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Strengthening Resilience through Risk Management in Islamic Microfinance Institutions: A Case Study of BPRS in Riau

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Abstract

Purpose: This study aims to examine the implementation and effectiveness of risk management in Islamic Rural Banks (BPRS) in Riau Province, particularly in strengthening the resilience of sharia-compliant financing amidst growing financial uncertainties.
Method: Using a qualitative case study approach, this research investigates two BPRS—Berkah Dana Fadhlillah and Hasanah—in both rural and urban contexts. Data were collected through interviews, observations, and document analysis involving practitioners, regulators, and academics.
Results: The findings reveal that BPRS in Riau have implemented risk management systems in accordance with POJK No. 23/2019. Key strategies include policy formulation, development of risk-aware organizational culture, human resource enhancement, and financing segmentation—shifting from micro to consumer segments (e.g., murābaḥah). This strategic shift significantly reduced the Non-Performing Financing (NPF) rate.
Implication: The research underscores the need for periodic updates in risk management strategies and enhanced professional capacity to maintain financing sustainability.
Originality: This study contributes to the literature by integrating the concepts of organizational resilience and Islamic value frameworks in analyzing risk management practices at regional Islamic microfinance institutions.

Keywords: Risk Management, Islamic Rural Banks, Islamic Financing, Islamic Microfinance.

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Introduction

Islamic Rural Banks (BPRS) in Riau have experienced consistent growth in recent years. According to data from the Financial Services Authority (OJK), the total assets of BPRS in Riau reached IDR 52.212 billion at the end of 2019 and increased to IDR 166.269 billion by the end of 2023 (OJK RI, 2024). While this growth is encouraging, it also brings potential risks that must be effectively managed. Each BPRS needs to implement effective risk management to respond to such challenges. Most previous studies have focused on normative or general quantitative aspects without considering local contexts, institutional characteristics, or the socio-religious values embedded in society. However, the complexity of risks faced by BPRS in regions with microeconomic foundations and distinct cultural characteristics, such as Riau, calls for a more contextual and holistic risk management approach. The integration of good governance practices, local community wisdom, and religiosity in client screening processes has been shown to reduce financing risks and strengthen the relationship between BPRS and the community (Adiyes et al., 2024; Huruta & Pratomo, 2018; Rambu Atahau et al., 2020; Soegiono et al., 2019).

BPRS play a vital role in the Islamic financial ecosystem, particularly in channeling financing to micro, small, and medium enterprises (MSMEs) (Agung, 2016; Chandra et al., 2023; Hasibuan & Marliyah, 2024). However, this segment is also highly vulnerable due to factors such as limited collateral, underdeveloped business management, and restricted access to information and technology (Agung, 2016; Liu, 2017). OJK reports the average Non-Performing Financing (NPF) ratio in the Islamic banking sector to be 4.12%, which is relatively higher than that of conventional banks (Hidayah & Tabrani, 2019). BPRS, in particular, often experience even higher NPF levels, indicating an urgent need to strengthen their risk management systems comprehensively (Badan Kebijakan Fiskal Kementerian Keuangan RI, 2022).

In this situation, the Islamic finance industry is increasingly exposed to what has been termed a "risk storm" a convergence of simultaneous risks ranging from macroeconomic fluctuations and regulatory changes to digital disruptions, cyber threats, and geopolitical uncertainties (Fakhrunnas et al., 2021; Kozarić & Delihodić, 2020; Naili & Lahrichi, 2022; Nurismalatri, 2022; Rickinghall, 2022; Rustam, 2018). This phenomenon underscores the urgent need for financial institutions like BPRS to develop risk management systems that are robust, adaptive, and value-based (Al Hammadi et al., 2024; Hasan et al., 2020). However, the integration of value-based risk approaches with institutional adaptive capacity remains underexplored in the literature.

Resilience has thus become a central concept in addressing these challenges. Within an Islamic framework, resilience is not merely about withstanding external pressures but also about fulfilling the objectives of maqāṣid al-sharīʿah, such as protecting wealth (*ḥifẓ al-māl*), life (*ḥifẓ al-nafs*), and sustaining the social and religious order (*ḥifẓ al-dīn*) (Hudaefi & Badeges, 2022; M. Mursyid et al., 2021; Rusydiana & Ali, 2022; Yafiz, 2019; Yahya & Saoqi, 2017). Therefore, risk management in BPRS should not be limited to regulatory compliance but should also be grounded in the transformative values of Islamic principles (Ramadhanty et al., 2022; Rusmiati, 2024).

However, there remains a gap in the literature concerning how risk management in BPRS is developed and implemented to build financing resilience, particularly in Riau Province. Few studies have specifically explored the relationship between risk management systems, local institutional characteristics, and socio-religious dimensions in shaping sharia-based institutional resilience. In response to this gap, this study formulates the research question: How do BPRS in Riau implement risk management in facing the phenomenon of a "risk storm"?

This study is essential to address the gap by analyzing the effectiveness of risk management implementation at BPRS in Riau and its contribution to building contextual resilience in sharia-compliant financing. It is expected to enrich theoretical perspectives by integrating the concepts of resilience and maqāṣid al-sharīʿah, while also offering practical recommendations for strengthening BPRS risk management systems in an era of increasing uncertainty.

Literature Review

BPRS is a strategic process aimed at anticipating potential losses that could threaten institutional stability, particularly in the context of high-risk MSME financing (Olobo et al., 2021; Sookye & Mohamudally-Boolaky, 2019). In accordance with POJK No. 23/POJK.03/2018, risk management systems must encompass policies, risk identification, mitigation, and monitoring. However, their implementation at the local level remains limited in anticipating complex external dynamics.

The phenomenon of a risk storm overlapping economic, technological, regulatory, and geopolitical risks demands a more adaptive approach. In this context, the concept of institutional resilience is highly relevant for assessing the capacity of BPRS to withstand, adapt to, and recover from external pressures (Abedifar et al., 2013; Iskandar et al., 2017; Zhang et al., 2016). Organizational resilience theory emphasizes three key elements: anticipation, adaptation, and transformation, all of which are essential for shaping systemic resilience in financial institutions, including within the Islamic finance context (Duchek, 2020).

The maqāṣid al-sharīʿah value framework reinforces the normative dimension of risk management, where the protection of wealth (*ḥifẓ al-māl*), life (*ḥifẓ al-nafs*), and social sustainability (*ḥifẓ al-dīn*) are core principles for managing risk in a sustainable and meaningful way. Thus, the integration of regulatory principles (OJK), resilience-based approaches (Duchek, 2020), and the maqāṣid framework (Dusuki & Abozaid, 2007) forms the conceptual foundation for building a BPRS risk management model that is not only structurally robust but also value-driven and transformative.

Methods

This study employs a descriptive qualitative approach aimed at gaining an in-depth understanding of risk management practices in sustaining sharia-compliant financing. This approach was chosen because the focus of the research is to explore meanings and experiences rather than to measure phenomena quantitatively (Strauss, 2003; Creswell & Creswell, 2018). The case study was conducted at BPRS Dana Fadlillah Bangkinang and

BPRS Hasanah Pekanbaru, selected for representing two distinct operational contexts rural and urban which reflect local risk challenges and resilience strategies in Riau Province. Moreover, both institutions are among the earliest established BPRS in the region.

Data were collected through observation, interviews, and document analysis. Interviews were conducted with the directors of each BPRS, academics (from UIN and UIR), and regulators (OJK and DSN). The collected data were analyzed using thematic analysis (Miles et al., 2014), which involves three stages: (1) data condensation to identify key themes, (2) data display in narrative or tabular form, and (3) drawing and verifying conclusions through source triangulation. Coding was conducted to categorize the data based on emerging themes during the analysis process.

Results and Discussion

Referring to POJK No. 23 of 2028 and SEOJK No. 10 of 2019 concerning the Implementation of Risk Management for BPRS, it is explained that BPRS are required to implement risk management effectively in accordance with the POJK. This POJK regulates the obligations of the board of directors, board of commissioners, and DPS (Sharia Supervisory Board) in conducting oversight, which is manifested in their active performance of duties and authorities as stipulated in the POJK. Rizaldi (2024) stated that the board of directors, as the main responsible party in implementing risk management, has made efforts starting from drafting policies and guidelines for the implementation of risk management, developing a risk-aware culture among all BPRS employees, improving employee competence, especially understanding related to risk management, supervising the implementation of risk management policies, and so on. A similar point was made by Adani (2024), who stated that the board of directors, as responsible for the operational functioning of BPRS, has carried out its duties in implementing risk management in the form of drafting policies and guidelines as outlined in the SOP for financing disbursement, conducting oversight through internal audits, cultivating a risk-aware culture for employees, improving employee competence, and so on.

The implementation of risk management at BPRS, particularly financing risk, after the formulation of risk management policies and procedures, the establishment of risk limits, and the subsequent development of risk management strategies. Risk management strategies include product or activity strategies that have financing risk exposure, which are clearly structured with steps to be taken in disbursing financing. For BPRS in Riau, this strategy is translated into determining the financing segmentation to be undertaken by the BPRS. Segmentation is determined based on the objectives that the BPRS intends to achieve. Noor Rachmad explained that the selection of the right market segmentation will be able to avoid financial institutions from potential risks (Rachmad, 2024). Rusnah Muhammad also stated that the determination of appropriate segmentation by the Islamic financial industry will be able to guide its institutions in determining product promotion and positioning strategies so that the financial industry becomes focused and the possibility of risk can be mitigated early on (Muhamad & Alwi, 2015).

The risk management strategy applied in the selection of financing segmentation carried out by BPRS in Riau is generally directed towards consumer financing. Consumer financing at BPRS Berkah Dana Fadhlillah is mostly channeled into the procurement of vehicles. This type of financing is generally for the purchase of two-wheeled and four-wheeled vehicles. Other financing is also channeled into housing procurement (mortgages), home renovation, purchase of electronic goods and procurement of other necessities, as well as a small portion for financing productive sectors such as channeling to SMEs or the real sector. This policy was taken by BPRS Berkah Dana Fadhillah based on lessons from past events, where from the early stages of BPRS operations until the early 2000s, BPRS mostly channeled financing into the real and micro business sectors, but this type of financing resulted in significant defaults, causing BPRS finances to experience losses for several years, and even defaults by the micro sector still erode BPRS finances to this day (Rizaldi, 2024).

Learning from the case of defaults in the micro sector, then since the late 2000s, BPRS Berkah Dana Fadhlillah made changes to its financing segmentation, which initially focused on micro businesses, shifting to the consumer segment in the form of goods procurement through the *murabahah* (cost-plus profit sale) agreement scheme. The *murabahah* scheme is implemented following the rules of the DSN MUI (National Sharia Council - Indonesian Council of Ulama) fatwa regarding the disbursement of *murabahah* financing. In carrying out this type of agreement, BPRS will directly purchase the goods that are the object of the transaction between BPRS and the customer. Since implementing this sale and purchase agreement and product, it has been able to reduce the amount of NPF at BPRS Berkah Dana Fadhlillah, which previously reached 25%, and by the end of 2023 decreased to 2.14% (Rizaldi, 2024).

Meanwhile, at BPRS Hasanah, although the risk management strategy through the selection of financing segmentation has not changed much, learning from the problems that caused problematic financing, BPRS Hasanah made comprehensive improvements in all lines that affect the financing. Improvements were made to the refinement of financing disbursement policies and procedures, financing disbursement organization, management changes, strengthening organizational culture, and strengthening employee competence. This step was taken by paying attention to the growth of BPRS Hasanah before 2019, which was rather slow and even tended to be loss-making. Seeing this situation, BPRS Hasanah made efforts to improve, and as a result, in recent years BPRS Hasanah has returned to positive growth (Chandra, 2024).

Furthermore, in implementing risk management, BPRS in Riau established a risk management organization. This risk management organization is led by a Risk Management Executive Officer. This establishment is in accordance with Article 16 of POJK No. 23 of 2019, which states that if a BPRS has core capital below IDR 50 billion, the BPRS appoints an executive officer as the person in charge of implementing risk management. Referring to the provisions of this POJK, BPRS in Riau have core capital below IDR 50 billion, so the implementer of risk management is the risk management executive officer. The appointment of the Risk Management Executive Officer is carried out by the board of directors by appointing an officer below them. The officer can come from the Head of the Compliance Department, Head of Operations, or the head of another department that the board of directors considers to have a relationship with risk management and does not come from the department that carries out the function of fund raising and disbursement (Rusmiati, 2024).

After the risk management executive officer is appointed, this officer then implements risk management and is responsible for the implementation of the risk management function. In the implementation of risk management, the executive officer, with the approval of the board of directors, conducts supervision and review to continuously seek appropriate risk mitigation against risks and prepares risk profile reports. The risk management executive officer also has a role as the party who conducts a review if there is a proposal for the issuance of new products or services and is also the authorized party to provide recommendations to the work unit responsible for BPRS operations.

The executive officer, as the party who carries out the risk management function, will continuously analyze the opportunities for risk occurrence. This is because the risks that occur in banking will always have the potential to emerge. The business activities carried out by banking, in addition to having risks from the external side, also have inherent types of risks. According to Bambang Rianto, inherent risk is the risk inherent in the business activities of Islamic banks, both quantifiable and non-quantifiable, and has the potential to affect the bank's finances. The parameters that can be used in inherent risk in credit risk, according to Bambang, include: a) composition of the provisioning portfolio, b) funding strategy, and c) external factors (Rustam, 2018). According to OJK, inherent risk is the risk inherent in the credit business carried out, for example, credit risk from fund disbursement business activities (OJK RI, 2019).

Credit risk or financing risk is a type of risk that is inherent in financing disbursement business activities. In general, the causes of financing risk are the concentration of financing disbursement to certain customers, geographical areas, products, types of financing, or economic sectors. Financing is the main contributor to the unsoundness of a BPRS, so the ability of BPRS to carry out the process of customer screening starting from the identification, measurement, monitoring, and control of financing risk, as well as capital provisioning, is needed.

Another cause of financing risk is the factor of *site streaming* or misuse of financing where the purpose of fund disbursement does not match its use. According to Rachmad, (2024), *site streaming* is one of the causes of problematic financing, where the perpetrators of *site streaming* have committed dishonest practices in terms of fund usage; the agreement and the actual use of funds are not the same. According to him, this is one of the factors causing problematic financing, starting with dishonesty and ending with dishonesty. Furthermore, according to Rachmad, the cause of problematic financing is the unprofessionalism of employees in approving financing. Unprofessional employees are a human resource factor that is not competent in assessing customers. Rusmiati (2024) also explained that the issue of incompetent human resources is the main factor causing credit and operational risks. This is because human resources are the main asset of banking in carrying out its business; if this asset is not managed properly and professionally, it will destroy the banking business. Unprofessional human resources will work carelessly, irresponsibly, and tend to think about enriching themselves.

The next cause of financing risk is the customer factor, for example, customers who are given financing do not manage their businesses professionally, have poor ethics, are dishonest, and so on. These actions have an impact on the business being run, causing the business not to grow well and eventually suffer losses, ultimately leading to delays in obligations to the bank. To avoid disbursing financing to customers with poor character, BPRS in disbursing financing must conduct analysis, approval, and carry out financing administration that is systematically structured. This financing disbursement system is then made in the form of financing disbursement guidelines or standard operating procedures (SOP) for financing. At BPRS in Riau, the term SOP for financing disbursement is known as the General Policy Guidelines (PKU) for Financing (Chandra, 2024).

The General Policy Guidelines (hereinafter referred to as PKU) for financing at BPRS are prepared as guidelines for financing disbursement for work units tasked with financing disbursement, and as a reference for supervisors in conducting audits of the financing disbursement process. The PKU for financing, as a reference in financing disbursement, is certainly prepared as comprehensively as possible in accordance with the segmentation that BPRS intends to undertake. If there are changes due to changes in strategy, changes in market conditions, technological advancements, and other changes, then the PKU is reviewed periodically. The PKU for financing generally contains rules regarding: (1) Initiation, Financing Products and Agreements, (2) Financing Organization, Limits of Authority for Financing Approval, (3) Collateral and Insurance, (4) Financing Disbursement Process and Flow, (5) Financing Disbursement, Administration of Financing Documents, (6) Take Over, (7) Top Up / Additional Financing, and (8) Financing Supervision.

The rules in the financing PKU, which are created in such a way, are then implemented by BPRS in the form of financing disbursement procedures (Sholihin et al., 2018). The general procedures that apply to BPRS are as shown in the following figure:

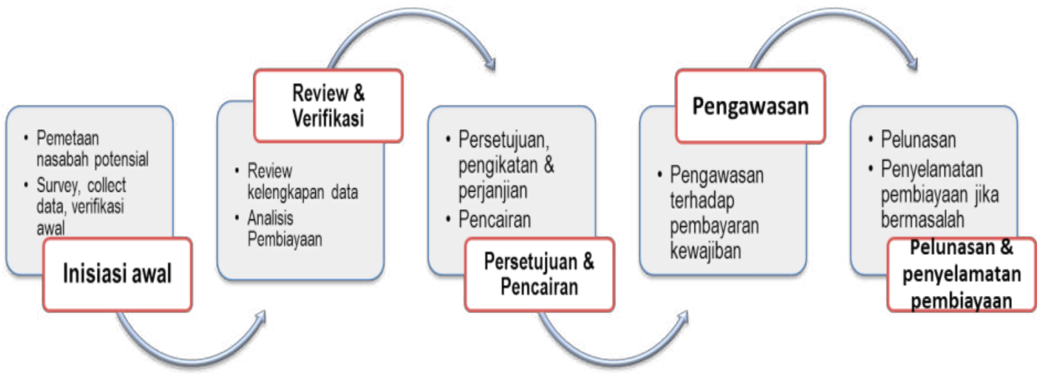

Figure: General Financing Process

The first step is financing initiation, carried out by BPRS with the aim of identifying potential risks early on, so that the quality of financing can be well maintained. Initiation is also a form of practicing several principles in financing, including: (a) Prioritizing the principle of prudence in every financing provided, (b) Implementing the Know Your Customer (KYC) principle, which is to know well the character and historical background of prospective customers. Before financing is disbursed, BPRS must know detailed information related to the business, collateral, background, and other matters related to the prospective customer. (c) Implementing a Scoring System or a system used in assessing financing risk, (d) Implementing the Four Eyes Principle, which is the separation of authority among units in the financing process, and each unit works independently and prioritizes professionalism, as well as being free from conflicts of interest. (e) Identifying Risk Acceptance Criteria (RAC), which are signs or criteria that indicate a risk that may befall BPRS (Azis, 2021; Firdaus, 2014; Idrus, 2017; Nugraeni et al., 2023; Nurnasrina; & Putra, 2019).

Initial initiation is carried out by the Account Officer (AO) of BPRS starting from mapping and forming potential customers, then followed by an initial visit to prospective customers, data collection, and continued with initial verification. The financing application procedure implemented by BPRS is as follows:

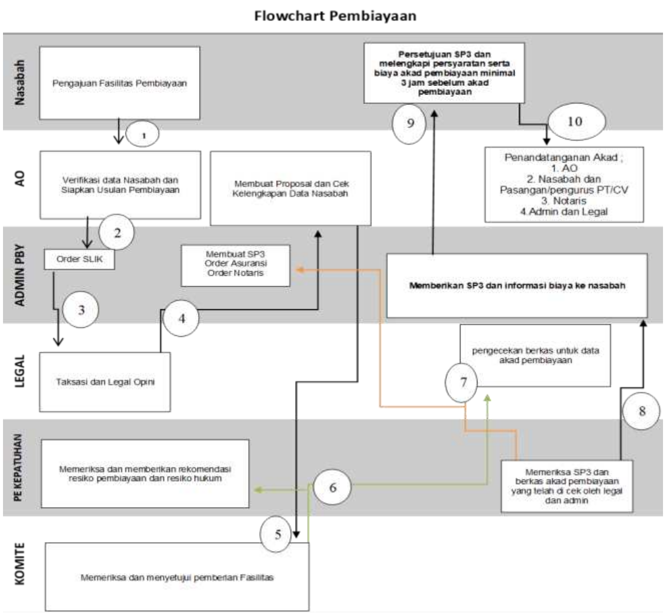

Figure: Financing Flowchart

Based on the financing flowchart above, the first step in carrying out the financing process is the submission of a financing application by the prospective customer. The submission of a financing application begins with filling out a financing application form. This form is filled out completely and then signed by the customer and witnessed by a close relative or someone related by blood to the customer applying for financing. The signed form is completed with documents to fulfill the financing requirements, among these documents are: personal data of the prospective customer, employment/business activity data, spouse data, financial data, other financing data, savings/bank account data, collateral data, references, and other data requested by the BPRS.

The initial data obtained by the AO is then verified and analyzed in accordance with the financing PKU in effect at the BPRS. Verification of prospective customer data is carried out to ensure that there are no irregularities or inconsistencies between one document and another (Susilo, 2017). After verification, a direct visit to the customer's place is carried out. This direct visit is required to meet directly with the customer. However, before the visit is made, an AO first requests assistance from the financing administration to obtain customer-related information in the form of checking debtor information (IDeb) through the Financial Information Service System (SLIK) of the OJK. Checking debtor information is necessary to analyze customer eligibility. Checking customer information is also strengthened by a legal opinion from the legal team. Legal opinion is needed to assess prospective customers from a legal and regulatory perspective.

SLIK OJK and legal opinion are used as initial material by the AO when visiting the customer's place in an effort to analyze financing. Financing analysis is aimed at determining the eligibility of customers to receive financing based on character, financial ability to repay financing, capital, collateral, and Sharia aspects. At BPRS in Riau, the implementation of financing analysis uses the 5C + RS (Character, Capacity, Capital, Collateral, Condition of Economic, Repayment Capacity, and Service Excellent) approach (Adani, 2024; Azis, 2021; Iskandar et al., 2017; Muhammad, 2018; Nugroho, 2020; Rustam, 2018).

In addition to the 5C analysis above, BPRS in Riau also uses an RS (Repayment and Service) assessment. Repayment is a form of analysis conducted to see the extent of the prospective customer's ability to repay the financing that has been provided. Repayment ability will be analyzed from the customer's sources of income, both primary (business/salary) and secondary (additional business/other sources of income). Meanwhile, Service refers to the analysis of service, speed, accuracy, completeness, and quality of the services provided. This service analysis is specifically assessed for productive financing for micro, small, and medium enterprises (MSMEs). For consumer financing such as vehicle procurement, purchase of electronic goods, home renovation, etc., service assessment is not a primary consideration (Chandra, 2024).

After the AO goes to the field to ensure the completeness of the prospective customer's financing application documents and conducts an analysis of the prospective customer's eligibility to receive financing, the AO then records this in the form of a Financing Analysis Note. The Financing Analysis Note is then submitted to the Financing Committee for further examination and analysis, as well as the finalization of the approval of the financing facility application submitted by the prospective customer.

Examination and approval are carried out by the financing committee, whose members consist of the Marketing Section Head, Financing Division Head, Board of Directors, and/or Board of Commissioners. The financing committee works as a final screening before the financing application is approved. The committee will examine the completeness of the financing application documents in accordance with the provisions of the Financing PKU. If, according to the financing committee's assessment, the financing analysis conducted by the AO has met the requirements and the financing application documents are in accordance with the provisions of the Financing PKU, then the next step is the approval process. However, if during the examination, the financing committee is not yet convinced by the analysis conducted by the AO, the financing committee will conduct further analysis. Further analysis is carried out by returning to the field, directly observing the condition of the prospective customer, the customer's residence, the customer's business, the collateral offered as security, and other visits deemed necessary by the financing committee (Adani, 2024; Rizaldi, 2024).

After completing the financing analysis, if the financing committee is convinced of the prospective customer's documents, the next step is approval. Approval of the prospective customer's financing application is decided by the financing committee through an agreement of the committee members. The results of the financing committee meeting approval are then followed up by the financing administration by creating a Financing Application Approval Letter (SP3). This SP3 is then submitted to the legal team for further review and correction based on legal considerations. Subsequently, the SP3 is examined by the compliance team, which also reviews all the prospective customer's financing application documents. If, according to the compliance team's assessment, all documents and the SP3 comply with the provisions of the Financing PKU, then the SP3 and the documents are submitted to the AO for immediate signing of the agreement. However, before the agreement is signed, the AO informs the prospective customer to first complete the requirements, especially the payment of costs arising from the financing, such as notary fees, stamp duty, insurance costs, and so on.

In this intermediary stage, the position of the notary in the agreement often becomes an issue, especially for financing with small ceiling amounts, for example, micro financing below IDR 25 million or financing for motorcycle procurement. If notary fees are charged for this small-scale financing, it will burden the prospective customer. Therefore, the solution implemented by BPRS for these small-scale financing is to eliminate the presence of a notary (*notariil*) and carry out the agreement privately (*di bawah tangan*) (Chandra, 2024).

The next process after the signing of the agreement is the disbursement of funds. However, before the disbursement of funds is carried out, BPRS will first carry out the binding of collateral and the documentation of financing administration. The binding of collateral is one of the clauses in the deed of agreement, where the original letters or certificates of collateral must be submitted by the customer to BPRS to be held by BPRS until the customer fulfills all their obligations to BPRS, after which BPRS is obliged to return them to the customer. Meanwhile, the documentation of financing administration is carried out by the financing administration based on the documents requested in accordance with the Financing PKU. This financing administration is very important to carry out as a form of practicing the principle of prudence, caution, anticipation of risk, and at the same time practicing administrative tidiness.

Financing supervision is carried out after all financing processes up to fund disbursement have been completed. Supervision is aimed at securing financing, knowing whether the funds are used in accordance with the purpose of the financing application to the bank, and as a control over the possibility of all kinds of risks (Rustam, 2018; Susilo, 2017). In carrying out supervision, BPRS carries out comprehensive supervision based on three principles, including: the principle of early prevention (early warning system), the principle of inherent supervision (built-in control), and the principle of internal audit. The methods of supervision carried out are as follows:

a. On desk, in the form of verifying financing documents, identifying potential problems in customer finances.
b. On site, in the form of periodic direct visits to customers, especially productive financing customers, to see the impact of financing on the customer's business and/or to detect problems faced by customers.
c. Trade checking, carried out by observing customer conditions through the utilization of information from customer partners.

d. Credit checking, monitoring customers based on historical information on customer installment payments.
e. Early warning system, early anticipation of symptoms that can affect customer collectability, so that with detected symptoms, solutions and mitigation for each problem can be sought (Nurnasrina; & Putra, 2019; Veithzal, 2008).

Financing supervision at BPRS is carried out not only by the AO but also by the Risk Management Executive Officer (PEMR) and the internal audit team. In accordance with the rules issued by the OJK, every BPRS must have the Standard for the Implementation of the Bank's Internal Audit Function (SPFAIB) in the form of an Internal Audit Unit (SKAI). Internal audit conducts periodic supervision in order to evaluate the financing disbursement that has been carried out, as well as to exercise caution, especially against potential risks. In addition, the supervisory function is also carried out by the commissioners, where the commissioners, based on their duties and functions, will conduct periodic supervision. Based on reports provided by the KEMR and the audit team, the commissioners supervise, especially the implementation of policies, compliance with regulations, monitoring the direction of the business being run (core value), and other monitoring.

The results of the supervision that has been carried out by the authorized parties are then used as input in studies to determine risk mitigation for the risks that occur. These studies are carried out continuously, especially to find a formulation to minimize the occurrence of non-performing loans or as a form of anticipation of technological changes, economic turmoil, regulatory changes, and so on.

Conclusion

This study demonstrates that Islamic Rural Banks (BPRS) in Riau have actively and systematically implemented risk management practices in alignment with POJK No. 23/2019. These practices encompass the formulation of internal policies, enhancement of human resource competencies, establishment of dedicated risk management units, and the adoption of preventive strategies through selective financing segmentation. For instance, BPRS Berkah Dana Fadhlillah successfully reduced non-performing financing by shifting from micro-financing to consumer-based *murābaḥah*, while BPRS Hasanah focused on strengthening its internal structure and governance mechanisms. Despite these efforts, BPRS continue to face several pressing challenges, including financing risk, client dishonesty, fund misappropriation, and a shortage of professional and trained human resources. To overcome these obstacles, institutions rely on standardized operational instruments such as the Pembiayaan Kepatuhan Umum (PKU) as a regulatory benchmark.

Looking ahead, ensuring the resilience and sustainability of Islamic financing will require BPRS to regularly evaluate and update their risk management strategies in response to market shifts and technological advancement. Equally essential is the ongoing development of human resources—both in terms of technical skills and ethical integrity—through structured and continuous training programs rooted in Islamic principles. Furthermore, enhancing the accuracy of customer character and feasibility analysis, alongside consistent application of operational standards like the PKU, remains pivotal. Lastly, the role of regulators and supervisory bodies is vital; their support in the form of monitoring, policy guidance, and capacity-building initiatives will help reinforce the institutional durability of BPRS in navigating an evolving risk landscape.

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