC FINANCIAL INSTITUTIONS NEGARA
BRUNEI DARUSSALAM
AN ANALYSIS CASE STUDY

Islamic Financial Institutions is emerging as a rapidly growing part of the financial sector in the Islamic and recently in non-Islamic countries. One of the major aspects that should be taken into consideration in dealing with Islamic finance is risk management. Islamic Financials is a risky business and several risk factors have been identified as critical to ensure that the Islamic Financial Institutions position remain intact amid the intense competition in the industry. The survival and success of a financial organization depends critically on the efficiency of managing these risks. This research aims to identify the types of risk and to know risk management practices in Islamic Financial Institutions in Brunei Darussalam. In order to explore and explain the topic effectively, a mixed-method approach was adopted. As part of the quantitative and qualitative research strategy, a survey questionnaire and in-depth interviews were used with Islamic Financial Institutions in Brunei Darussalam. The findings in this study interestingly reveal that there is shed recommendation on the current risk management in Islamic Financial Institutions Negara Brunei Darussalam Furthermore by assessing their current risk management, the study hopes to contribute in terms of recommendation strategy to strengthen and knowing the risk management of the Islamic Financial Institutions so as to increase the overall competitiveness in the Islamic Financial Industry.

Keyword: Risk Management, Islamic Financial Institution, Brunei Darussalam
ABSTRAK

PENGURUSAN RISIKO DALAM INSTITUSI INSTITUSI KEWANGAN ISLAM NEGARA BRUNEI DARUSSALAM SATU KAJIAN ANALISIS


Kata kunci: pengurusan risiko, Institusi Kewangan Islam, Brunei Darussalam.
ملخص البحث

إدارة المخاطر في مؤسسات التمويل الإسلامي في بروناي دار السلام: دراسة تحليلية حالية

ظهرت مؤسسة التمويل الإسلامي على مسرح الوجود ظهوراً متناوباً، ويمثل جزءًا من القطاع المالي في البلاد الإسلامية وغيرها من البلدان حديثًا. تعتبر إدارة المخاطر من الجوانب الحاسمة التي يجب أن تأخذ في الاعتبار عند التعامل مع التمويل الإسلامي. إن مؤسسة التمويل الإسلامي عمل ذو مخاطر، ولقد تم تحديد عدد من عوامل المخاطر الضرورية للتأكد من استمرار مؤسسات التمويل الإسلامي في وجه المنافسة المصرفية الشديدة في مجال الصناعة. يعتمد بقاء المؤسسة المالية ونجاحها على فعالية إدارة هذه المخاطر. يهدف هذا البحث إلى معرفة أنواع المخاطر والإجراءات الإدارية لدرءها في مؤسسات التمويل الإسلامي في بروناي دار السلام. ولذا يتم الكشف عن هذا الموضوع، وتوضيحه بفعالية، تبعت البحث للطرق المتنوعة لدراسةه. لقد استخدمت البحوث الاستراتيجية النوعية والمجمعة في البحث وذلك بتقديم إستراتيجية مشتركة ومقابلات شاملة مع مؤسسات التمويل الإسلامية في بروناي دار السلام. أظهرت نتایج هذا البحث أن هناك توصيات لإدارة المخاطر الحالية في مؤسسات التمويل الإسلامي في بروناي دار السلام، بالإضافة إلى ذلك فإنها تعززنا إدارة المخاطر الحالية ومن خلال تقديم التوصيات الاستراتيجية يسعى هذا البحث إلى المساهمة في معرفة هذه المخاطر، وتقوية إدارتها في مؤسسة التمويل الإسلامي من أجل الزيادة الشاملة في المنافسة في صناعة التمويل الإسلامي.

الكلمات الرئيسية: إدارة المخاطر، مؤسسة التمويل الإسلامي، بروناي دار السلام.
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CHAPTER 1
INTRODUCTION

1.0 Introduction

This Chapter provides an introduction to an overview of the thesis. The first section explains the research background, which emphasizes the importance of risk management as an instrument in Islamic Financial Institutions. The sections that follow state the research problems that encouraged doing this research. More importantly the research questions section focuses on the issue that are main pillars in risk management. This is followed by the objectives of the study that answer the research questions, and an explanation of the significance of the study. In order to draw the boundary of the study, the scope of the study was also stated. Finally, the chapter concludes by providing a brief description of all chapters in the thesis.

1.1 An overview of the research background

Islamic Financial Institutions were established three decades ago as an alternative to conventional financial institutions mainly to provide Shari’ah compliant investments, financing, and trading opportunities. The Islamic Financial Institutions school of thought can be investigated from 7th century with the advent of Islam and teaching of Quran. But it is gaining global importance and emerging as an alternative to interest based economic system\(^1\). The Islamic Financial Institutions industry has grown impressively during a short period of time. In the early 1960's, Islamic Financial Institutions and finance sector witnessed a steady growth in its different aspects such as size, complexity of the transactions, and internal processes. It has been estimated that the sector is witnessing a 15% annual growth rate (10% of which is in the gulf region)\(^2\).

Islamic Financial Institutions now exists in more than 75 countries accounting for more than 250$ billion in assets\(^3\). The Islamic Financial Institutions industry is growing


\(^2\) ISRA. (2013). Islamic Financial System Principles and Operation.

\(^3\) Zawaya business information. http://www.zawya.com/
rapidly and gaining importance in the global financial scenario. Islamic Financial Institutions are control some 40-50 percent of Muslim savings by 2009-2010. Assets of the Islamic Financial Institutions worldwide are currently estimated at US$750 Billion, registering an unprecedented growth of 20-30 percent in the last ten years⁴.

One of the major aspects that should be taken into consideration in dealing with Islamic finance is risk management and then risk mitigation. With respect to financial institutions, risk management, as defined by finance literature, is the practice of creating economic value in a firm by using financial instruments to manage the exposure to different risks. Being involved in the intermediation process, risk management is as important to the Islamic Financial Institutions as it is to the conventional financial institution⁵. A growing literature suggestion that risk management is even more challenging for the Islamic Financial Institutions compared to the conventional counterpart. Islamic Financial Institutions industry is in general different from conventional Islamic Financial Institutions due to several core features which are mentioned below.

First, in Islamic Financial Institutions, no interest is paid or charged for any transaction or service such a feature according to Islam will ensure justice, welfare and non-exploitation of the other party's weaknesses. Second, investments of an Islamic Financial Institutions must be channeled to the Islamic Shariah approved (Halal) sectors, by using Islamic structures of finance such إجراء بيع سلاسل بيع موطئه مشاركة مضاربة. The third feature of Islamic Financial Institutions is that, the financer or investor usually shares in the profits or losses arising out of the enterprise’s business where the money is invested. This concept is derived from Islamic Shari'ah, where Islamic finance is based on the belief that the provider and the user of capital should equally share the risk of business. The fourth feature is غرار (Uncertainty, Risk or Speculation) which is prohibited under the Islamic Shari'ah.

In addition, not only do Islamic Financial Institutions need to apply prudent risk management, but also an integrated risk management is essential to avoid the crisis. In fact, risk management is a dynamic area, where its applications are re-visited in the aftermath of

every crisis. The key to successful enterprise is dependent on the attainment of efficient risk management. The management of risk is often associated with the use of derivatives for the original design of derivatives is to manage risk. However, most of the Islamic scholars are of the opinions that when the derivatives instrument is used to manage risks, gambling activities will begin and the activities of risk management will end (al-Saati 2003); (al-Suwailem 2006). Nevertheless, Obiyathulla (1999), Kamali (2005), Securities Commission (2006), al-Amine (2008), and Saadiah (2008). More importantly, good risk management is highly relevant in providing better return to the stakeholders.6

Risk management activities themselves can expose Islamic Financial Institutions to risk7. For example, the more new risks that arise from additional products, the more time the risk management department will need to study them and to find ways to mitigate them, leading to a greater risk arising from the opportunity cost of not introducing the product at the desired time.

Financial institutions face number of risks these can be classified in different ways such as business risks, operational risks and financial risks. As far as the business risks are concerned they arise from the nature of business while financial risks arise from the possible loss in financial market due to movement in financial variables8. Financial risks include market risk and credit risk, while non-financial risks are operational risk, regulatory risk and legal risk.

Due to the importance of risk management, highly recognized international institutions such as the Basel committee has suggested a set of principles and rules in order to identify and mitigate different financial risks. For example, Basel two, pillar one recommended sets of principles to calculate minimum capital requirements necessary to support the different risks in the business. While pillar two has recommended set of principles to be adopted by the Islamic Financial Institutions supervisory authority in order to have an effective review over the risk management process. Islamic Financial Institutions, being part of the financial sector, aim through risk management to identify

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6 At-Tamimi and Al-Mazrooei. (2010). Islamic financial institutions Risk Management A Comaparation Study Between UAE national and Foreign Islamic financial institutions.
7 The Financial Services Round Table. (1999)
control, and mitigate the different risks they face in order to maximize owner’s value and preserve depositors rights.

The importance of the risk management system in the Islamic financial sector has lead international financial authorities that deals with Islamic finance such as the Islamic Financial Services Board (IFSB)\(^9\) to formulate and recommend set of principles for the best practice of the system. This means that risk management is a crucial element of any Islamic Financial Institutions aiming to sustain its operations for the future since it is considered as an important factor in mitigating the probability of failure due to improper risk handling, thus leading to a direct negative effect on the owners, depositors, and consequently the society.

According to The Financial Services Round Table\(^10\), risk management in Islamic Financial Institutions must ensure that the risk is understood within tolerances established by the board of directors, and that the raking decisions are explicit, clear, and consistent with strategic business objectives. After dealing with risk management and its relation with Islamic Financial Institutions activities (Islamic and/or conventional), a brief distinction between Islamic Financial Institutions and Conventional financial institution will be identified.

1.2 Background of Islamic Financial Institutions in Brunei Darussalam

The Islamic Financial Institutions in Brunei Darussalam are governed by the Islamic Financial Institutions Order Act 2008. From the Supplement to Government Gazette Part II dated Tuesday 30\(^{th}\) September 2008, BIL. / No. 59, the Islamic Financial Institutions Order 2008 defines Islamic Financial Institutions Business as a business whose aims and operations are not contrary to Hukum Syara ’ and which consists of receiving of deposits or other repayable funds from the public, paying or collecting cheques drawn by or paid in by customers, the granting of financing facilities to customers, and includes such business as the Authority may authorize for the purpose of this order. By this, Hukum Syara ’ is defined as the Laws of Islam according Al Quran and Sunnah\(^11\).

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\(^11\) Islamic financial institutions Order.Brunei Darussalam
Islamic Financial Institutions were first introduced in Brunei Darussalam in the early 1990s and have since seen tremendous growth. In 2010, it held a significant role in Brunei Darussalam’s Islamic Financial Institutions industry with total assets of B$6.36 billion and deposits total B$5.167 billion which accounted for 37% and 34.6% of the total market share. Given the initial start-up condition and some deficiencies in the overall economic-legal-institutional framework, the case on Brunei Darussalam can be regarded in many respects as a success story that deserves attention.

Currently, there are two Islamic Financial Institutions in Brunei Darussalam which is the Islamic Financial Institutions of Brunei Darussalam, commonly known as “BIBD”, the acronym from its Malay translation which is “Bank Islam Brunei Darussalam”. However, "Perbadanan Tabung Amanah Islam Brunei"(TAIB) is a Unit Trust which carries out Islamic Financial Institutions activities under the Tabung Amanah Islam Brunei Act. Therefore these two entities will henceforth be referred to as Islamic Financial Institutions in Brunei Darussalam in this thesis.

Islamic Financial Institutions Brunei Darussalam was fully operational on 3rd July 2006 as fully fledged Islamic Financial Institutions with more than 600 employees. It has more than 14 branches located strategically in all four districts of Brunei Darussalam. It has the largest distribution of ATM network in the country situated both at all of its branches and offsite locations.

Tabung Amanah Islam Brunei (Brunei Islamic Trust Fund) was established under “Perbadanan Tabung Amanah Islam”. It was officially launched on the 29th of September 1991 by His Majesty Sultan Haji Hassanal Bolkiah Mu’izzaddin Waddaulah Ibni Al-Marhum Sultan Haji Omar ‘Ali Saifuddien Sa’adul Khairi Waddien. Sultan and Yang Di-Pertuan Negara Brunei Darussalam. The Launching of Brunei Islamic Trust Fund marked a new beginning for Brunei Darussalam as it was the first financial institution which conducted all its activities in accordance to Islamic faith.

12 Brunei Darussalam Statistic Finance.
13 Islamic financial institutions Brunei Darussalam’s Official Website
14 Brunei Islamic Trust Fund’s Official Website
1.3 The Research Problem

In its business activities, Islamic Financial Institutions and the managers constantly and inevitably face a growing number of risks, out of which the most common are: credit, liquidity, market, and operational risks. However, there are some differences in terms of kinds and span of certain risk types when it comes to the conventional and Islamic Financial Institutions. Nowadays, there are a large number of new types of risk that all financial institutions face. The basic feature of all their risks is the constant increase in the intensity of the emergence of the existing risks as well as the appearance of new, so far unknown, types of risks. There are several basic factors leading to these processes such as: increased volatility of financial markets, globalization and increased competition in financial markets, financial innovations and “drop” of traditional Islamic Financial Institutions business practice, and regulatory environment of financial institutions, especially Islamic Financial Institutions.

Risk management is a part of business policy of every Islamic Financial Institutions. In order to appropriately implement the active risk management process, it is necessary to observe the process through some of its successive stages that different it comes to the conventional and Islamic Financial Institutions. However, a comprehensive process of risk management in all financial institutions should include the following components: establishment of appropriate environment for risk management, finding appropriate “mitigation” of risk, risk measures, and appropriate internal controls.15

The broad perspective on the risk and its management are embodied in the overall goals of Islamic law or مقاصد الشريعة. The principle of مقاصد would imply taking all the precautions to safeguard present and future wealth. As risk in economics represent the probable loss of wealth, it is not desirable in itself from an Islamic perspective. While risks are not desirable on their own, they must be undertaken to create wealth and value. From an Islamic perspective, economic activities are not judged by their inherent risks, but by whether they add value and or create wealth.16

The unique nature of Islamic Financial Institutions activities gives rise to more perplexing and ambiguous risk in Islamic Financial Institutions. The high and unique risk exposure Islamic Financial Institutions have always questioning that will Islamic Financial Institutions be stable and their performance is effective in long run? This question needs to be answered in terms of risk management approach of Islamic Financial Institutions.

In view of the above, Islamic Financial Institutions operate with many products that do not exist in conventional Islamic Financial Institutions. These Islamic products bring many risks. Therefore, in the present day volatile environment, Islamic Financial Institutions are facing a large number of risks such as credit risk, liquidity risk, foreign-exchange risk, market risk, interest rate risk, etc. As a result, risk and risk factors may threaten Islamic Financial Institutions industry’s survival and success.

The obvious implication of these arguments is that Islamic Financial Institutions in Brunei need to know their risk management and the impact of the risk to the operational Islamic Financial Institutions. The management can manage after they know about the risk, so they can be as input to management in formulating policy.

Risk Management has been widely investigated over the years. However, little attention has been paid to Islamic Financial Institutions operating in emerging markets and, in particular, Islamic Financial Institutions. Since risk management failure has been identified as one of the main causes of the financial crisis, additional study of the subject is warranted. The primary aim of this study is to analysis about risk management practices in Islamic Financial Institutions in Brunei Darussalam. Specifically, the study’s objectives are:

1) to identify the types of risk facing the Islamic Financial Institutions in Brunei Darussalam;

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2) to manage the risks and know effective risk management practice in dealing with different types of risk

The study extends the work of Al-Tamimi and Al-Mazrooei and Hassan who suggest similar studies in different environments. Although the study is an extension of these studies, in another context it differs in at least two aspects:

1) The present study includes to know the type of risks of the practices of Islamic Financial Institutions
2) This study discuss about how to manage Islamic Financial Institutions’ risk in Brunei Darussalam.

1.4 The Research Questions

The following questions are proposed to guide the collection, analysis and interpretation of data in line with the research aims and objective. It is expected that the research will, in the end, provide answer to these questions to ensure the research is designed accordingly. Following the research problem, this research seeks answer to the following questions:

1) What are the types of risks faced by Islamic Financial Institutions in Brunei Darussalam?
2) How risk management practice in Islamic Financial Institutions in Brunei Darussalam?

1.5 The Research Objectives

The main objective of the study is to diagnose the risk management practices of some selected Islamic Financial Institutions operating in Brunei Darussalam. To attain the key objective, the following are listed as the specific objectives:

1. To identify the types of risk facing the Islamic Financial Institutions in Brunei Darussalam
2. To know risk management practice in Islamic Financial Institutions in Brunei Darussalam
1.6 Significance of the Study

This research will be greatly beneficial to the following:

1. Theoretical benefits: The result is expected to be useful for other researchers as reference materials for further study and more in-depth soundness of Islamic Financial Institutions.
2. Practical benefits: The result is expected to be useful for Islamic Financial Institutions as information regarding the extent of corporate financing risk which can be the basis of improved financial performance for the period will come.
3. Public Benefits especially customers, results of this study is expected to provide knowledge about the level of risk so that the Islamic Financial Institutions financing can choose Islamic Financial Institutions benefit, healthy, safe, and reliable.
4. Islamic Financial Institutions: The results can be used as a valuable feedback for improvement of Risk Management in the Islamic Financial Institutions in Brunei Darussalam and will be of value to those people who are interested in the Islamic Financial Institutions system.

1.7 Scope of the Study

The focus of this study is on operational Risk Management in Islamic Financial Institutions in Brunei Darussalam. This will include:

1. The types of risks faced by Islamic Financial Institutions in Brunei Darussalam
2. Islamic Financial Institutions in Brunei Darussalam’s risk management practice
3.

1.8 The Overview of the Structure of Research

This research can be summarized with a systematic and easy to understand, it takes a systematic discussion. This study is scheduled to be poured into five chapters that each chapter will consist of several sub-topics. The first chapter is for introduction of risk
management in Islamic Financial Institutions. The second chapter covers literature review and previous study related to this study. The third chapter explains the research design and methodology used. In the fourth chapter present and discusses the findings. Finally, fifth chapter covers conclusion and recommendation. The overview of the chapters is described below.

Chapter 1 provides an introduction to overview of the thesis. The first chapter will be briefly explaining the background promoted research on risk management. The section that follows state the research problem that encouraged doing this research. More importantly the research question section focuses on the issues that are the pillar of risk management. This is followed by the objective of the study that answer the research questions, and an explanation of the significance of the study. In order to draw the boundary of the study, the scope of the study was also stated. Finally, the chapter concludes by providing a brief description of all chapters in the thesis.

Chapter 2 discusses the literature review related to Risk Management and Type of Risk. This chapter will be discussed the Risk Management from the view of Islamic Scholar. Then explain the concept of risk in Islam and conventional theory. Next, discussing about the previous study related to this thesis.

Chapter 3 explains the research design that guides each stage of the study. The rationale behind the choice of research design, the methodology and method for this thesis are classified. This chapter will discussed about research design, data collection will be undertaken, variable in research, data processing and sample questions that will be asked for research purposes.

Chapter 4 present and discusses the research finding. This chapter will discuss the analysis of risk management Islamic Financial Institutions in the country of Brunei Darussalam and its inherent risks. In this chapter there is a section that discusses the findings of research conducted.

Chapter 5 provides the conclusion and recommendations. Further in chapter five which is the final part of this study contains conclusions and suggestions. Research is expected to recommend some point as suggestions and recommendations for future research.
1.9 Conclusion

This chapter has introduced and presented the rationale for the research. It provides an introduction to an overview of the thesis, an overview of Brunei Darussalam, research problem, research question, research objectives, and significance of the study, scope of the study and an overview of the thesis structure. The next chapter explores the literature in relation to the Risk Management in Islamic Financial Institutions.
LITERATURE REVIEW

2.0 Introduction

The chapter discusses the literature related to risk management and Islamic Financial Institutions and start with definition and limitation of risk management. It also prevents various conceptual and theoretical framework of risk management concerning types of risk and risk management mechanism practice. Furthermore, it explains the sources of risk management scheme, benefits of risk management as well as challenges for providing risk management. In addition, it discusses an overview of selected risk management schemes in Brunei Darussalam. Finally, this chapter explains the previous researches related to this thesis.

2.1 Risk Management Overview

Islamic Financial Institutions is a relatively a new industry, and risks inherited are not yet well comprehended. Islamic Financial Institutions construct risk management to be with accordance to Shari‘ah regulations and unique Islamic Financial Institutions features. The main difference between Islamic and conventional banks exists in complying with the Shari‘ah rules and regulation\(^{20}\). Therefore, any definition about Risk Management should in cooperate Islamic principle follow. Risk management refers to “the overall process that a financial institutions follow to define a business strategy, to identify the risks to which it is exposed, to quantify those risks and to understand and control the nature of risks it faces\(^{21}\).

Risk management is the process of measuring or assessing risks and developing strategies to manage it. To manage risks, Shari‘ah requires Islamic Financial Institutions to share risks with their clients and to encourage investors to be responsibly aware of risk and not just receiving return. Under this Profit-Loss Sharing system, risk will be minimized by distributing it among investors. In order to mitigate risk, human behaviors such as trust are


taken into consideration. Islamic Financial Institutions are structured upon the principle of risk sharing.

Risk management in Islamic Financial Institutions requires extra effort and guidelines because of the differentiating nature of Islamic Financial Institutions activities and involvement of Shari’ah compliant mode of financing and Islamic products\textsuperscript{22}. Therefore, in addition to keeping operate under Shari’ah regulation, Islamic Financial Institutions also need to be extremely cautious about their exposure to all the risks. This demands that they develop systems that would help in their proper identification, measurement, monitoring and control, and thus help in their effective management. The Board of Directors and Senior Management must be qualified enough to be fully aware of the risks involved in banking business and should make the development of a risk management culture an integral part of their responsibility.

Definition of Risk

There can be no progress if there is no risk. Without risk some societies might turn passive in the face of the future\textsuperscript{23}. Risk can be defined as the “existence of uncertainty about future outcomes”, a distinction can be made between its metaphysical and epistemological concept. The metaphysical property of risk is “a reality that exists in its own right in the world” and the epistemological concept of risk is a “judgment made by a person or by application of some knowledge to uncertainty”\textsuperscript{24}. Risk and uncertainty are central in economic analysis. Risk relates to cases when objective or subjective probabilities can be assigned to potential outcomes allowing quantification. Uncertainty refers to cases of complete ignorance of any potential outcome making quantification and rational decision making. The implication is that in the case of risk, the unknown can be attempted to be controlled by applying available knowledge. In uncertainty, the unknown is random and cannot be predicted or controlled.

\textsuperscript{24} Althaus. (2005). Risk Analysis. pp. 568-569
Everything in the business field constantly deals with the risk. Interaction of an institution in its activities will raise the risk of micro and macro-economic factors. Recession economic and business competition, technological superiority, the error suppliers, political intervention, or a natural disaster risks potential to be faced by every business organization. However Thus, the specific role of financial institutions in the process intermediation and payment system will cause face a variety of risks faced by the type of institution other.

To that end, each institution must be able to manage any risks that it faces. This fact requires an implementation of the management risks very well. Every business organization aims to obtain a certain return of business activity. To that end, they will bear a certain risk in accordance with acquisition targets to be achieved. Understanding risk in the general life of ordinary everyday understood intuitively. However, each discipline has its own terms. Understanding risk, thereby according to the context in which the term is used. Understanding the generally presented with the possibility of bad consequences (losses) of unwanted or unexpected. This possibility suggests uncertainty and is condition that causes the growth of risk (Darmawi, 1999: 21).

Djojosoedarsono (1999: 1-2) noted some sense risk in general as delivered several authors, among other:

1. Risk is a variation of the results that may occur during a certain period (Arthur Williams and Richard MH).
2. Risk is the uncertainty (uncertainty) that may gave birth to a loss event (loos) (Abas Salim).
3. Risk is uncertainty over the occurrence of events (Soekarto).
4. Risk is the spread / deviation of actual results from expected results (Herman Darmawi).

From these definitions, the risks have characteristics as follows:

1. Represents the uncertainty over the occurrence of an event.

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