

Research Article

## Analysis of operational risk management on BankZiska financing institution of Ponorogo branch

Fery Setiawan<sup>1\*</sup>, Titis Purwaningrum<sup>1</sup>, Eka Destriyanto Pristi Ayuningtyas<sup>1</sup>, Faruq Ahmad Futaki<sup>2</sup>

<sup>1</sup> Universitas Muhammadiyah Ponorogo, East Java, Indonesia

<sup>2</sup> IAIN Ponorogo, East Java, Indonesia

[ning.titissumpo@gmail.com](mailto:ning.titissumpo@gmail.com); [ekadestry@gmail.com](mailto:ekadestry@gmail.com); [futaki@iainponorogo.ac.id](mailto:futaki@iainponorogo.ac.id)

\*Corresponding Author: [fery.fahrisetiawan@gmail.com](mailto:fery.fahrisetiawan@gmail.com)

### ABSTRACT

This study aims to analysed operational risk management on BankZiska financing institution located in Ponorogo. Bank Ziska, a program of east java province LAZISMU is a typical implementation of productive zakat distribution. This paper uses qualitative method with case study approach to investigate the existence of risk management with Ponorogo branch BankZiska as the research object. To be specific, they are the operational activities of fund distribution to the clients named as partner in this institution. While the subject of the research is the managers and volunteers of Ponorogo branch BankZiska, the data used is a primary data, which is the results of interview with the so-called research subjects. Narrative explanation method is employed in data analysis. This study found that compliant risk and human risk are at red level, meaning it requires higher risk evaluation than other risk types. Ponorogo branch BankZiska respond the two types of risk by increasing their human resource quality. Operational risk management is an effective organizing to decrease the emergence of potential operational risk.

**Keywords:** management; risk; operational; financing institutions

### 1. INTRODUCTION

Operational risk management is considered to have a more important position than credit risk management (Yao et al., 2013). It was further explained that many banking institutions in the world have gone bankrupt because of operational risks. (Daryakin & Andriashina, 2015) explained that it is necessary to have an integrated methodological framework in order to see the effect of operational risk management on the institution's finances. Operational risk management plays a role in overseeing the bank's risk-taking activities but also oversees the implementation of risk governance (Nguyen & Dang, 2022).

At the global development, shariah financing institutions could be determined by its financing management competency in facing diverse and rapid economic changes like the fast flow of information, technology and globalization (Fauziah et al., 2018). This situation tends to elevate the risk of shariah financing institutions which must be absolutely managed. Hence, operational risks in shariah financing institutions are crucial to be taken into account. One of the shariah banking issues is related with operational risks that unexpectedly happen in every financing institute whether banking related or not. Recently or in last recent months in the year 2020, the world was surprised with the economic crisis in the banking world, including shariah banking sector in Indonesia.

In banking sphere, risks will always be met due to the uncertainties which cannot be formerly predicted, leading to number of losses that must be accepted by companies. (Pakaya, 2017) So do the newly-established financing institutions with less adequate capital, resulting risks in operational dysfunction, financial losses to bankruptcy. Even though the risk varies and definitely exist in industrial world, but it could be earlier identified so that the potential aftermaths could be well-anticipated. The risk managements to alleviate industrial activities risks is commonly termed as risk management. In banking area, risks with the uncertainty's existence, are to be certainly encountered that may cause the must-be-accepted losses by companies. (Operasional, 2016) likewise, the small medium financing institutions which have just been established whose capital is derived from ZIS fundraising, might be the antecedent of risks in financial losses, operational disruption and even bankruptcy.

BankZiska is initiated by East Java provincial government through a decision letter no 111/KEP/II.17/D/2020 dated on September 21st, 2020 with the purpose to free the society from traps of moneylenders. BankZiska is a financing institution which specifically is in shariah banking line, but not defined as banks as in the regulation No.10, year 1998 about banking since the empowerment movements of SMEs through moneylending without interest would continuously comply with the

rules undergoing banking adjustments. As a new financing institution with a strong vision, this is in need of the arrangement of institutional management in which one of them is operational risk management. As for BankZiska product is named Qardul Hasan, meaning providing loans to the client without addition on the loan nominal.

The implementation proses of risk management consists of identification activity, measurement, monitoring and risk controlling. (LENA) Risk identification is pro-actively done, covering all activities of BankZiska which aims to analyze sources and possibilities of the emerging risks which are in line with activities characteristics and complexities. In the monitoring of risk measurement results, BankZiska establishes effectivity or quality of risk management implementation (KPMR) supported with the risk controlling by considering the results of risk measurement and surveillance. To corroborate identification process, measurement, monitoring and risk controlling, BankZiska should also develop risk management information system (Risk SIM) customized with the characteristics, activities, and operational activities complexity of BankZiska. The enhancement of management aspect of BankZiska is expected to accelerate the growth of organizational quality as the holder of trust of Muzakki who pay their ZIS in LAZISMU. Further, rectification of societal economics is expected to occur which still concerns strongly with heavy loan system. If the influence of BankZiska can be more accepted and experienced by society, this would possibly excel their satisfaction rate so the development program of this institution will be better.

## 2. METHOD

This paper utilizes qualitative method with case study as the approach. This approach is chosen inasmuch as the findings of the study is not easy to be manipulated thanks to the fact that this study only has few chances to control events that are to be observed. In addition to that, case study strategy in this study is by using "how" as the question. This study focusses on current phenomenon regarding operational risk which take place in BankZiska financing institution as Ponorogo branch. The subject of the research is the managers and volunteers of BankZiska Ponorogo with primary data as the data source, being directly collected from the respondents as the interview result of theirs with representatives of BankZiska. The data obtained in this study is then analysed by making explanation. Yin in (Sebi, 2018) depicts that the purpose of making explanation is to analyse case study data by making explanation regarding related cases. The explanation making in case study is made narratively. A good case study is when the explanation reflects the significant proposition theoretically, which the narration then will not be the same. The explanation made in this paper is displayed in narrative text, attained from the collection of data and interview with both managers and volunteers of branch Ponorogo BankZiska.

## 3. RESULTS AND DISCUSSION

Risk management is a process to identify, assess, and control threats to organizational resources (E-mail, 2022). The context determining of risk management is strongly related to the setting of goals, strategies, scope and other parameters which are linked with the process of risk management of the companies. This process indicates the correlation between the issues of management whose risks will be managed with companies' environment (both external and internal), risk management process and size or criteria of risk will be made as the standards. BankZiska Ponorogo employes SOP and director decision letter in determining the context. SOP and director decision letter become parameters or boundaries of BankZiska in its risk management activities. This paper aims to investigate the implementation of operational risk management of Ponorogo BankZiska. Subjects chosen as informants are the chief, the coordinator of BankZiska volunteers and several volunteers. Operational activities that are executed in BankZiska include:

- a. Program socialization to potential clients
- b. Clients locating
- c. Potential clients surveying
- d. Making contracts with qualified potential clients
- e. Scheduling the disbursement of fund and instalment payment
- f. Clients' business development

Identification stage analysis in operation risk management in Ponorogo BankZiska is as follows: risk management process will be divided into six phases which are (1) context determination, (2) risk identification, (3) risk analysis, (4) risk evaluation, (5) risk treatment, monitor and (6) review. While the scope of operational risk was mentioned previously in section 2 is human risk, technology risk, compliance risk, and legal risk. BankZiska financing institution witness operational risks as what stated by Faruq as the director of BankZiska, supported by its volunteers.

### Risk Identification Analysis applied by BankZiska Ponorogo

The following is the summary of the results of risk identification analysis which are done by BankZiska Ponorogo. Based on the interview concerning risk identification to four respondents which are Faruq, Abid, and Nunung, figuring out eight risks of BankZiska Ponorogo. In identifying the operational risk factors, BankZiska Ponorogo had better comprehend how operational risks classified. Operational risks are classified into two groups which are operational risks based on the causing factors, and the frequencies and impacts (Rizka *et al.*, n.d.).

**Table 1.** The Results of Risk Identification Analysis applied in BankZiska Ponorogo

No.	Types of Risks
1	Mistakes done by tellers and customer service
2	Mistakes on volunteers' analysis
3	Partners cross the payment time limit of the financing debt
4	Lack of partners' insight on the deal process
5	Partners' failure to pay the loan and traversing to different cities
6	Partners died and the loan is not paid yet
7	Partners suffer complicated disease, leading to incapability of paying the instalments
8	The blackouts of the network of PLN, Telkom and Wi-Fi

### Risk Analysis Phase on Operational Risk Management in BankZiska Ponorogo

Based on the field data, there are four types of operational risks which are human risk, legal risk, compliance risk, and legal risk. The coding of operational risks of BankZiska is as shown in **Table 2**.

**Table 2.** The Coding of Operational Risk Types of BankZiska Ponorogo

No	Risk Type	Code	Forms of Risk
1	Human risk	1a	Mistakes done by tellers and customer service
2		1b	Mistakes on volunteers' analysis
3	Compliance risk	2a	Partners cross the payment time limit of the financing debt
4		2b	Lack of partners' insight on the deal process
5		2c	Partners' failure to pay the loan and traversing to different cities
6	Legal risk	3a	Partners died and the loan is not paid yet
7		3b	Partners suffer complicated disease, leading to incapability of paying the instalments
8	Technology risk	4a	The blackouts of the network of PLN, Telkom and Wi-Fi

The following is the measurement of risk list correlated with the risk assessment matrix. Table 3 was coded for every column addressed with the probabilities and impacts emerged from the aforementioned details of risks above.

**Table 3.** Risk Measurement Matrix

Probability	Impact				
	1 (Insignificant)	2 (Minor)	3 (Moderate)	4 (Mayor)	5 (Really Dangerous)
5 (Almost certain)	1a, 4a		2a		
4 (Possible to happen)	3a		3b		1b
3 (Moderate)	3a		2b, 2c		1b
2 (Least possibility)	3a		2b, 2c		1b
1 (Rare)	3a		2b, 2c		1b

After measuring the risk, it was found that the minor is in 5 types of operational risk details, the moderate is in 3 types of operational risk details, while significant level consists of 3 types of operational risk details, and mayor level is in two types of operational risk details. BankZiska Ponorogo responded the last two risks by imposing the strategy to increase the partners' compliance and developing their human resource's quality.

### Analysis on Risk Evaluation phase and Risk Treatment in Management

Operational risk management is an integrated internal control system (Manajemen et al., n.d.; Selatan, 2019). Based on the collected information from the findings of the observation, BankZiska could do some treatments toward identified risks (see **Table 4**).

**Table 4.** Analysis Results of Risk Treatments applied in BankZiska Ponorogo

No	Risk Type	Risk Treatment
1	Human Risk	Reviewing the data before sending it and after inputting it in BankZiska
2	Technology Risk	The procurement of electric generators as emergency electric medium
3	Compliance Risk	Reviewing and accompaniment to the partners
4	Compliance Risk	The volunteers or managers attend related partners to inquire hindrances and problems witnessed and provide solutions. If partners cannot afford the instalments, there would be collateral consequence system which risk then is on the group if one of them fail to pay the instalment. For dead partners are to be freed from the payment completion.

Based on **Table 4**, four emerging risks in operational management aspects have been responded by managers and volunteers of BankZiska Ponorogo by applying valid standard operating procedure (SOP) in the institution. The SOP implementation is also adjusted with the policies and decisions of the institution managers. Additionally, the managers and volunteers intensively do evaluation in weekly, monthly and three-month basis. The evaluation process discuss the operational risk analysis which suits with (Operasional, 2016) stating that the existence of operational risk is the risk of -

the less sufficiency and/or the disfunction of internal process, human errors, system failures and/or external events influencing the operation. Therefore, managers must take advantage of the institutional capital they have to anticipate operational risks (Yao et al., 2013).

Operational risk management is an organization which effectively could leverage the rise of the existed operation risk types (Bai & Cheng, 2022). BankZiska Ponorogo, furthermore, identify the possible causing factors of operational risks. This is crucial so that the antecedent factors and risk emergence could be analysed in evaluation process with certain period of institutional activities. Operational risk management will be calculated with impact frequencies that influence the organizational financing (Sebi, 2018). Even though BankZiska Ponorogo is not a profit-oriented institution, it should maintain its financing stability to display its credibility. Meanwhile (Ekonomi & Volume, 2016) explains that the application of risk management can increase shareholder value, provide an overview to financial institution managers regarding the possibility of future losses to the institution, improve methods and systematic decision-making processes based on the availability of information, which is used as a basis for a more accurate measurement of the performance of financial institutions in order to increase the competitiveness of banks.

#### 4. CONCLUSION

Based on the analysis result, it reveals that after identification, there are 8 risk BankZiska Ponorogo encountered. From risk identification results, all risk classified to 4 risk types which are human risk, legal risk, compliance risk and technology risk. Based on the results of risk matrix measurement, it shows the low level is in 5 types of operational risk details, the moderate is in 3 types of operational risk details, while significant level consists of 3 types of operational risk details, and mayor level is in two types of operational risk details. The emerging four risks in operational management aspect have been anticipated by the managers and volunteers of BankZiska Ponorogo following Standard Operating Procedure (SOP) that is valid in the institution. SOP implementation is also fitted to the policies and decisions of the institution's managers.

#### AUTHOR'S CONTRIBUTIONS

The author discussed the results and contributed to from the start to final manuscript.

#### CONFLICT OF INTEREST

The author declare that he has no competing interests.

#### REFERENCES

- Bai, X., & Cheng, L. (2022). *Data-driven financial and operational risk management : Empirical evidence from the global tramp shipping industry*. 158 (January). <https://doi.org/10.1016/j.tre.2022.102617>
- Daryakin, A. A., & Andriashina, S. G. (2015). Problems Of Evaluation And Management Of Operational Risks In Banks. *Procedia Economics and Finance*, 24(July), 156–165. [https://doi.org/10.1016/S2212-5671\(15\)00637-1](https://doi.org/10.1016/S2212-5671(15)00637-1)
- E-mail, S. I. M. (2022). Implementasi Manajemen Resiko dalam Peningkatan Efektivitas Pembelajaran di Sekolah Menengah Kejuruan Suyitno. *Edukatif: Jurnal Ilmu Pendidikan*. 4(1), 141–153.
- Ekonomi, J. S., & Volume, B. I. (2016). *Jurnal Studi Ekonomi dan Bisnis Islam Volume I, Nomor 2, Desember 2016. I*.
- Fauziah, R., Ratnamulyani, I. A., & Kusumadinata, A. A. (2018). Efektifitas Promosi Destinasi Wisata Rekreasi Gunung Pancar Melalui Postingan Instagram Media Sosial. *Jurnal Komunikatio*, 4(1), 27–40. <https://doi.org/10.30997/jk.v4i1.1210>
- Manajemen, P., Bank, R., Kelola, T., Dan, P., Perusahaan, K., Ekonomi, F., & Mataram, U. (n.d.). *INDONESIA*. 170–206.
- Nguyen, Q. K., & Dang, V. C. (2022). Heliyon The impact of risk governance structure on bank risk management effectiveness: evidence from ASEAN countries. *Heliyon*, 8(April), e11192. <https://doi.org/10.1016/j.heliyon.2022.e11192>
- Operasional, R. (2016). *linkage program*.
- Pakaya, A. M. dan W. E. (2017). *Peran Lembaga Keuangan Desa dalam Meningkatkan Kesejahteraan Masyarakat*. 2(2), 89–107.
- Rizka, W., Jelita, S., & Shofawati, A. (n.d.). *Manajemen Risiko Operasional Pada PT Bank Pembiayaan Rakyat Syariah (BPRS) Jabal Nur Tebuireng di Surabaya*. 69–82.
- Sebi, S. (2018). *Pada Masa Pandemi Covid-19*. 1(1).
- Selatan, J. R. (2019). *The Role of Religiosity , Halal Awareness , Halal Certification , and Food Ingredients on Sistem Purchase Integrasi Proteksi & of Manajemen Resiko Intention Halal Food Platform Fintech peer to peer ( P2P ) Lending dan Payment Gateway untuk Meningkatkan Akselerasi Pertumbuhan Sistem Integrasi Proteksi & Manajemen Resiko Payment Gateway untuk Meningkatkan Akselerasi*. 0274.
- Yao, F., Wen, H., & Luan, J. (2013). CVaR measurement and operational risk management in commercial banks according to the peak value method of extreme value theory. *Mathematical and Computer Modelling*, 58(1–2), 15–27. <https://doi.org/10.1016/j.mcm.2012.07.013>