Testing the Validity of Risk Management in Islamic Finance: The Hadith Point of View

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Abstract

Risk management in Islamic finance can be seen as an important aspect for business operation. The nature of Islamic finance which is quite different compared to conventional counterparts since the existence of shariah principle affect the risk management is more crucial in Islamic finance. Nevertheless, the practice of risk management in Islamic finance must be in line with shariah. Hence, this paper aims to analyze the validity of risk management from the Hadist point of view. By conducting qualitative research through detecting the quality of Hadist, the study revealed that Risk management practice is in line with shariah principle. It is based on the Hadits narrated by Ibnu Hibban that from the text, including in the matan and sanad can be classified as hadits ‘shohih’. In addition, the practice of Risk management is comply to the fulfilment of maqosid syariah.

Keywords: Risk Management, Hadits, Islamic Finance, Maqosid Syariah.

Pendahuluan

Risk management is a core activity of every business activity, including financial institution which consist of two types of risk namely business risk and financial risk. Risk generally is defined as the existence of uncertainty about

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1 William F. Sharpe, ‘Capital Asset Prices: A Theory of Market Equilibrium under Conditions of Risk’, The Journal of Finance 19, no. 3 (September 1964): 425–42, https://doi.org/10.2307/2977928.
future outcomes (Damodaran, 2007). Risk is often linked with undesirable event that produces negative outcome.\(^2\)

Risk becomes more challenging for Islamic financial institution, especially banking sector. It is close the nature as financial intermediary, in which risk can be seen as embedded part of financial transaction.\(^3\) As result, Islamic financial institution faces a wide array of risk in their operation. The complexity of the business and also its business nature in which focus in providing service as financial intermediary cause the sensitivity of Islamic financial institution the change of the return. Islamic finance performance very much depends on the external condition. Therefore, it is very crucial for financial institution to manage this risk.

Islamic financial institution in Indonesia that has been operating since 1992, with the Bank Muamalat as its milestone, is also very close to the issue of Risk. There are some specific issues in Islamic financial institution that require special treatment in regard to risk and risk management. This is partly due to differences in the orientation of Islamic financial institutions against risk, in which Islamic finance is run based on sharia principles. With the rise of Islamic finance sophistication in recent years, there is a genuine need to address financial institution concerns related to financial risks arising from various financial transactions and the structure of sharia products. As a result, many risk management instruments begin to be structured in a manner consistent with Sharia with limited objectives and parameters primarily as a tool for hedging purposes.

The role of risk management in Islamic banking operation, is same as in conventional bank, to achieve the main objectives in maximizing the asset value and minimizing risk.\(^4\) In term of Islamic banking practice, risk management is defined as an activity in identifying the risk that potentially arises in Islami bank, managing the risk with the parameter of shariah.\(^5\) Identifying and managing risk for Islamic bank is normal condition, since as a business entity they have taking risk for future growth. However, risk taking excessively tend to deter their future. Hence, the risk must be managed properly.

In Islamic literature, business risk which is faced by the company is defined as khatar and mukhatarah. According to Muslim jurist, Mukhatarah is “possibility of unexpected outcomes”.\(^6\) Some others, defines Khatar and mukhatarah interchangeably with term of gharar. Mukhatarah is the uncertainty

\(^2\) Syed Ehsan Ullah Agha and Ruslan Sabirzyanov, ‘RISK MANAGEMENT IN ISLAMIC FINANCE: AN ANALYSIS FROM OBJECTIVES OF SHARI’AH PERSPECTIVE’ 7, no. 3 (2015): 8.

\(^3\) Asyraf Wajdi Dusuki, ‘Banking for the Poor: The Role of Islamic Banking in Microfinance Initiatives’, ed. Masudul Alam Choudhury, Humanomics 24, no. 1 (22 February 2008): 49–66, https://doi.org/10.1108/08288660810851469.

\(^4\) Rashedul Hasan, Abu Umar Faruq Ahmad, and Tamiza Parveen, ‘Sukuk Risks – a Structured Review of Theoretical Research’, Journal of Islamic Accounting and Business Research 10, no. 1 (7 January 2019): 35–49, https://doi.org/10.1108/JIABR-06-2015-0026.

\(^5\) Shahid Anjum and Lai Tung Kin, ‘Effectiveness of Risk Management Practices in an Islamic Bank of Brunei Darussalam’, 2019, 7.

\(^6\) Al-Sharbasi, A. (1981). Al-Mu’jam Al-Iqtisadi Al-Islami. Beirut: Dar Al-Jal.
that exist in a business transaction in which the gain or loss of such transactions are unknown. From the definition stated by Muslim jurist, we can conclude that risk both in Islamic and conventional term is quite similar.

Islamic banking and finance also exposes the same risks such as business risk, exchange rates risk, commodity price risk, and operational risk as their conventional counterpart. Moreover, it also has been widely acknowledged that Islamic banking and finance cannot sustainably continue on this growth propensity without a proper risk management framework. In fiqh muammalat, the risk management lies on the scope of public interest or maslahah, which is a licit foundation of consideration in sharia prescriptions. Sharia teachings enjoins risk-taking according to the principle of al-kharaj bil daman (i.e. with profit comes responsibility) and al-ghorm bil ghonm (i.e. with profit comes risk), and at the same time also commands adherents to avoid gharar (excessive uncertainty), maisir (gambling), and the assistance of riba. Islamic banking and finance faces the complex risks that existed in global financial system such as business risk, exchange rates risk, commodity price risk, and operational risk as their conventional counterpart. Accordingly, the market participants of this industry search for a better risk management tools. This has led to the introduction of derivatives to cater the needs of Islamic banking and finance industry on risk management devices in which in Indonesia, Islamic Hedging has been introduced by National Shari’ah Council Fatwa No.96 / DSN-MUI / III / 2015 on Sharia (Islamic) Hedging Transaction on the Exchange Rate as a continuation of the DSN Fatwa No.28 / DSN-MUI / III / 2002 on the Sale and Purchase Currency (Al-Sharf).

Islamic hedging product was introduced by Bank Indonesia because Islamic banks require Islamic Hedging, whereby Sharia currency financing continues to increase (+/- Rp14 trillion) as describes by graph below. It can be seen from the graph below that the financing product via foreign currency increased significantly between 2012 and 2014. It indicate that the need of Islamic bank on the Islamic hedging as part of risk management is very crucial.

Picture 1: Financing Valas by Islamic Bank
The objective of this paper is to delineate the concept of risk management from Islamic perspective. In addition, this paper will focus on the elaboration of hadits concept and its analytical process in verifying the validity of some hadits which is applied in Islamic bank. The paper is structured as follows. The next section discusses the concept of risk from Islamic perspective. Section 3 will discuss the hadits from text and context perspectives based on the paradigm in ilmu hadist. The rest of this paper is conclusion.

**Risk form Islamic Perspective**

Financial institution faces three types of risk in their operation, namely, transferable risk to the others, manageable risk by financial institution, and risk that can be eliminated. Financial institution will avoid risk that cannot be managed. In practice they will taking risk that normally can managed efficiently or the risk which can transferred to the other parties. The main reason since the main rule of financial institution is as intermediary that based on the customer trust. Failing in managing risk will create more systemic risk for the whole financial system, even the whole of economy.

The substance of risk is the uncertainty about an exposure pertaining to the nature and the extent of events that have consequences for human being. Saiful Azhar Rosly and Mohammad Ashadi Mohd. Zaini (2008) defined risk as a likelihood of loss and exposure. In Islam, the existence of uncertainty is fundamental to well-being. Quran (31:34) states that:

“Indeed, Allah has knowledge of the Hour and sends down the rains and knows what is the wombs. And no soul perceives what it will earn tomorrow, and no soul perceives in what land it will die. Indeed, Allah is Knowing and Acquainted.”

Specifically, in commercial transaction, Islam enjoins one should exercise the necessary means for wealth protection from different risks that may have illness consequences. With that, Islamic legal maxim (qawaid fiqhiyah) stated that al-Akhdh bil-asbab (i.e., pursuing the legitimate ways to reach desired ends), for instance proactive risk management. Furthermore, sharia prescriptions also enjoins that al-ghorm bil ghonm (i.e. with profit comes risk) which indicates that the necessity to take risks to compensate the return for sustainable wealth creation. Accordingly, any profit reaps without taking into consideration of risk is not permissible. In the realm of Islamic finance, its essentially to take the risks

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7 Abul Hassan, ‘Risk Management Practices of Islamic Banks of Brunei Darussalam’, *The Journal of Risk Finance* 10, no. 1 (2 January 2009): 23–37, https://doi.org/10.1108/15265940910924472.

8 Saiful Azhar Rosly and Mohammad Ashadi Mohd. Zaini, ‘Risk-return Analysis of Islamic Banks’ Investment Deposits and Shareholders’ Fund’, ed. M. Mansoor Khan, *Managerial Finance* 34, no. 10 (29 August 2008): 695–707, https://doi.org/10.1108/03074350810891010.
to economic progress. Al-Suwailem states that the economic growth cannot take place unless with accepting risks.9

Market risk can be defined as the potential loss due to swift in market prices, i.e commodities and equities) and market rates, i.e interest rates and exchange rates. In the context of Islamic finance, the Islamic Financial Services Board (IFSB) defines market risk as:

“The risk of looses in on-and off-balance sheet positions arising from movements in market prices i.e. fluctuations in values in tradable, marketable or leasable assets (including sukuk) and in off-balance sheet individual portfolios (i.e restricted investment accounts). The risk related to the current and future volatility of market values of specific assets (i.e, the commodity price of a salam asset, the market value of a sukuk, the market value of murabahah assets purchased to be delivered over a specific period) and of foreign exchange rates” (IFSB, 2005, p.16)

The presence of risks in the marketplace is exposed to market players, either to companies or banks. The banks, whether conventional or Islamic, are exposed to the credit risks as the consequences of the different preferences of depositors and borrowers. In that, the banks are essentially focused on managing these exposures to ensure the capital soundness to their depositors. This exposure is known as asset-liability mismatches, which happens due to swift on fixed/floating, currency, and tenor of depositors and borrowers. Not just that, banks also subjected to interest rates risks because the nature of their assets and liabilities. Particularly, banks are exposed to the interest rates movement (i.e treasury rates, LIBOR) in pricing their financial asset and liabilities. Surprisingly, Islamic financial institutions also exposed to interest rates movement. Some of practitioners (i.e treasurers) confirmed that the assets on the balance sheets of Islamic banks are subjected to mark-to-market basis as the consequences of the use of net present value (NPV) and interest rate yield curve.10 In Islamic banks albeit its operation is non interest-free mechanism, have not been immune to the impact of interest rates. In fact, Bacha (2004) finds that Islamic banks in Indonesia under dual banking system may also be subject to interest rate risk. Islamic banks, to certain extent, have the same economic horizon and common customer similar with conventional counterpart. Therefore, in turn, these factors affect the earnings of banking institutions, whether conventional or Islamic.11

Apart from that, Islamic banking and finance industry may also be subject to exchange rates risks. IFSB assert that “Islamic financial institutions are also exposed to foreign exchange fluctuations arising from general FX spot rate changes in both cross-border transactions and the resultant foreign currency receivables and payables. These exposures may be hedged using sharia

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9 Sami Al-Suwailem, ‘ISLAMIC APPROACH TO RISK’, 2011.
10 Syahiru Shafiai and Engku Rabiah Adawiah Engku Ali, ‘Risk Management in Islamic Finance: What Does Islam Say about Mukhtārah?,’ AL-ITQAN: JOURNAL OF ISLAMIC SCIENCES AND COMPARATIVE STUDIES 2, no. 2 (1 November 2018): 79–94.
11 Zairy Zainol and Salina Hj. Kassim, ‘A Critical Review of the Literature on the Rate of Return Risk in Islamic Banks’, Journal of Islamic Accounting and Business Research 3, no. 2 (21 September 2012): 121–37, https://doi.org/10.1108/17590811211265948.
Companies and banks, whether Islamic and conventional, subject to foreign exchange rates risks as the consequences of the different of supply and demand in the currencies market, which are determined by way of interest rate differentials between countries and various macroeconomic indicators, i.e GDP growth, inflation, balance of payments, etc.

Specifically, in most cases, Islamic banks invest in foreign currency denominated assets using local currency deposits. On the other hand, investors tend to invest in local currency assets using foreign currency liabilities. In doing so, both Islamic banks and investors may be subject to foreign exchange risk. Not just that, Islamic banks and investors may also be subject to rate mismatch risk, due to the different level of benchmarking. The foreign currency assets/liabilities will be normally valued using foreign currency benchmark (i.e LIBOR), and the local currency assets/liabilities will be priced using local currency benchmark (i.e KLIBOR). In that, both parties are exposed to rate mismatch risk. Therefore, Islamic banks should focused on how to manage these exposures, so that Islamic banks can offering better investment alternatives to their investors.

Investors, either conventional or sharia-based, have different preferences and requirements in investment decision. The preference for conservative investors is capital protection. However, depending on the appetite of the investors, some are prefer to yield enhancement instead of capital protected purposes. In the realm of Islamic finance, investors for Islamic investments can be categorized into three parts. The first is the sharia-compliant investors who would only invest their funds that consistent with sharia principles. The second group is the sharia compliant preferred investors, who would invest in both conventional and Islamic investments; however, they have preference for sharia compliance investment products. The third group is the yield susceptible performance, that would pooled their funds in Islamic investments so long as its provide a better yield. 

Having discussed the market risks, its imperative for Islamic banking and finance to have risk strategy framework. As pointed earlier, market risks are inevitable in contemporary business horizon. To minimize exposure to business risks as the result of price changes and exchange rates fluctuation, hence, hedging instrument is important to

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12 Rifki Ismal, ‘Formulating Withdrawal Risk and Bankruptcy Risk in Islamic Banking’, International Journal of Islamic and Middle Eastern Finance and Management 5, no. 1 (30 March 2012): 63–77, https://doi.org/10.1108/17538391211216848.

13 Azlin A. Ahmad and Salmy Idawati Yaqoob. 2012. The Principle of Risk Management: Sharia Perspectives. Journal of Applied Sciences Research, 8(7): 3335-3343, 2012
take place. Hedging concept, which is advocated by some in Islamic finance industry, is used to minimize the exposure to business risks. Being so, hedging is regarded as a form of sharia acceptable risk management strategy.

Literally, the word *mukhatarah* is commonly used to connote with the word *risk* in English. This word is actually derived from an Arabic root word ‘*khatar*’, which implies several meanings such as exposure and fear or destruct or an exalted position. Therefore, the meaning of mukhatarah in the context of Islamic finance can be enunciated by some scholars, in the following:

a. Gharar (Uncertainty)

Risk or in arab word known as *mukhatarah* is normally by some scholars associated to uncertainty or gharar. Imam Syafii, in his masterpiece, al-Umm, stated that a contract is void because of two main reason, first, the issue of selling something before the seller has actually owned the subject matter. Second, the sales that more based on uncertainty, or mukhatarah. From this definition, it can be concluded that the word *mukhatarah* is actually referring to uncertainty.

b. Maysir (Gambling)

Ibn al-Qayyim al-Jawziyyah associated mukhatarah or risk with the gambling issues, as mentioned in the following text:

والخاطرَةُ مُخَاطرَةٌ...وَالخَطَرُ الثانِي: الَّذِي يَتَصَرَّفُ أَكْلُ أَنْدَلِعَ بالِغَايَةِ

Meaning: "And risk can be in two forms...second, in the form of gambling which basically consuming property in unjust manner."

As we know that the two association of risk namely *gharar* and *maysir* are prohibited by the Prophet Muhammad, but not all risk can be deemed as a prohibited action. Risk can be seen as normal situation that will always happen in the business or contract. In this regards, Ibn Taimiyah further explained about the nature of risk from Shariah perspectives:

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14 Al-Razi, Mukhter al-Shohih, p.173.
15 Ibn Faris, Mu’jamMaqoyis al-Lughah, Vol. 2, p.199
16 Ibn Al-Qayyim, Zad al-Ma’ad, Vol. 5, p. 723.
17 Ibn Al-Qayyim, Zad Al-Ma’ad, Vol. 5, p. 723.
18 Asyraf Wajdi Dusuki. 2012. ISRA. Kuala Lumpur: Pearson Publishing. Page. 112
Meaning: “There is no Shariah evidence to categorically prohibit all forms of risks. In fact, Allah and His Messenger do not prohibit all types of risks, or all activities which are doubtful in terms of whether it is profitable or loss or safe (neither profitable nor loss)....Instead, the type of risk which is prohibited concerning consumption of property in an unjust or wrongful manner. The main reason for prohibition from Shariah viewpoint is mainly concerned the unjust consumption of property even without the element of risk. Risk alone does not constitute prohibition.”

Based on the above assertion, risk can be generally categorized into three main types namely, permissible, non-permissible risk and manageable risk. The following discusses the respective types of risk as identified by the jurists:

1. Permissible Risk

The permissible risk is very often exist in the normal economic activities, that involve in such business transaction in order for generating return. This type of risk is something inevitable, that according to shariah must be borne by all transacting parties, as a countervalue for the permissible return. It is based on the fundamental legal maxim “al-ghunn bil-ghurm” which means “entitlement to profit is accompanied by responsibility for attendant expenses and possible loss.” This maxim is extracted from several hadiths of the Prophet (peace be upon him); among them:

الخروج بالضمان

“[Entitlement to] profit is dependent on responsibility [for attendant expenses and possible loss and defects].”

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19 Ibn Taymiyyah, al-Mustadrak ‘ala Majmu’ FatawaSyaiikh Al-Islam, t.t., 1418H, Vol.4, p.66.
20 Asyrof Wajdi Dusuku. 2012. ISRA. Kuala Lumpur: Pearson Publishing. Page 113.
21 Hadits narrated by A’ishah (may Allah be pleased with her) (Abu Daud, Hadits no. 1464; Ahmad 49:6, Hadits nos. 161, 208, 237; Ibn Majah, 2:754; Sunnan al-Bayhaqi, 5:321).
"The justification of profits are either based on effort, or through property invested or liability assumed"

2. Non-Permissible Risk
In principle the main reason why such risk is prohibited, us due to its contradiction with the shariah principle “aklu al-maali bi al-baatiil”. Hence, according to Ibnu Taymiyah, there are two aspect that affect the risk is prohibited, namely Maysir, and Gharar. The principle is taken from the Quranic verse:

The prohibition of unjust consumption of property is the type of risk that can cause any trading or transaction to become void. According to the Shariah, Jurists link this risk to the element of excessive uncertainty, that in Arabic known as as gharar fahish. Included in this category is gharar caused by elements of gambling (maysir), which is as a zero-sum game forbidden by the Shariah.

3. Tolerable risk to be avoided
Apart from the two above risk types, there is another type of risk that in fiqh is still tolerable but if possible avoidable. Business can still associated with this risk, but the most important is the risk management procedure must comply to shariah. All financial instrument applied in mitigating risk must in accordance to shariah parameters.22

Hadist on Risk Management Issues: Text and Context
The legality foundation of risk management in Islamic finance is provided from the Sunnah. The first hadist is narrated by At-Tirmidzi (1998) on the case of Bedouin who tying a camel, which is commanded by prophet Muhammad p.b.u.h. This hadits was narrated by Anas bin Malik that an Arab Bedouin asked the prophet;

22 See debate in Hussein Hamid Hassan (2009) Basic Sharia Principles Governing Risk Management, paper presented in Harvard-LSE Workshop on Risk Management. London School of Economics, February 26, 2009.
“O the Messenger of Allah…Should I leave my camel untied and trust in Allah, or should I tie it?” The Holy Prophet (p.b.u.h.) replied: “Tie your camel and then trust in Allah” (Al-Tirmidhi, 1998).\(^{23}\)

The second hadits pertaining to the risk management is also narrated by Imam Al-Baihaqi (2003), in which the case is same as narrated by At-Tirmidzi. However, the text of hadits is different. This hadits explain the commandment of the Prophet Muhammad in tying the camel before they trust it to Allah.

Albaihaqi also narrated the same context of hadits, with a different text. The unique of the two hadits narrated by him is, the narrator is different whereby for the first hadits he receive from ‘Amr bin Umayyah, while the seconhadits was received from Anas bin Malik.

Regarding to the quality of the two above hadits, from the narrator (sanad), we cannot found the evidence in some hadits book, that these hadits is “shahih”.\(^{26}\) However, Anas bin Malik as the narrator is well-known as the companion of the prophet who narrated many hadist with level “shohih”\(^{27}\). In addition, according to Abu Hatim (1993), Ya’kub bin Abdillah as narrator of these hadits is very popular with his trustworthy.

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\(^{23}\) Al-Tirmidhi, M. (1998). Al-Jami’ Al-Kabir. Beirut: Dar Al-Gharb Al-Islami.

\(^{24}\) Al-Baihaqi, (2003), Sya’bul Iman: Beirut: Dar Al-Gharb Al-Islami, Hadits No 1159.

\(^{25}\) Ibid, Hadist No 1161

\(^{26}\) Muhammad Nashiruddin al-Albani, 1995. Silsilah Al-Ahadits Al=Shohihah, Riyadl: MaktabahMa’arif

\(^{27}\) Abi Abdillah Muhammad bin Ahmad bin Abdul Hadi. 1996. ThobaqotuUlama Al-Hadits. Beirut: Ar-Risalah.
١٨٠٨ بن أمية، عن أبيه، قال: قال رجلٌ للنبي صلى الله عليه وسلم: أرسل نافئاً وأتيك ب٣، قال: أعيّلها وتوقلُ. ٢٨ قَالَ أَبُو حَاتِِ رَضِيَ اللََُّّ عَنْهُ: يَعْقُوبُ هذَا: هُوَ يَعْقُوبُ بْنُ عمرو بْنِ عَبْدِ اللَّهِ بْنِ عمرو بْنِ أمية الصَّـفَّارِيُّ مِنْ أُهْلِ الحُجَّاجِ مَشْهُورٌ مَأْمُونٌ.

From the narrator (sanad), there are some argument:

a. Husain bin Abdillah:

| القول                  | العالم                  | # |
|------------------------|------------------------|---|
| لما كبر تغير فكل ما دفع إليه قرأه، وكلما لقن تلقن، وكان قديماً أصح، كان يقرأ من كتابه، ومرة: صدوق | أبو حام الزرايعي | 1 |
| ذكره في الفقرات         |                        | 2 |
| من قله هشام يحتاج أن يترك في عشيرة آلف حديث من أهل الأصهالي الحداد، مشهور بالنقل والفصاحة والرواية والعلم والدراية | أبو حام بن حبان البستي | 3 |
| طياف خفيف             |                        | 4 |
| لا يأبى به              |                        | 5 |
| ثقة، ومرة: صدوق        |                        | 6 |
| ابن حجبر العقلاني       |                        | 7 |
| صدوق، أكبر المجلة، ومرة: صدوق كيس الدارقطني | أبو حام بن حبان البستي | 8 |
| شيخ أهل دمشق ومفتيهم وخطيبهم ومقرئهم ومحدثهم | أحمد بن حنان | 9 |
| يأخذ على الحديث، ولا يحدث ما لم يأخذ | أحمد بن صالح الجيلبي | 10 |
| صالح بن محمد جزيرة     |                        | 11 |
| صدوق كتب كل شيء، ما كان من حديثه          |            | 12 |
| النبي محمد              |            | 13 |
| ما كان في الدنيا مثله       |            | 14 |
| كان يبيع الحديث         |            | 15 |
| مسلمة بن القاسم          |            | 16 |
| تكلم فيه، وهو جائز الحديث صدوق          |            | 17 |

b. Hisyam bin Ammar

| القول                  | العالم                  | # |
|------------------------|------------------------|---|
| ثقة، سكن المدينة       |                        | 1 |

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Ibn Hibbah, 1993. ShohihIbnuHibban. Beirut:Dar Al-Gharb Al-Islami. Hadist No. 731
| Hadith | Author | Analysis |
|--------|--------|----------|
| حجة 2 | أبو بكر البهثي | صحيح |
| أحمد بن حنبل | حجة 3 | صحيح |
| ليس به بأمر، وقال مرة: ليس بالقوي | أحمد بن شعيب النسائي | صحيح |
| أحمد بن صالح الجيلبي | حجة 4 | صحيح |
| كوفي الأصل، مدني الدار | أحمد بن حجاز الرازي | صحيح |
| صحيح الكتاب صدوق يهم، مرة: احتجه يوم الجماعة ولم يكثر له البخاري ولا أجخر له من روايته عن جعفر شيخا بل أخرج ما تويج عليه من روايته عن غير جعفر | ابن حجر العسقلاني | صحيح |
| ثقة وزياداته مقبولة | الدارقطني | ثقة |
| حجة 6 | النهاي | ثقة |
| كان عندنا ثقة، ومرة: تكلم في أحاديثه عن جعفر الصادق | علي بن المديني | ثقة |
| محمد بن سعد الكاتب | الواقدي | تعريف متفق عليه من روايته عن جعفر | جعفر الصادق | ثقة |
| مصنفوا تحرير تهذيب | التهذيب | ثقة |
| يحيى بن معين | ثقة |

The last hadits on the case of Bedouin is narrated by Umayyah. The text of this hadist is same as narrated by 'Amr bin Umayyah. This hadits has been commented by Abu Hatim as hadits shohih. Therefore according to the 3 above hadits, this hadist on the issue of tie a camel and the trust to Alloh can be applied as legal foundation on islamic risk management.

According to the argument of ulama, pertaining to the “narrator of hadits”, all the narrator is tsiqoh. In addition, all narrators are muttasil. From this point of view it means that this hadis is can be used as a legal foundation of risk management. From the text of hadits, there are more than 3 narrators who explained this hadits. Therefore, Islamic derivative, as a main instrument in Islamic finance can be applied in this perspective.

Another hadist regarding the risk management was also narrated by Anas bin Malik that the Prophet (p.b.u.h.) said:

انجروا في أموال البناني لا تأكلها الركة

"Trade the money of the orphans, so it will not be eaten (decreased) by zakah" (Malik, 2004).

In this hadith, the Prophet Muhammad commands every trustee of the orphan’s assets to invest it into a profitable investment. The aim is that the property is not exhausted due to zakat exposure. The logic is simple, as we know, zakat is for a treasure that has the potential growth. This means that if the property is not invested then every year will be reduced by 2.5% of zakat.
Another hadits which is very popular in the risk management tool has been done by Abbas ibn Abdul Mutallib (may Allah be pleased with him) as narrated by Ibnu Abbas:

”Whenever Abbas ibn Abdul Muttalib (may Allah be pleased with him) handed over his assets [camels] for mudarabah to his partner, he stipulated that he should not take the assets across the sea, nor take them down to the bottom of a dry river bed, nor trade them for live animals. If he were to do any of these, he would have to bear the compensation. Word of al-Abbas stipulation reached Rasulullah (p.b.u.h.) and he allowed it” (Al-Thobroni, 2004).  

This Hadith is very important for any party who is bound in the mudarabah contract to provide certain requirements to each party in the business activities they undertake. However, in this context, this hadith is a clear example of how Abbas ibn Abd al-Muttalib included some conditions in mudaraba whose goal was to manage risk. This hadits give a best practice example conducted by shohabah.

This hadits also used by DSN in his Fatwa No. 07/DSN-MUI/IV/2000 regarding to Mudharabah Financing. Unfortunately the above hadiths are “dhaiif”, in which this hadith is matruk (not used) according to Imam Al - Haitsami because in the structure of “sanad” there is Abu Jarud Al’ama (blind) kadzb (lie). Therefore, Imam Al - Haitsami ordered the hadeeth. However, the similar hadits was also narrated by Ad-Daruquthni, Al-Baihaqi and Ibnu Hajar Al-Asqolani, mentioned in the book bulughul marom, Chapter about Qiradh. But this hadith has a different matan, and it is narrated from Hakim ibn Hizam.

As we know, Muslim must put the trust the Alloh for everything that they face in their live as human. However, as Muslim they are also commanded by Alloh to try for doing the best in maintain their property. Its means that, trust

29At-Thobrani, 1997. Mu’jam Al-Ausath.
30See Wahbahzuaely, Al-Fiqhu Al islam Waadilatuhujuz 5 (10 Juz) Chapter Mudharabah
31Muslimweb.
32Al-Daraqutni, A. (2004). Sunan Al-Daraqutni. Beirut: Muassasah Al-Risalah.
to Allo is very good, but they should be more active. Regarding to the wealth, Muslim must have maximum effort in safeguarding their wealth, and after that, the can trust (tawakkal) to Allo. In doing so, risk management to mitigate the risk is not contradicting with shariah (Usmani M. T., 1999).

Therefore, from the current context of Islamic financial industry, risk management tool is very crucial in mitigating the risk. Hadits as stated above regarding the risk management is as supporting argument from the Qur’an. There are several foundations of theorems used by Islamic finance researchers and practitioners to justify the truth and permissibility of risk management which is something inherent in Islamic financial institutions. In the Qur’an, according to financial experts there are some arguments about the importance of risk management ie QS Yusuf 47-49.

[Joseph] said, “You will plant for seven years consecutively; and what you harvest leave in its spikes, except a little from which you will eat. Then will come after that seven difficult [years], which will consume what you saved for them, except a little from which you will store. Then will come after that a year in which the people will be given rain and in which they will press [olives and grapes]” (Qur’an, 12:47-49).

According to Ibnu Katsir, the above verses, Yusuf (p.b.u.h), interpreted the dream of the king of Egypt, this country will face big problems related to the economics condition. According to him, in the next seven year after the seven year prosperity, Egypt will face crisis. Therefore, he advised to the king to prepare proper economics strategy in managing this fact. Yusuf also recommend the king, to give instruction to all Egyptian in actively planting crops during the first seven year, thus the harvest can be used in the crisis. This strategy predicted by him, will save the Egypt from the suffering (Ibn Kathir, 1998).

The above verses are very popular in Islamic finance expert to justify the legality of risk management instrument. This is based on the fact that the existence of Islamic risk management instrument is very important to manage and to mitigate the risk faced by the Islamic financial institution. Therefore, this verse is accepted as the first milestone of risk management. According to Yazid et.al. (2017), Risk management is in line with maqosid syariah.33

Conclusion

33 Ahamad Syukri Yazid et.a. 2017. Islamic Personal Risk Management from Islamic Perspective. World Applied Sciences Journal 35 (9): Hlm. 1885-1892
Risk management is one of the most important parts of Islamic finance industry in which currently has been entering for the next phases for internationally recognized. Normally, as like their conventional counterpart, Islamic finance as financial intermediary also expose with many risk associated with its nature of business or with financial policy. Because of this fact, risk faced by Islamic finance institution is same as in conventional, even some specific risks are exist such as shariah compliance risk and reputational risk. Therefore, risk management in Islamic finance is very crucial in managing and mitigating risk to reduce the impact of risk with the whole business of this industry. From this point of view risk management is unavoidable in Islamic finance.

However, as general practice conducted by many scholars, the appearance of Islamic finance product must be developed based on the shariah principle. In doing so, the need of Islamic legal foundation is very important. Hence, many researchers has been arguing that there are many verse and hadits that explain of risk management, but there is limited paper that discuss the issue of validity of the hadist on Risk management.

This paper found that, the hadits on Risk management narrated by Ibnu Hibban from the text perspective including in the matan and sanad can be classified as hadits ‘shohih’. From its matan, this hadist is muttasil, and all the narrator is tsiqoh, while the matan (text), this hadits also supported by other narrator such as at-Tobroni, and Al-Baihaqi.

The second hadits on riks management is narrated At-Thobroni. This hadits also used by DSN in his Fatwa No. 07/DSN-MUI/IV/2000 regarding to Mudharabah Financing. Unfortunately the above hadiths are “dhaif”, in which this hadith is matriuk (not used) according to Imam Al - Haitsami because in the structure of “sanad” there is Abu Jarud Al-A’ma (blind) kadzb (lie). Therefore, Imam Al - Haitsami ordered the hadeeth. However, the similar hadits was also narrated by Ad-Daruquthni, Al-Baihaqi and Ibnu Hajar Al-Asqolani, mentioned in the book bulughul marom, Chapter about Qiradh. But this hadith has a different matan, and it is narrated from Hakim ibn Hizam. In the context of Islamic finance, risk management is unavoidable. Since, the fact that Islamic finance is exactly will face risk, manage risk is permissible. Some scholars even argue that this is in line with maqosid syariah.

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