

CASE STUDY: RISK ANALYSIS IN IMPLEMENTATION OF *ISTISHNA* BUYING ON HOME OWNERSHIP LOANS FINANCING PRODUCTS AT BANK BTN SYARIAH

Tanti Widia Nurdiani

Abstract The *Istishna* product is a type of product for which the bank can make payment in multiple installments (terms). The Islamic banks also use the *istishna* scheme. The purpose of this study is to assess the risk associated with the implementation of *istishna* buying and selling of mortgage financing products at Bank BTN Syariah Malang, specifically the home ownership loans Indensya BTN iB product. This is a case study research using an analytical method with the Bank BTN Syariah Branch Office Malang as the subject of study. The primary data for this study were gathered through observation and in-depth interviews with informants, specifically banking officials and staff. Secondary data is the information gathered by researcher from published works or other official documents. The study's findings indicated that the implementation of *istishna* financing collateral at Bank BTN Syariah Malang was consistent with the existing collateral. In conclusion, there were no issues or risks associated with an incompatible implementation of the *Istishna* product at Bank BTN Syariah Malang.

Keywords: *istishna*, collateral, Islamic bank, risk

I. INTRODUCTION

Banking is a high-risk business that, when managed properly and prudently, can yield substantial profits. It is considered a high-risk business because the majority of its operations rely on funds entrusted by the public in the form of savings, current accounts, and time deposits. Islamic banks provide financing based on the *mudharabah* and *musyarakah* principles, as well as buying and selling transactions based on the *murabahah*, *salam*, and *istishna* principles, as well as leasing assets based on the *ijarah* principle. They also offer other products such as *rahn* and *qardhul-hasan*. Risk is defined as the possibility that an event (or series of events) will occur that will result in financial loss.

Despite the positive trend in the Islamic banking industry, the *istishna* financing scheme has not accelerated as anticipated. Islamic Banking Statistics (December 2008) data demonstrates unequivocally that this is the case. *Istishna* is a type of product for which the bank can make payment in multiple installments (terms). Islamic banks typically use the *istishna* scheme to finance manufacturing and construction. The general provision for *Istishna* financing is that the ordered goods' specifications, such as their type, size, quality, and quantity, must be clear. The agreed upon selling price is included in the *istishna* collateral and is not subject to change during the collateral's validity. If the order criteria or the price of the collateral change after the collateral is signed, the customer will remain responsible for all additional costs (Karim, 2010:100). In this financing, the customer, as the buyer, places an order with the bank, as the seller, for the procurement or manufacture of specific objects, which the bank will then sell to the customer at the original price plus the bank's profit margin (Zulkifli, 2007: 76).

Istishna is a type of financing in which Islamic banks repay the borrower in installments or multiple payments over a specified period of time. The primary requirements for the goods are clearly defined, as are their specifications. *Istishna* financing is typically used to finance construction or house construction. According to Karim (2010:265), it is defined by advance payments and difficult delivery of goods. As a result, the non-deliverable risk of non-deliverable risk has not yet been realized as a financing object. Bank default risk can be anticipated by setting a covenant ratio of 220 percent collateral, which is 100 percent greater than the industry standard of 120 percent. (2) The possibility of declining commodity prices (price drop risk). The risk of declining commodity prices is mitigated by stipulating that this type of financing is only available for contracts (orders) that have been determined at a price.

This study would examine the implementation and application of *istishna* financing patterns in greater detail. The research will be conducted at Bank BTN Syariah Malang with a focus on *istishna* financing.

II. LITERATURE REVIEW

a. *Istishna*

Antonio asserts (1999:145) *Istishna* derives from the Sanskrit word for "asking to be made." Karim (2010:126) explains that buying and selling *istishna* 'is a sale and purchase collateral in the form of producing certain goods according to certain criteria and conditions agreed upon by the buyer (*mustashni*)' and seller

(*sani*). *Ba'i al-istishna*, according to Jumhur Fuqaha, is a special type of collateral for *ba'i as-salam*. This type is typically used in manufacturing. Thus, *ba'i al-provisions istishna* are consistent with the provisions and rules of *agunana ba'i as-salam*. (Antonio, 2001, pp. 113–114).

b. *Istishna* in the Banking Technical Department

According to Gozali (2005:30), *istishna* is a buying and selling transaction based on an order, in which the buyer orders an item to be made for him, and payment can be made immediately, gradually as the work progresses, or even in long-term installments, all of which can be agreed upon. In sharia banking, financing products that utilize *Istishna* collateral are referred to as financing for home purchases, or more commonly, as home ownership loans financing, or mortgages. In practice, the *istishna* collateral for mortgages is referred to as "parallel *istishna*." Consumers in need of a house come to the bank and place an order for a house with specific specifications. The consumer and the bank then agree on the terms of the house's transfer, the selling price, and the payment method.

This collateral can be used more freely to facilitate mortgages on still-indentured homes. Using this collateral, transactions can be initiated even if the subject of the sale or purchase does not yet exist. Islamic banks generally use the *istishna* scheme to finance manufacturing, small and medium-sized businesses, and construction. *Istishna* collateral is no longer used in isolation in financing products, but is combined with other collateral such as *ijarah*, *murabahah*, and *wakalah*. Previously used primarily in the plantation sector, *Istishna* is now used to finance construction, particularly housing (e.g. house construction) (BTN Syariah, 2010).

III. METHOD

This is a qualitative study. The case study method was used to examine the phenomenon and implementation of *Istishna* financing as a mortgage financing product in this study. This study was conducted at Bank BTN Syariah's Malang branch office. The primary data for this study was gathered through observation and in-depth interviews with informants, specifically banking officials and staff. The secondary data was collected by researcher through literature studies and includes the following: performance reports from 2006 to 2009, financial reports from 2009, branch work plans, organizational structure and job descriptions, and customer data on those who have performed well at BTN Syariah.

IV. RESULTS AND DISCUSSIONS

Implementation of *Istishna* Financing Collateral at Bank BTN Syariah

Based on an interview with one of the informants, Staff Account Officer of Bank BTN Syariah Branch Office Malang, said things related to *Istishna* financing at Bank BTN Syariah Malang as follows:

"Indeed, in the early years we (BTN Syariah Malang) did not dare to carry out the realization of the *Istishna* home ownership loans financing product because we did not know what the performance of developers and contractors in Malang was like. Because if we carry out the realization of the *Istishna* home ownership loans financing, the house has not yet been completed, while we have disbursed some of the funds to the developer and contractor accounts.....after we know the performance of each developer, then we start collaborating with developers with good performance to carry out financing realization home ownership loans with *istishna* collateral for individual customers who buy houses at the developer by means of home ownership loans Indensya BTN iB with *istishna* collateral at Bank BTN Syariah..."

From the collateral for home ownership loans Indensya BTN iB financing between BTN Syariah and the customer in articles 10 and 11, it is necessary to derive that the home ownership loans indensya BTN iB BTN Syariah financing product was designed from the start with various risk mitigations against the financing guarantee, with a value greater than the ceiling financing, it is even required to have ad hoc financing.

Bank BTN Syariah's Practice of *Istishna* Financing

Bank BTN Malang Syariah Branch Office engages in *murabahah*, *mudharabah*, and *musyarakah* financing, as well as other financing products such as *istishna* financing and other financing schemes. The *murabahah* financing scheme still dominates the financing portfolio of Bank BTN's Syariah Branch Office in Malang. This total financing has reached Rp 51,075 billion with an increase of 160% from the 2008 recap target or a portfolio of 75% *murabahah*. *Murabaha* financing is designed for retail customers seeking a sharia-compliant mortgage. Meanwhile, housing contractors and developers are the intended recipients of *mudharabah* and *musyarakah* financing. Since the official opening of BTN Syariah at the end of 2005, the Malang Syariah Branch office has not offered the *istishna* scheme. *Istishna* financing was implemented at Bank BTN Syariah's Malang branch office in the second quarter of 2008. The Bank BTN Syariah Branch Office Malang's Financial Performance Report includes financing items associated with the assets listed in the Financial Plan.

Meanwhile, through interviews with several informants, it was determined that the following factors contributed to Bank BTN Syariah Branch Office Malang's compliance with financing analysis procedures:

a. Bank BTN Syariah Branch Office Malang has a Guide Book in this case, Circular Letter number 07/DIR/DSYA/2006 dated September 1, 2006, which details the implementation of home ownership loans Indensya BTN iB financing instructions.

b. Ongoing internal audit reviews or inspections of each financing product provided. This inspection is divided into two categories: periodic inspections conducted four times a year and unannounced inspections.

The following factors act as impediments to compliance with Bank BTN Syariah Branch Office Malang's financing analysis procedures:

a. Inadequate staffing in the credit/financing section of the Bank BTN Syariah Malang branch office. Bank BTN Syariah Malang Branch Office currently has three credit officers. This deficiency is caused by the unfulfilled formation of optimal credit department employees, as determined by the formation of as many as seven or eight employees.

b. Lack of management training focused on a comprehensive understanding of customer business for bank employees/employees. Management training that is specific to the customer's business is required.

The Risks Involved in *Istishna* Financing at Bank BTN Syariah

The Islamic banks have banking operational activities, one of which is a financing product based on *istishna* collateral, which is called home ownership loans Indensya BTN iB at Bank BTN Syariah Malang. According to Karim's previous research (2010:156), the following risks may be associated with the home ownership loans Indensya BTN iB BTN product:

- Non-deliverable risk
- Price drop risk

As a result of the explanation above, it is fairly obvious that *istishna* transactions are subject to financial risk (which can also be referred to as financing risk). Because banks analyze customers' income to determine whether they are able to pay monthly installments or not, the possibility of high moral hazard arises from one of the parties. As a financing institution, *istishna* collateral transactions are inextricably linked to financing risk, specifically the risk associated with a customer's failure or inability to repay the amount of financing received within the specified time period.

Minimizing *Istishna* Financing Risk at Bank BTN Syariah

Bank BTN Syariah's efforts in 2009 focused on a variety of issues and/or business management strategies. These efforts result in issues and/or strategies that are discussed and decided collectively at the board of directors meeting, one of which is the Risk Management Division, which stipulates, among other things:

- Development of a risk management system, which includes the development of a risk management culture and the regular socialization of standard operating procedures (SOP) through the Branch Risk Control Office (catastrophic).
- Basel II implementation, which includes preparing for Basel II compliance using Bank Indonesia's road map, preparing credit risk measurements using the Standardized Approach, calculating minimum capital requirements using the Basic Indicator Approach for operational risk and the Standardized Model for market risk.
- Appropriate placement of Division Risk Control Officers (DRCOs) and Branch Risk Control Officers (BRCOs) within the bank's organizational structure. As of the end of December 2009, the Head Office was home to three Division Risk Control Officers (DRCO), namely Market Risk, Credit Risk, and Operational Risk. Meanwhile, as of the end of December 2009, the Bank had assigned 46 Branch Risk Control Officers (BRCO) to 46 Branch Offices in 60 Branch Offices. For Branch Offices that have not yet been assigned a BRCO, risk management monitoring is conducted by the BRCO assigned to the Branch Office closest to the BRCO.
- Risk management policies and procedures are also improved through a review of internal policies in order to comply with the latest regulator regulations. This is accomplished through gap analysis and the incorporation of best practices commonly used to improve the quality of risk management implementation.
- Create an information system for risk management. At the outset, the focus will be on collecting and improving the risk database, which will be developed and integrated into an information technology system in order to enable the risk measurement and monitoring processes to be carried out in an integrated manner and presented in a timely manner.
- Risk profile development and management, including market risk, liquidity risk, operational risk, legal risk, reputation risk, strategic risk, and compliance risk, with a particular emphasis on credit/financing risk.
- Human resource development in the field of risk management, through the implementation of several human resource development programs in the areas of education and training for risk management officials, specifically: Branch Risk Control Officers in the performance of their function of providing second opinions and consideration of risks inherent in every bank business. Meanwhile, the bank has conducted internal training and developed a pre-test to assess knowledge capacity in the field of risk management for officials and employees who will sit for the Risk Management Certification Agency's certification exam.

Financing Risk

The Bank minimizes or mitigates this financing risk by conducting continuous billing, communicating with customers via telephone, sending warning letters to customers, and inviting customers to work together to find solutions. This is stated in the collateral for the Indensya BTN iB home ownership loans financing between the customer and BTN Syariah, namely that the customer is declared in default if he fails to properly fulfill his obligations or violates the provisions of this Collateral.

If a financing risk arises during the grace period of the development period, the developer offers a buyback guarantee. Developers must purchase back bank-guaranteed land and buildings if there is a risk that customer financing will default on installment payments to the bank due to the developer's inability to complete the customer's house order within six months.

Non-deliverable Risk

Bank BTN Syariah Malang Branch Office mitigates the risk of late delivery of goods by establishing a covenant ratio that is 100% greater than the standard price. Bank BTN Syariah Malang branch's risk mitigation measures are effective. Examining the Collateral that should be submitted to the Bank, which should include an original certificate of at least the right to use the splitting building, an IMB Location Permit, a Site Plan, and a Flood Peil.

To minimize the risk of non-delivery of goods, the bank divides the disbursement into three stages: (a) Building progress 0% of funds are distributed to developers; 40% of the financing ceiling for home ownership loans Indensya BTN iB customers is distributed to developers. (b) At 60% construction progress, 40% of the financing ceiling is sought from the developer; (c) At 100% construction progress, the remaining 20% of the financing ceiling is sought from the developer. Where the bank disburses funds after the house is actually financed on time and in the prescribed manner.

According to the researcher, additional actions are required to minimize risk or mitigate risk that have not been taken by the Bank BTN Syariah Malang branch, namely: Conducting regular monitoring and routines on the progress of houses constructed as an early wear system for home ownership loans Indensya BTN iB financing. According to the author, the central office's monitoring provisions include conducting a House Construction Achievement Check and Final Examination prior to disbursing funds to the developer's account.

Moral Hazard for Developers

Bank BTN Syariah Malang Branch's efforts to mitigate moral hazard and minimize risk risk is to mitigate developer moral hazard, as stated in Chapter II of the General Provisions for Mortgage Financing Indensya SE Directors No.07/DIR/DSYA/2006. Article 3 has the following indents:

- Developers and administrators must have experience managing and constructing at least two housing projects totaling at least 50 housing units.
- For a period of at least two years, the developer has engaged in business activities as a Developer.
- Developers and management have an excellent track record, as measured by the following criteria: (1) Excluded from the List of Non-Performing Loans/Financing at Banks and/or Other Banks, as well as from the Bank Indonesia's Black List. (2) At the moment, developers and management are not facing lawsuits that would jeopardize the construction of housing. (3) Management is in good standing and is not the subject of a lawsuit. (4) The Developer's projects are successfully completed and managed. (5) The developer maintains a checking account with the bank and keeps track of his financial transactions there. (6) As an integral part of the Financing Collateral, the developer submits the following: (a) Budget Plan and (b) Building Specifications for each type of property to be traded with the assistance of the Indensya home ownership loans financing facility.
- The developer consents to the following notarial deeds being executed: (1) Agreement between the Bank and the Developer regarding the provision of Indensya Mortgage Financing in front of a Notary. (2) Before a Notary/PPAT, a Deed of Buy Back Guarantee is executed, which includes a guarantee from the Developer to purchase back land and houses sold to the Customer if the Developer is unable to complete the construction within the time limit specified by the Developer, at a price equal to the difference between the sale and purchase prices plus a margin., fines, and costs incurred as a result of the Indensya home ownership loans financing. (3) The developer is willing to cover the full cost of signing the Deed of Cooperation Agreement, the Deed of Buy-Back Guarantee, and any other deeds.

V. CONCLUSION

The following conclusions can be drawn based on the results of data collection, data management, and data analysis with a theoretical foundation as described in previous chapters:

- The implementation of *istishna* financing collateral at Bank BTN Syariah Malang is consistent with the existing collateral, indicating that there are no issues or risks associated with an incompatible implementation at Bank BTN.
- There are no issues with the practice of home ownership loans Indensya BTN iB transactions at Bank BTN Syariah Malang because it complies with the existing implementation instructions.

- There are indeed several risks associated with the implementation of *istishna* buying and selling of home ownership loans Indensya BTN iB financing products at Bank BTn Syariah Malang, including the following: 1) financing risk, 2) failure to deliver goods, and 3) moral hazard risk. - The most prominent risk is the risk of failing to deliver the goods, which is very common due to the developer's poor performance in working on the project. As a result, the performance of other users, namely the customer of home ownership loans Indensya BTN iB financing as a house buyer and the Bank as a financier for the purchase of a home ownership loans Indensya BTN iB house via an *istishna* sale and purchase agreement, is not as expected.

- Based on the characteristics of *istishna* financing risks identified in this study, Bank BTN Syariah Malang has implemented several risk mitigation measures to mitigate the risk of *istishna* financing in Islamic banks.

REFERENCES

- [1]. Antonio, M. S. I. (1999). Bank Syariah Wacana Ulama dan Cendekiawan. Jakarta: Tazkia Institute.
- [2]. Gozali, A. (2005). Jangan adabunga di antarakita: serba-serbi kreditsyariah. Elex Media Komputindo.
- [3]. Karim, A., & Islam, B. (2006). Analisis fiqh dan Keuangan. Jakarta: PT Raja Grafindo Persada.
- [4]. BTN Syariah (2010). Buku Petunjuk Pelaksanaan Consumer Financing. Jakarta.
- [5]. Zulkifli. (2007). Panduan Praktis Transaksi Perbankan Syariah. Padang: Universitas Andalas