

## ANALYSIS OF COLLATERAL USE POLICY AS A CREDIT RISK MITIGATION INSTRUMENT AT PT BANK ACEH SYARIAH KUTACANE BRANCH

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### Abstract

*This study examines the policy of using collateral as a credit risk mitigation instrument at PT Bank Aceh Syariah, Kutacane Branch. Aligned with Sharia principles such as fairness and transparency, this policy aims to protect the bank from losses due to customer defaults. The qualitative research findings reveal that collateral use is effective in mitigating credit risk through proportional value evaluations. However, challenges remain in administration and communication with customers. To enhance effectiveness, the adoption of Sharia insurance and assessment of customers repayment capacity is recommended. More adaptive policies are expected to support the bank's sustainability and financial inclusion.*

**Keywords:** Risk Mitigation, Collateral, Credit Risk, Islamic Banking, Sharia Principles, Financial Inclusion

### INTRODUCTION

Credit risk mitigation is an important aspect in managing Islamic banking to maintain financial stability and support business sustainability. One of the main instruments used to reduce credit risk is collateral. In Islamic banking, collateral not only functions as a safety measure for banks but must also comply with sharia principles, namely fairness and compliance with the agreed contract (Marwan et al., 2019). This policy is very relevant, especially in areas such as Kutacane, which has economic potential based on the micro and agrarian sectors, which generally involve small business actors with limited assets.

The use of collateral as a risk mitigation instrument at Bank Aceh Syariah needs to be managed carefully to comply with sharia principles and maintain financial inclusion. Based on research by Hidayat and Firmansyah (2020), the policy of providing credit with collateral is often a challenge for customers in the micro sector, who often do not have sufficient fixed assets to be used as collateral. This condition requires banks to be more creative in offering inclusive policy alternatives, such as recognizing the non-material value of assets or third-party guarantees.

As one of the important branches of Bank Aceh Syariah, Kutacane Branch faces unique challenges in implementing this policy. Based on a study by Siregar

(2021), provincial areas such as Kutacane have a relatively low level of financial literacy. This can affect the effectiveness of collateral policies, especially in encouraging customers to understand the importance of collateral as part of credit risk mitigation. The right policy is needed to ensure a balance between sharia compliance, economic feasibility, and increasing public financial literacy.

In addition, recent research by Hasanah and Munir (2022) shows that risk mitigation policies through collateral can increase credit repayment rates if supported by a comprehensive risk analysis process. However, this policy can also pose social risks, such as increasing inequality in credit access for vulnerable groups. Therefore, it is important for Bank Aceh Syariah to adopt an approach that is not only oriented towards profit, but also towards aspects of justice and community empowerment.

Given the various challenges and opportunities faced, this study aims to analyze the policy of using collateral as an instrument of credit risk mitigation at PT Bank Aceh Syariah Kutacane Branch. This study is expected to contribute to the development of more adaptive and inclusive policies, which not only support the sustainability of the bank's business but also improve the welfare of the Kutacane community.

## LITERATURE REVIEW

### Risk

Risk is the possibility of an event occurring that could cause harm, losses or negative impacts on individuals or organizations. In the context of banking, risk can be defined as uncertainty regarding a customer's ability to meet their obligations, which has the potential to disrupt the bank's financial stability (Marwan et al., 2019).

According to Paramita (2023) Risk refers to the possibility of an undesirable event or negative impact that can affect the achievement of goals or projects. Sources of risk involve factors such as environmental aspects, technology, humans, policies, and various other elements. The term risk refers to a condition caused by uncertainty with all its negative consequences.

### Credit Risk

Credit risk is the potential loss due to the inability of customers to pay their obligations. In Islamic banking, risk management must comply with Islamic principles such as fairness and the prohibition of usury (Marwan et al., 2019). Credit risk is one of the main types of risk faced by banks, including Islamic banking. This risk arises when customers fail to pay their obligations according to the agreed agreement (Hasanah & Munir, 2022). In Islamic banking, risk

management must comply with Islamic principles, such as fairness, transparency, and not involve elements of usury.

### **Collateral as Risk Mitigation**

Collateral or security serves to reduce the credit risk faced by the bank, especially when customers are unable to fulfill their payment obligations. In Islamic banking, collateral must be selected and managed in accordance with sharia principles that prioritize justice and prohibit transactions containing usury elements (Hidayat & Firmansyah, 2020). Therefore, the use of collateral is not only useful as a guarantee of payment but must also maintain compliance with the provisions of sharia law. Collateral received by the bank must have a value comparable to the credit provided, and the process must be transparent and fair.

### **Alternative Risk Mitigation Policies**

In addition to the use of collateral, Islamic banking also implements alternative policies in credit risk mitigation. One alternative that can be used is the assessment of the customer's capacity to repay the loan based on the customer's credit track record and potential business income. In addition, Islamic insurance has also begun to be implemented to transfer some of the risks that may occur. Technology such as computerized credit scoring has also begun to become an important part of the risk mitigation strategy, allowing banks to be more precise in assessing the feasibility of providing credit (Hasanah & Munir, 2022).

In addition to collateral, Islamic banks also use alternative policies to manage credit risk. One common alternative is the use of third-party collateral, where another, more trustworthy party is responsible for the customer's obligations in the event of default. In addition, the application of the profit-sharing financing principle helps reduce risk by sharing profits and losses between the bank and the customer. This approach is fairer and in line with sharia principles, which prioritize fairness and transparency in the relationship between the bank and its customers (Syukri & Abdullah, 2023).

### **RESEARCH METHODS**

Qualitative research is used to gain an in-depth understanding of the phenomena that occur, especially in the context of the policy of using collateral to mitigate credit risk at PT Bank Aceh Syariah Kutacane Branch. This approach focuses on collecting descriptive data that describes the views, experiences, and understandings of individuals directly involved, which cannot be measured by numbers or statistics. As explained by Creswell (2018), qualitative research explores information through stories or narratives expressed by participants, so that they can better understand the context and nuances of the problems that occur.

To collect data in this study, interview techniques were used. Interviews provide an opportunity for researchers to speak directly with sources who have relevant information regarding the policies implemented. According to Hasanah & Munir (2022), in-depth interviews with bank management and customers can provide a more comprehensive understanding of policy implementation and the challenges faced.

## RESULTS AND DISCUSSION

### Implementation of Guarantee Policy at PT Bank Aceh Syariah Kutacane Branch

The results of interviews with the management of PT Bank Aceh Syariah Kutacane Branch show that the policy of using collateral as a credit risk mitigation is strictly implemented. Collateral is considered a very important instrument in assessing creditworthiness, as well as to protect the bank from losses that may arise due to customer default. According to Hidayat & Fajar (2021), in Islamic banking, collateral is not only a tool to reduce risk, but also reflects the principle of fairness in transactions between banks and customers.

### Types of Collateral Used

Banks use various types of collateral, ranging from property, motor vehicles, to other valuable assets. The type of collateral received is highly dependent on the type of financing applied for by the customer. Evaluation of the value of the collateral is carried out carefully, ensuring that the collateral received is comparable to the amount loans granted. As stated by Syukri & Abdullah (2023), the use of various types of collateral provides banks with flexibility in dealing with credit risk and allows banks to obtain appropriate returns in the event of default.

### Customer Perceptions of the Use of Collateral

Interviewed customers expressed various opinions regarding the obligation to provide collateral. Most felt that collateral provided a sense of security, because there was protection for both parties, both the customer and the bank. However, some customers also complained that the collateral application procedure sometimes took a long time and was quite bureaucratic. Hasanah & Munir (2022) also noted that although the use of collateral can reduce risk, the complicated administrative process can add to the burden on customers.

### Effectiveness of Collateral Use in Credit Risk Mitigation

In general, the policy of using collateral has proven effective in reducing credit risk in this bank. However, this effectiveness is highly dependent on the quality of the collateral assessment and the bank's ability to ensure that the collateral value is in accordance with the amount of credit provided. Suryani (2020) stated that the selection and evaluation of appropriate collateral is the

main key to the success of credit risk mitigation policies, especially in the Islamic banking sector.

### **Risk Mitigation Alternatives Applied**

In addition to collateral, PT Bank Aceh Syariah also applies other alternative risk mitigation methods, such as assessing customer payment capabilities and using sharia insurance. These methods are used to complement the use of collateral in assessing customer creditworthiness. Hasanah (2023) stated that the application of methods such as financial evaluation and sharia insurance provides an additional layer of protection against possible risks, which further strengthens existing mitigation policies.

### **Challenges in Implementing Assurance Policy**

Although the collateral use policy is running well, there are several challenges faced, especially in terms of communication with customers. Some customers feel that they do not get clear information about the collateral provision procedure, which causes confusion. Marwan et al. (2019) emphasize the importance of transparent communication between banks and customers to ensure that risk mitigation policies are well received and understood by all parties involved.

### **CONCLUSION**

Based on the research results, the policy of using collateral as a credit risk mitigation tool at PT Bank Aceh Syariah Kutacane Branch is considered quite effective. This policy is able to protect the bank from potential losses due to customer default, especially through the application of collateral whose value is comparable to the loan provided. In addition, collateral also supports the creation of justice in the interaction between the bank and customers, in accordance with sharia principles. However, the implementation of this policy still faces several obstacles, especially related to communication and administrative processes.

Some customers consider the collateral application process too complicated and time-consuming. Therefore, it is necessary to increase transparency in collateral assessment so that customers can better understand the value and function of collateral. To optimize this policy, banks are advised to develop other approaches in risk mitigation, such as the use of sharia insurance and a more in-depth evaluation of customers' payment capabilities. This more comprehensive approach can complement the use of collateral, so that credit risk can be minimized more effectively.

By conducting periodic evaluations of the policies that have been implemented and simplifying the administrative process, PT Bank Aceh Syariah Kutacane Branch is expected to continue to improve the quality of financing



services. This will not only provide better protection for the bank, but also make it easier for customers to meet their financial needs.

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