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Analysis of 5C+1S Principles in Minimizing the Risk of Working Capital Murabahah Financing

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Abstract

This study aims to analyze the application of the 5C+1S (Character, Capacity, Capital, Collateral, Condition, and Sharia) principles in minimizing the risk of Murabahah financing at Bank Syariah Indonesia KCP Pancor. The research uses a qualitative descriptive approach with primary data through employee and customer interviews and secondary data from bank documents. The results show that the 5C+1S principle helps assess customer eligibility despite obstacles such as limited human resources, lack of selectivity in customer selection, and the influence of economic conditions. To overcome these challenges, intensive training is recommended to improve the quality of human resources, periodic supervision of customers, risk analysis technology, diversification of financing portfolios, and improvement of customer financial literacy. Consistent and adaptive implementation of economic changes can help BSI KCP Pancor mitigate the risk of non-performing financing and maintain the sustainability of its operations.

Keywords 5C+1S Principles; Risk; Murabahah

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1. INTRODUCTION

Islamic banking in Indonesia has grown rapidly since the reform era, especially after the enactment of Law No. 10 of 1998, which provided a legal basis for the operation of Islamic banks. This law guides the legal basis and types of businesses Sharia-based banks can operate. Furthermore, Law No. 21 of 2008 emphasizes the definition of Islamic banks as financial institutions that carry out activities based on Sharia principles, which prohibits interest-based transactions (riba).

Bank Syariah Indonesia (BSI), one of Indonesia's largest Islamic financial institutions, runs various Sharia-based services, including murabahah financing, one of the leading products. However, in its implementation, murabahah financing faces financing risk challenges, such as the inability of customers to meet payment obligations. To overcome this, BSI applies the 5C+1S principle designed to assess customer eligibility and minimize risks in financing. The Islamic banking system operates based on principles that aim to avoid the practice of usury, as prohibited in the Qur'an.

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In QS An-Nisa (4): 161, Allah SWT emphasizes the prohibition of usury, which is referred to as a form of tyranny. This principle is the basis for the operation of Islamic banks that replace the interest system with contracts by Islamic law, such as murabahah, salam, and istishna contracts. In murabahah financing, the bank acts as a seller who provides goods that customers need and then sells them at the acquisition price plus a mutually agreed profit margin. This financing type is often used to purchase capital goods, investments, or other consumption needs.

One of the advantages of murabahah is pricing transparency, which clarifies the fees that must be paid to customers. However, although Sharia principles have been implemented, financing risk remains the main challenge BSI must face, especially in the case of non-performing loans (NPLs) or non-performing financing(Rahman, 2018b). BSI applies the 5C+1S principle to assess the eligibility of customers before financing is granted. This principle includes five main components, namely character, capacity, capital, collateral, and condition of the economy, with the addition of sharia principles (1S), which ensure that all transactions are by Islamic values.

Customer capital is also important in the feasibility analysis, especially if the financing is used for working capital or investment. Sufficient capital reflects the customer's financial stability and ability to run the business well(Usman, 2020). In addition, collateral or collateral is an important element in mitigating the risk of non-performing financing.

Inflation, market interest rates, and economic stability are important variables in risk analysis. The addition of sharia principles in 5C+1S ensures that all transactions are carried out by Islamic law, including the prohibition of gharar (ambiguity) and maysir (speculation). This principle also stipulates that goods traded in murabahah contracts must be halal, and transactions must be carried out transparently (Hasan, 2019a). In addition, violations of agreements by customers, such as using funds for purposes not by the contract, are also a significant challenge. This is often due to a lack of supervision from the bank during the financing period. Unstable economic conditions, such as recession or inflation, can also affect customers' ability to pay for financing. In such situations, banks often face an increased risk of NPLs, which can disrupt their operational stability (Abdullah, 2023).

To overcome these challenges, BSI needs to improve the due diligence process in analyzing customer eligibility. This process includes an in-depth evaluation of all aspects of the 5C+1S principles, such as character, capacity, capital, guarantees, and economic conditions. In addition, periodic supervision of customers during the financing period can help banks monitor customer performance and ensure that they remain compliant with the agreement.

This supervision can also help banks to identify potential problems early and take the necessary preventive measures. By educating customers on the importance of managing their finances well and complying with agreements, banks can help them avoid the risk of default (Safira, 2022). Diversifying your financing portfolio can also be an effective strategy to mitigate risks associated with changing economic conditions. Banks can allocate financing to sectors with lower risk or more resistant to economic changes. In addition, using technology in risk analysis can also help banks increase efficiency and accuracy in assessing customer feasibility. By leveraging big data and predictive analytics, banks can identify risk patterns that may not be visible through conventional methods. This technology can be used to develop more sophisticated risk models and provide more accurate recommendations in the decision-making process (Karim, 2017b).

Applying the 5C+1S principle in murabahah financing at Bank Syariah Indonesia KCP Pancor is a strategic step to minimize financing risks. While its implementation still challenges, it provides a comprehensive framework for assessing customer eligibility and ensuring that Islamic values conduct all transactions. By improving the process of due diligence, supervision, and financial literacy, as well as utilizing technology in risk analysis, banks can overcome existing challenges and increase the effectiveness of implementing the 5C+1S principles. In addition, diversification of the financing portfolio and adaptation to changing economic conditions is also key to maintaining the operational stability and business sustainability of Islamic banks in Indonesia.

2. METHODS

This study uses a qualitative descriptive approach to describe the phenomenon in depth based on data obtained from various sources. The qualitative descriptive approach was chosen because this study focuses on studying human activities, especially applying the 5C+1S principle in minimizing the risk of working capital murabahah financing at Bank Syariah Indonesia (BSI) KCP Pancor. Thus, this approach allows researchers to understand ongoing phenomena in depth and contextually (Creswell, J. W., & Poth, 2018; Miles, M. B., & Huberman, 1994).

This research was conducted at Bank Syariah Indonesia KCP Pancor on Jl. TGH. Zainuddin Abdul Majid, Pancor, East Lombok, West Nusa Tenggara. The research was conducted from July to October 2023. This timing aims to provide sufficient space for researchers to collect data from various sources, including interviews with bank employees and customers and analysis of relevant documents. In addition, this period also reflects the post-COVID-19 pandemic situation, which provides additional context regarding the challenges Islamic banks face in managing financing risks during the economic recovery period (Rahman, 2018a; Siagian, 2006; Sugiyono, 2006).

The data sources in this study consist of primary data and secondary data. Primary data was obtained directly from the research object through interviews with three BSI KCP Pancor employees, namely the Accountaiment section, MRMTL (Micro Relationship Manager Team Leader), and General Section, as well as five customers who have received working capital murabahah financing facilities.

The selection of these informants aims to obtain in-depth and varied data so that the study results can reflect the perspectives of both parties directly involved in applying the 5C+1S principle. Secondary data is obtained from relevant documents, such as the BSI KCP Pancor archives, which include the background and history of its establishment, vision and mission, organizational structure, and documents related to the application of the 5C+1S principle (Bogdan, R. C., & Biklen, 2007; Sugiyono, 2017; Usman, 2020).

The data collection techniques used in this study include observation, interviews, and documentation. The observation was made by directly observing activities at BSI KCP Pancor related to applying the 5C+1S principle. This technique allows researchers to obtain accurate and relevant empirical data. Documentation collects secondary data from relevant documents, such as financial statements, internal archives, and supporting literature. This technique helps researchers to supplement the data obtained from observations and interviews (Hasan, 2019b; Silverman, 2016).

The data analysis in this study was carried out using the Miles and Huberman model, which consisted of three main stages: data reduction, data presentation, and conclusion drawing or verification. The first stage, data reduction, involves selecting, simplifying, and grouping data relevant to the research objectives. For example, data related to applying the "character" principle in 5C+1S will be grouped specifically to facilitate further analysis. The third stage, drawing conclusions or verification, involves interpreting data to answer research questions. The conclusions drawn must be based on valid and verifiable data so that the research results have high credibility (Lincoln, Y. S., & Guba, 1985; Miles, M. B., & Huberman, 1994; Sugiono, 2009).

The analysis results are interpreted by connecting the research findings with relevant theories and contexts. In this way, the analysis results provide new insights and strengthen the validity of the research(Denzin, N. K., & Lincoln, 2011; Karim, 2017a). With a more detailed explanation of data analysis techniques, informant selection, and research time and place, this research methodology strengthens and provides readers with a clearer context. This increases the credibility of the research and helps the reader understand how the data obtained is analyzed and interpreted to answer the research question.

3. FINDINGS AND DISCUSSION

3.1. Analysis of the Application of the 5C+1S Principle in Providing Financing at Bank Syariah Indonesia KCP Pancor

Applying the 5C+1S principle in the provision of financing by Bank Syariah Indonesia (BSI) KCP Pancor is important in risk management and financial loss mitigation. This principle, which consists of five main elements (Character, Capacity, Capital, Collateral, and Condition) and an additional principle, namely Sharia, aims to provide a comprehensive overview of the feasibility of customers in obtaining financing. In the context of Bank Syariah Indonesia, these principles refer to general criteria as applied to conventional banks and consider the sharia aspects that are the basis for Islamic bank financial transactions.

1. Character

Character is the first element in the 5C+1S principle, which focuses on prospective debtors' moral quality and integrity. Character assessments typically evaluate customer behavior, including credit history, social reputation, and loyalty to pre-owned financial obligations. In this case, Bank Syariah Indonesia KCP Pancor verifies by accessing data from the Financial Information Service System (SLIK) managed by the Financial Services Authority (OJK). This process allows banks to determine if potential customers have a poor credit history or show signs of moral hazard risk.

Merton and Bodie first put forward this theory of character in their work on financial market stability. They stated that the success of lending is greatly influenced by the extent to which customers can be trusted and have a good financial history(Merton, R. C. & Bodie, 1995). Cohen and Young also underscored the importance of trust in the relationship between lenders and borrowers. This trust is the main determinant of whether the customer will fulfill his obligations in repaying the financing. A careful character assessment upfront can reduce the potential for defaults or bad credit later in life(Cohen, M., & Young, 2012; Marty, J. & Wheeler, 2013).

In the context of Bank Syariah Indonesia, the Character principle has a broader dimension because, in addition to involving an assessment of credit history, banks must also ensure that prospective customers have a character that is by Sharia principles. This assessment ensures the customer is not involved in haram business activities such as gambling or alcohol production. Therefore, character evaluation involves financial information and moral and ethical aspects that are by Islamic principles.

2. Capacity

After the character of the prospective customer is confirmed to meet the criteria, the next step is to assess the customer's Capacity or financial ability to meet their payment obligations. This capacity is measured through various indicators, including the ability of the customer's income to pay installments and the liquidity of the business run by the customer. Bank Syariah Indonesia KCP Pancor will usually analyze the customer's financial statements, income history, and business prospects to determine whether the customer has sufficient capacity to manage financing.

Capacity assessment is based on the principle of financial health, which, according to Porter (1985), in the concept of "competitive advantage," requires companies to have adequate financial resources to survive in fluctuating economic conditions. A company or individual with good financial capacity will be able to manage risk more effectively and maintain operational continuity in the long term. Therefore, banks must thoroughly understand the customer's financial picture before financing (Jaffar, M. & Awan, 2018; Kotler, P., & Keller, n.d.; Porter, 1985).

3. Capital

Capital is an important factor that shows how much reserves customers have to support their business operations. For banks, strong customer capital indicates that the customer has the financial resilience to help solve financing obligations despite facing economic headwinds. This capital can be in the form of cash, stocks, property, or other assets that can be used to cover financial obligations in the event of business failure.

Research by Stiglitz and Weiss (1981) states that banks tend to lend more easily to customers with strong capital because this provides greater assurance of the customer's ability to repay the loan. The study also explains that providing customers with strong capital reserves financing can reduce the risk of bad loans (Jaffar, M. & Awan, 2018; Stiglitz, J. E. & Weiss, 1981). In the context of Bank Syariah Indonesia KCP Pancor, customer capital is evaluated by considering the source of capital used to finance the customer's business. This capital must also be by Sharia principles, which require that the capital used for financing is free from riba or haram interest elements.

4. Collateral

Collateral or collateral is goods or assets submitted by the customer to guarantee the financing provided. In this case, Bank Syariah Indonesia KCP Pancor evaluates customer guarantees, whether in the form of land, buildings, vehicles, or other assets. The collateral assessment is carried out to ensure that the value of the collateral is more than or at least proportional to the amount of financing provided.

The credit rationing theory proposed by Stiglitz and Weiss states that banks are more likely to provide loans to customers who can provide more valuable collateral because it reduces the risk of bad loans. In this case, the guarantee functions as a safety for the bank to reduce losses in the event of a failure in payment (Minsky, 1992; Stiglitz, J. E. & Weiss, 1981).

In Islamic banks, the guarantees must also be free from practices contrary to Sharia principles, such as transactions that contain elements of uncertainty or gharar. Evaluation of guarantees by Sharia is important to ensure the suitability of the financing provided.

5. Condition

The Condition aspect focuses on macro and microeconomic conditions affecting the customer's ability to return financing. Factors such as inflation, interest rates, government policies, and market conditions can affect the continuity of a customer's business and, ultimately, the customer's ability to meet its financial obligations (Merton, R. C. & Bodie, 1995).

Research by Minsky (1992) in his theory of financial instability states that unstable economic conditions can increase the financial sector's vulnerability to risks. Therefore, the bank must consider external factors affecting the customer's business continuity in a certain period (Minsky, 1992).

Bank Syariah Indonesia KCP Pancor also monitors global and local economic conditions affecting its customers and provides adjustments to financing through restructuring or rescheduling payments if necessary. This evaluation of economic conditions is in line with Minsky's theory (1992) which suggests that financial institutions pay attention to external factors that can increase risk.

6. Sharia

Sharia elements are an additional factor that distinguishes Islamic banks from conventional banks. Islamic banks consider customers' financial feasibility in providing financing and ensure that transactions meet Sharia principles. Sharia principles involve elements such as the prohibition of riba (interest), gharar (uncertainty), and maisir (gambling). In this case, Bank Syariah Indonesia KCP Pancor strictly evaluates the customer's efforts not to violate the provisions of Islamic law.

The theory of Islamic Finance put forward by Kahf (2004) states that financing in Islamic banks must involve the principles of transparency, fairness, and freedom from practices detrimental to customers(Kahf, 2004). Therefore, the Sharia feasibility verification process is very important in maintaining the integrity of Islamic financial institutions.

Applying the 5C+1S principle at Bank Syariah Indonesia KCP Pancor is very important in reducing the risk of financing. By integrating character, capacity, capital, guarantees, economic conditions, and sharia in customer analysis, banks can ensure that the financing is the most feasible and secure. Implementing these principles helps banks maintain financial stability and the bank's reputation in the eyes of the public and customers. This research makes an important contribution to understanding how traditional credit principles can be adapted in the context of Islamic banks and underlining the importance of integration between modern economic theories and Islamic principles in financing management.

3.2. Analysis of the Application of the 5C+1S Principle in Minimizing Murabahah Financing Risk at Bank Syariah Indonesia KCP Pancor

Applying the 5C+1S principle in financing activities at Bank Syariah Indonesia (BSI) KCP Pancor is a comprehensive approach to managing risks in financial transactions, especially in Murabahah-type financing. Murabahah, as one of the main financing products in Islamic banks, requires prudence in the customer selection process to ensure that the financing provided is not risky for the bank or customers. By paying attention to the principles of assessing prospective customers consisting of character, capacity, capital, guarantees, economic conditions, and sharia compliance, the bank seeks to mitigate potential risks in Murabahah financing. In this analysis, the author will delve into how applying these principles plays a role in minimizing risk, providing protection for banks, and ensuring smooth financing transactions.

1. **Customer Character in Risk Mitigation**

Customers' character in applying the 5C+1S principle greatly affects the risks faced by banks in Murabahah financing. This character includes the customer's track record regarding previous payment behavior, transaction integrity, and compliance with Sharia principles. Bank Syariah Indonesia KCP Pancor considers character assessment important to prevent the risk of moral hazard and adverse selection, which can occur if the bank provides financing to customers who have a bad credit history or are dishonest in their financial statements.

According to Haron et al. (2015), in their research on risk management in Islamic banks, the bad character of customers can potentially increase the possibility of default. This is because customers who are dishonest or have a bad record in debt management tend to be unable to fulfill their payment obligations on time and can even cause bankruptcy. Therefore, Bank Syariah Indonesia KCP Pancor conducts in-depth research on the character of customers, including interviews and checking previous transaction records. Thus, banks can choose customers with good character and high credibility, which minimizes the risks that may arise (Haron, S., Ahmad, N., & Yaacob, 2015).

Applying this principle is the findings put forward by Zulkhibri, who emphasized the importance of evaluating the character of customers in reducing the possibility of problems in financing payments. With good character, customers are more likely to commit to payment obligations, so the risk of default can be minimized(Zulkhibri, 2012).

2. Customer Capacity in Murabahah Financing

The customer's capacity or ability to repay the financing is crucial in determining whether Murabahah financing is worth giving (Jensen, M. C., & Meckling, 1976). Bank Syariah Indonesia KCP Pancor thoroughly analyzes customers' income, expenses, and financial profiles to ensure that they have adequate capacity to meet their financial obligations.

This capacity analysis refers to conventional and Sharia banks' financial ratio analysis theory. Campbell et al. (2014) in their research explained that capacity analysis through checking customers' cash flow and financial balance sheets can minimize the risk of default. Banks look at customers' fixed income and consider their ability to deal with economic uncertainties, such as fluctuations in income due to external conditions. In this case, the Murabahah financing carried out by BSI KCP Pancor will be adjusted to the customer's ability to repay without disturbing their financial stability (Campbell, R., Hossain, T., & Mohammed, 2014).

Applying this principle allows Bank Syariah Indonesia KCP Pancor to choose customers who have sufficient financial capacity, thereby reducing the possibility of bad financing or default. For example, suppose a customer applies for financing to purchase an item of a certain value. In that case, the bank will evaluate whether the customer's income and liabilities are sufficient to cover the installments without burdening them financially.

3. The Role of Customer Capital in Financing

Sufficient customer capital guarantees that the financing provided will be repaid smoothly. In principle, customer capital is a resource used to deal with uncertainty or unforeseen conditions, such as a decrease in revenue or an undesirable event. In the context of Bank Syariah Indonesia KCP Pancor, strong capital provides a sufficient buffer to cover shortcomings in the financing payment process.

The theory of capital structure put forward by Modigliani and Miller (1958) reveals that the power of capital is very important in supporting the continuity of operations and debt payments. Bank Syariah Indonesia KCP Pancor identifies customers with strong capital as more eligible for financing. For example, if a customer has considerable savings, assets, or investments, they can deal with possible disruptions in their cash flow(Modigliani, F., & Miller, 1958).

The study conducted by Ahmed and Ariff also found that sufficient capital not only increases customer confidence in banks but also provides additional protection against the risk of unpaid financing. Adequate capital gives customers more resilience in the face of economic uncertainty, ultimately lowering banks' risk (Ahmed, H., & Ariff, 2012).

4. The Importance of Guarantees in Murabahah Financing

Guarantee or collateral is an inseparable aspect of Murabahah financing. In this case, the guarantee is safe for the bank, which can cover losses if the customer fails to pay the financing. In applying the 5C+1S principle, BSI KCP Pancor will ensure that the customer guarantee is of sufficient value and by sharia principles.

According to Stiglitz & Weiss (1981), collateral effectively mitigates credit risk. In the context of Islamic banks, guarantees must meet a decent economic value and be by sharia provisions, namely, not containing elements of usury, gharar, or uncertainty that can harm one party(Stiglitz, J. E. & Weiss, 1981).

BSI KCP Pancor will conduct a careful valuation of the collateral submitted by the customer, such as a house, vehicle, or other property, to ensure that the collateral has sufficient value if the bank needs to auction it to cover the defaulting financing. A good evaluation of these guarantees gives the bank confidence that the risk of default can be minimized, even if the customer cannot repay the financing within the agreed time.

5. Economic Conditions and Policies of Bank Syariah Indonesia

Macro and microeconomic conditions can affect the ability of customers to meet their payment obligations. Banks must consider this aspect in financing decisions in economic crises or unfavorable conditions. For example, in a situation such as the COVID-19 pandemic, where many customers face financial difficulties, BSI KCP Pancor provides a flexible policy in financing payments, such as extending payment times to help affected customers. Kindleberger & Aliber's View (2011) Regarding the impact of economic conditions on financing, it is explained that when economic conditions are bad, banks' potential losses will increase, so it is important for banks to conduct a more careful assessment. Therefore, Bank Syariah Indonesia KCP Pancor has taken a policy to provide an extension of time to customers who are experiencing difficulties as a form of risk mitigation in line with Sharia principles that prioritize justice and convenience for customers (El-Gamal, 2006; Kindleberger, C. P., & Aliber, 2011).

Overall, applying the 5C+1S principle in Murabahah financing at Bank Syariah Indonesia KCP Pancor is very important in minimizing risks. By assessing the character, capacity, capital, guarantees, economic conditions, and Sharia compliance of customers, banks can ensure that the financing provided has a low level of risk. The policies and procedures taken by BSI KCP Pancor also show that applying these principles not only focuses on financial evaluation but also pays attention to social and economic factors that can affect the success of financing. This proves that with the good application of the 5C+1S principle, banks can protect themselves from risks and operate with the principles of prudence and fairness that are the foundation of Islamic bank operations.

3.3. Obstacles Faced in the Application of the 5C+1S Principle to Minimize the Risk of Working Capital Murabahah Financing at Bank Syariah Indonesia KCP Pancor

The financing process by Bank Syariah Indonesia KCP Pancor using the 5C+1S principle is part of an effort to minimize the risk of illiquid financing or default. This principle is applied to assess prospective customers' feasibility in applying for financing, both for working capital financing, consumption, and investment. However, in practice, there are several obstacles faced by banks both internally and externally.

1. **Internal Constraints**
   a. Human Resource Limitations in Product Understanding and Evaluation Process

   An inadequate understanding of the product and risk analysis process connected to the 5C+1S principle is one of the main challenges faced by Bank Syariah Indonesia KCP Pancor. The limitation of human resources in the financing sector can potentially increase errors in assessing customer character, financial capacity, and guarantee capabilities. Poor quality of human resources can affect the level of selectivity applied in the financing evaluation process, leading to an increased risk of non-performing financing (Iqbal, M., & Molyneux, 2017; Mustapha, 8 C.E.). According to research by Mollah et al. (2019), capacity building and effective training in bank human resources are crucial in managing financing risks with sharia principles. Training that focuses on product understanding and analysis of customer character and capacity is urgently needed to improve the reliability of the assessment system in reducing credit risk (Mollah, M. A., Rahman, M. A., & Ali, 2019).

b. Lack of Selectivity in Choosing Prospective Customers

Selectivity in choosing prospective customers is a very important element to minimize financing risks. A selection process that is not strict can result in banks providing financing to customers who do not meet the eligibility criteria by the 5C principles, such as dubious customer character or limited business capacity. Choosing the wrong customer or providing financing to candidates who do not have prospects can lead to many bad loans(Bashir, A., & Ali, 2017). Research by Rizvi et al. (2016) highlights the importance of strict selection in identifying prospective customers with the right character and capacity as a key factor in reducing the risk of non-performing financing (Rizvi, S. A. R., & Ullah, 2016).

c. Mental Erosion and Personal Relationships with Customers

Mental erosion can occur when an emotional relationship or unprofessional closeness develops between bank officials and customers. This causes the decision to provide financing to be influenced more by personal relationships than objective analysis based on the 5C+1S principle. This situation can lead to unhealthy and high-risk financing. Research by Ahmed et al. (2021) shows that an overly close relationship between bank officers and customers can affect objectivity in credit decisions, often leading to high risks for financial institutions (Ahmed, A. U., Abdullah, M. N., & Hasan, 2021).

2. External Constraints

a) Unstable Economic Conditions

Unstable economic conditions, such as recession or high inflation, can affect customers' ability to repay their financing. Banks must carefully identify potential problems using the 5C principles, especially in the "condition" and "capacity" sections. The decline in people's purchasing power and business competitiveness is a major obstacle to smooth payments. A study by Tariq et al. (2018) indicates that economic stability greatly affects financing quality, so financial institutions must be ready to restructure policies or adjust payment provisions at unexpected times (Tariq, S., & Akhtar, 2018).

b) Increased Business Competition

Increasingly fierce business competition in various industrial sectors challenges customers' businesses in maintaining profitability. This can affect the customer's ability to pay installments. Financing provided to businesses affected by market competition must be examined in depth, especially on customers' capacity and business conditions. A study by Khan et al. (2019) found that customer businesses that face fierce competition are at high risk of experiencing difficulties in meeting their financing obligations (Khan, S. A., Ali, M., & Noor, 2019).

c) Dishonesty or Laziness of Customers in Payment

Laziness or dishonesty of customers in paying installments or financing obligations is often a classic problem in banking. The customer's irresponsible character can cause this, or external factors affect the customer's intention to pay on time. According to Bley (2019), a proper customer character analysis, as part of the 5C+1S principle, must ensure that customers who receive financing have high integrity and commitment to their obligations (Bley, 2019).

d) Natural Disasters and Unforeseen Factors

Natural disasters and unforeseen events such as the COVID-19 pandemic have impacted customers' ability to pay for financing. In such a situation, the principles of "condition" and "capacity" in the 5C are urgently needed to analyze whether the situation can interfere with the smooth payment. Many Islamic banks face high risks due to natural disasters or emergencies, and some financial institutions choose to extend the time or adjust installments to affected customers. A study by Mollah et al. (2020) emphasizes the importance of restructuring policies responsive to unexpected external factors(Mollah, M. A., Ahmed, N., & Hassan, 2020).

Applying the 5C+1S principle in Murabahah financing at Bank Syariah Indonesia KCP Pancor aims to reduce the risk of non-performing financing, but internal and external challenges remain. Obstacles stemming from limited human resources, lack of selectivity in choosing prospective customers, and emotional relationships that can reduce objectivity must be overcome with training and improving the quality of human resources. On the other hand, external factors such as unstable economic conditions, fierce business competition, and natural disasters also affect the smooth payment of installments. Therefore, banks must always be ready with a flexible restructuring policy and continue to increase their understanding of Sharia principles in financing distribution.

4. CONCLUSION

Applying the 5C+1S principle at Bank Syariah Indonesia (BSI), KCP Pancor aims to mitigate Murabahah financing risks by evaluating character, capacity, capital, guarantees, economic conditions, and conformity with sharia principles. This process includes credit history verification, financial capability analysis, capital and collateral assessment, and monitoring of economic conditions, all by sharia principles. The researcher recommends improving the quality of human resources through intensive training, stricter customer selection, periodic supervision of the use of funds, the use of technology for risk analysis, diversification of financing portfolios, and increasing customer financial literacy to support financing sustainability and reduce the risk of default.

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