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The Implementation of Investment Risk Management in Sharia Capital Market

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Abstract:

The Sharia Capital Market has recently increased as an investment vehicle that complies with Islamic sharia principles. However, as with all investment forms, some risks must be managed carefully. This paper describes the context, urgency and process of investment risk management in the Sharia Capital Market. The Sharia Capital Market complies with sharia principles, including the prohibition of usury and haram business. The risks investors face include business, market, sharia, and liquidity risks. Risk management supports sharia compliance, protects investments and maintains portfolio sustainability. The risk management involves identifying, assessing, developing strategies, implementing, and monitoring risks. By understanding and implementing risk management well, investors can achieve their investment goals more successfully in the Sharia Capital Market. In the financial world, investors must pay attention to investment risks before deciding to avoid losses. The meaning of investment risk also needs to be studied and understood by investors so that investors do not feel cheated and believe in 'profits and losses' when choosing the type of business to invest in and then be able to learn from the business they are running. We will discuss the technical aspects of investment risk management below later. Apart from understanding investment risks, investment stages can also be known from the financial institution investors choose. For this reason, ask about the stages of investing before you disburse funds. One type of investment that is interesting for investors is peer-to-peer. Unlike traditional financing methods, Peer-to-peer (P2P) lending uses lending marketplace and scoring technology. This means that investment risk becomes measurable and suitable for investors. The funds that have been collected will be distributed to micro entrepreneurs and SMEs who need financing with investors who want to fund these businesses. Investors who have invested their funds using a peer-to-peer lending system will not need to worry about investment risks because later investors will get appropriate returns based on consideration of the investment risk profile.

Keywords:
Implementation; Investment; Management

I. Introduction

All investments in this world are not safe and risk free. All products carry risks. The problem is whether the risks faced are big or small. For this reason, we should not avoid every risk contained in every investment product, but we can manage it or manage it with good management to minimize the risk level.

When we want to invest in the capital market, for example, stock products, we must consider how much risk is contained in the product. Investment products such as shares have the risk of falling prices, which will ultimately reduce the value of the investments we own. Therefore, we need to minimize the risks. (Hestanto, 20190).

Currently, various investment products are emerging that can provide competitive investment results, but still with controlled risk. It is these investment products that people should use as a means of investing. Investment by investors is a game of future expectations. Because the investor's goal is to maximize the rate of return without forgetting the investment risk factors that must be faced. The rate of return is the reward that is expected to be obtained in the future. Meanwhile, risk is the possibility of deviation from the average expected rate of return which can be measured from standard deviation using statistics. (Amboy Rifa'i, 2019).

It is important to realize that separating return from investment risk is complex. Therefore, companies must be able to consider their investment decisions. A decision that has a high return is inversely related to a high risk (high return, high risk). This means that for every expectation that comes from an investment, a potential risk will definitely occur from the investment in question.

This is the difference between conventional banks and Islamic banks because conventional banks do not invest in equity-based assets. Investors around this of course cause instability in sharia bank revenues and have an effect on liquidity risk, credit risk and market risk.

Investment risk is defined as the risk that arises from participation in financial or other business activities that provide funds for sharing capital in risky businesses. Islamic banks have investment risks in mudharabah and musyarakah contracts. Islamic banks using this instrument have a substantial impact on bank income, liquidity and other risks as well as income and capital volatility.

The Sharia Capital Market has become one of the fastest growing segments in the world of global finance. This capital market concept is based on Islamic sharia principles, which establish guidelines and rules for individuals and institutions who wish to invest in accordance with Islamic values and rules. In this background, we will explore the context and importance of implementing investment risk management in the Sharia Capital Market, including understanding the capital market as a sharia investment forum, the risks faced, the urgency of risk management, and the relevant processes in dealing with these risks.

II. Review of Literature

2.1 Sharia Capital Market as a Sharia Investment Forum

Marketing is a process of planning and execution, starting from the conception stage, pricing, promotion, to the distribution of goods, ideas and services, to make exchanges that satisfy the individual and his institutions (Dianto in Asmuni et al, 2020). According to Tjiptono in Marlizar (2020) marketing performance is a function that has the greatest contact with the external environment, even though the company only has limited control over the company's environment. In the world of marketing, consumers are assets that must be maintained and maintained their existence in order to remain consistent with the products we produce (Romdonny and Rosmadi, 2019).

The Sharia Capital Market is a capital market that is regulated based on Islamic sharia principles. This means investments in instruments that earn interest (riba) and businesses that violate sharia law such as gambling or liquor are prohibited. The basic principles of the Sharia Capital Market include share ownership (musharakah and mudarabah), dividends generated from legitimate profits, and the prohibition of haram businesses. Some of the main characteristics of the Sharia Capital Market include:

a. Prohibition of Usury

Investment in instruments that generate interest (riba) is prohibited in the Sharia Capital Market. This requires investors to look for investment alternatives that do not contain usury elements.

b. Prohibition of Haram Business

The Sharia Capital Market does not allow investment in businesses that violate sharia principles, such as gambling, liquor, or industries that conflict with Islamic ethical principles.

c. Principles of Share Ownership (Musharakah and Mudarabah)

The Sharia Capital Market encourages a share ownership model based on the principle of joint ownership between investors and companies. Profits and risks are shared based on agreement between both parties.

2.2 Employee Performance

Financial statements are basically a source of information for investors as one of the basic considerations in making capital market investment decisions and also as a means of management responsibility for the resources entrusted to them (Prayoga and Afrizal 2021). Financial performance is a measuring instrument to know the process of implementing the company's financial resources. It sees how much management of the company succeeds, and provides benefits to the community. Sharia banking is contained in the Law of the Republic of Indonesia No.21 of 2008 article 5, in which the Financial Services Authority is assigned to supervise and supervise banks. (Ichsan, R. et al. 2021)

Investment in the Sharia Capital Market is not completely free from risk. Risks investors may face include:

a. Business Risk

Associated with poor performance of companies in the investment portfolio. This could include management issues, financial issues, or changes in the industry that affect business performance.

b. Market Risk

Like conventional capital markets, Sharia Capital Markets are also affected by market fluctuations. Changes in the global economy, market conditions, or geopolitical events can cause rises and falls in the prices of shares and other financial instruments.

c. Sharia Risk

This risk is related to non-compliance with sharia principles. Companies listed on the sharia capital market may engage in prohibited businesses or commit other sharia violations.

d. Liquidity Risk

This risk occurs when investments are difficult to sell in the market due to a lack of buyers. This can result in difficulties in withdrawing funds from investments.

III. Research Methods

3.1 The Urgency of Risk Management in the Sharia Capital Market

Risk management is critical in the Sharia Capital Market because risks can threaten compliance with sharia principles. If risks are not managed well, the chances of violating sharia principles such as the prohibition of usury or investing in haram businesses may increase. Risk management helps mitigate these risks and ensure compliance with sharia principles. Risk management has high urgency in the Sharia Capital Market with the following considerations:

3.2 Sharia Compliance:

Risk management ensures that investments remain in accordance with sharia principles. Unmanaged risks can lead to violations of sharia principles such as the prohibition of usury or investment in haram businesses.

3.3 Investment Protection:

Risk management protects investments from potential losses. By identifying, assessing and managing risks, investors can minimize potential losses.

3.4 Continuity:

Investors who understand and implement risk management well tend to have more stable and sustainable portfolios. This is important in the long term, especially in the context of Islamic investments that focus on sustainability and sustainable growth.

3.5 Risk Management Process in the Sharia Capital Market

The risk management process in the Sharia Capital Market must pay attention to sharia principles. This process includes several important stages:

a. Risk Identification

Risk identification involves recognizing and analyzing the risks that may be faced in investing in the Sharia Capital Market. This includes business, market, sharia, and liquidity risks.

b. Risk Assessment

After risks are identified, the next step is to assess the potential impact of each risk and the probability of its occurrence. This helps in measuring how significant the risk is.

c. Risk Management Strategy Development

After risks have been assessed, strategies need to be developed to manage these risks in accordance with sharia principles. This can include portfolio diversification, active monitoring, and selecting investment instruments that comply with sharia principles.

d. Implementation of Risk Management Strategy

The next step is to implement the risk management strategy created. This could involve allocating safer assets or adjusting the portfolio if necessary.

e. Monitoring and Control

The risk management process must be complemented by continuous monitoring of the investment portfolio and market conditions. If certain risks begin to increase, appropriate control measures must be taken.

IV. Conclusion

In general, risk can be interpreted as a situation faced by an individual or company where there is a possibility of harm. What if the possibilities faced could provide huge profits even if you only lose once, for example buying the lottery. If you are lucky, you will get a very big prize, but if you are not lucky, the money used to buy the lottery is relatively small. Investment risk is the risk arising from participation in financial or other business activities mentioned in the contract and providing funds for sharing capital in risky businesses. Islamic banks have investment risks in mudharabah and musyarakah contracts. Islamic banks using this instrument have a substantial impact on bank income, liquidity and other risks as well as income and capital volatility. Investment risk management in banking aims to get a more decent life in the future, reduce inflationary pressures, encourage tax savings, apart from the aim there are several stages in investing, namely: determining investment policy, securities analysis, portfolio formation, carry out portfolio revisions, evaluate portfolio performance.

The Sharia Capital Market is an investment forum that complies with Islamic sharia principles and is an important part of the global financial world. However, like all forms of investment, the Sharia Capital Market is not free from risk. Therefore, risk management is critical in maintaining compliance with sharia principles, protecting investments from potential losses, and ensuring the sustainability of investment portfolios.

In the Sharia Capital Market, business, market, sharia, and liquidity risks must be identified, assessed, and managed carefully. Risk management is critical in mitigating these risks and ensuring investments comply with sharia principles.

The risk management process in the Sharia Capital Market involves the stages of identification, assessment, strategy development, implementation, and monitoring and control. By following this process and complying with sharia principles, investors can exploit the growth potential of the Sharia Capital Market while maintaining the integrity of sharia principles in their investments. Thus, risk management is the key to success investing in the Sharia Capital Market.

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