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The Effectiveness of Non-Performing Loan Risk Management Strategies at BSI KCP Surabaya Rungkut 1: Implementation of the 5C+1S Principle

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Abstract

Ideally, the disbursement of financing by Islamic financial institutions should be carried out through prudential principles and thorough risk analysis to avoid the potential for non-performing loans. An effective risk management strategy is expected to maintain financing quality and ensure the healthy and sustainable operation of the bank. However, the reality in the field shows that non-performing loans remain a significant issue, including in the Mitraguna financing product at BSI KCP Surabaya Rungkut 1, indicating ongoing challenges in reducing problematic financing. This study aims to analyze the effectiveness of non-performing loan risk management strategies through the application of the 5C+1S principles (Character, Capacity, Capital, Condition, Collateral, and Sharia Compliance) in the Mitraguna product at BSI KCP Surabaya Rungkut 1. This article falls under field research with a qualitative approach, using a case study methodology. The results of the study conclude that the 5C+1S strategy in managing non-performing loan risks at BSI KCP Surabaya Rungkut 1 has proven to be fairly effective through the selective and procedural application of character, capacity, collateral, and sharia compliance analysis. This effectiveness depends on the quality of human resources and

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consistency of implementation, supported by technology and customer education to ensure sustainable and sound financing.

Keywords: *Effectiveness, Risk Management, Non-Performing Loans*

Abstrak

Idealnya, penyaluran pembiayaan oleh lembaga keuangan syariah dilakukan melalui prinsip kehati-hatian dan analisis risiko yang matang untuk menghindari potensi kredit macet. Strategi pengelolaan risiko yang efektif diharapkan mampu menjaga kualitas pembiayaan serta menjamin keberlangsungan operasional bank secara sehat dan berkelanjutan. Namun, realitas di lapangan menunjukkan bahwa kredit macet masih menjadi persoalan signifikan, termasuk pada produk pembiayaan Mitraguna di BSI KCP Surabaya Rungkut 1, yang menunjukkan adanya tantangan dalam menekan pembiayaan bermasalah. Penelitian ini bertujuan untuk menganalisis efektivitas strategi pengelolaan risiko kredit macet melalui penerapan prinsip 5C+1S (Character, Capacity, Capital, Condition, Collateral, dan Syariah Compliance) pada produk Mitraguna di BSI KCP Surabaya Rungkut 1. Artikel ini tergolong dalam penelitian lapangan dengan pendekatan kualitatif, metodologi yang digunakan adalah studi kasus. Hasil penelitian menyimpulkan bahwa strategi 5C+1S dalam pengelolaan risiko kredit macet di BSI KCP Surabaya Rungkut 1 terbukti cukup efektif melalui penerapan analisis karakter, kapasitas, jaminan, dan kepatuhan syariah yang selektif dan prosedural. Efektivitas ini bergantung pada kualitas SDM dan konsistensi pelaksanaan, dengan dukungan teknologi dan edukasi nasabah untuk menjaga keberlanjutan pembiayaan yang sehat.

Kata kunci: Efektivitas, Pengelolaan Resiko, Kredit Macet

Introduction

In the national financial system, the banking industry plays a vital role as a key driver of economic stability and growth. Banks act as financial intermediaries that connect surplus units with deficit units, while also providing financial services that support broader economic activity in society. Therefore, to maintain resilience and public trust, every banking institution is required to have a reliable and effective risk management system, especially in managing credit risk, which is the most significant type of risk in this sector. Credit risk not only threatens the health of financing portfolios but can also create systemic impacts on the industry as a whole. In the context of Islamic banking, credit risk exists in a similar form but with distinct characteristics due to its foundational principles differing from those of the conventional system. Financing instruments such as *murabahah, musyarakah,* and *mudharabah* used by Islamic banks require greater prudence in debtor selection and monitoring, as they involve aspects of morality, ethics, and compliance with sharia principles.

One of the flagship products that has gained dominance in Islamic banking, particularly in Bank Syariah Indonesia (BSI), is *Mitraguna Berkah*. This product offers unsecured consumer financing with automatic payroll deductions, making it a practical and attractive option for salaried employees. However, behind this convenience lies a serious challenge in maintaining financing quality. To address this, BSI implements a credit analysis framework based on the 5C+1S principle—Character, Capacity, Capital, Condition, Collateral, and Sharia Compliance—as a tool to evaluate financing eligibility and mitigate risk. This principle not only assesses financial capacity and collateral but also considers integrity, moral track record, and adherence to sharia principles as key components of the analysis process. Ideally, the application of this principle should minimize the risk of non-performing financing, allowing products like *Mitraguna Berkah* to serve as inclusive solutions without posing excessive risk to the bank.

However, the reality in the field reveals a gap between the ideal application of the 5C+1S principle and the actual conditions in the operational execution of *Mitraguna Berkah* financing. Although sufficient guidelines and structures are in place, problematic financing (non-performing financing) still occurs due to several factors, such as inadequate creditworthiness analysis, incomplete or misleading information from prospective debtors, misuse of funds, and unforeseen external events like layoffs. Furthermore, internal pressure to rapidly disburse idle funds can sometimes lead to the neglect of prudential principles, resulting in financing being granted to borrowers who are not fully creditworthy. This discrepancy between the risk management standards that should be implemented and what is actually practiced on the ground creates a critical space for the emergence of non-performing loans. This issue represents a major concern that requires in-depth examination to ensure that the designed strategies function optimally at the operational level.

This research aims to comprehensively examine the effectiveness of risk management strategies for non-performing financing in the *Mitraguna Berkah* product at BSI KCP Surabaya Rungkut 1 through the implementation of the 5C+1S principle. The study focuses on evaluating how these principles are applied, how effective they are in minimizing problematic financing, and the supporting and inhibiting factors in their implementation. This research is not only descriptive but also analytical in addressing the reality of risk management strategy execution in the field. Through this approach, the study is expected to provide a clear picture of the practical management of consumer credit risk in Islamic banking. The contribution of this research is anticipated to enrich the academic literature on risk management in Islamic banking, particularly in the segment of unsecured consumer financing. Additionally, the findings can serve as a practical reference for BSI and other Islamic financial institutions to enhance their creditworthiness analysis processes and improve the precision of 5C+1S principle implementation.

Literature Review

Research on the effectiveness of strategies implemented by Islamic banks through the application of the 5C+1S principle is not a new discourse; several researchers have already discussed it using various methods and approaches. Anang Sejati and Hadratullah, in their work titled; *"Analisis Penerapan Prinsip 5C+1S dalam Meminimalisir Resiko Pembiayaan Murabahah Modal Kerja pada Bank Syariah,"* examined how the application of the 5C+1S principle can minimize risk in murabahah working capital financing at BSI KCP Pancor, and identified the challenges faced in implementing the 5C+1S principle to reduce risks in murabahah financing at BSI Pancor (Sejati & Hadratullah, 2024). The similarity between their study and this research lies in the shared focus on the implementation of the 5C+1S principle in the context of financing at Bank Syariah Indonesia and the effort to minimize financing risk. However, the difference lies in the type of financing product and the focus of analysis. While Sejati and Hadratullah focused on murabahah working capital financing, this study examines the effectiveness of risk management strategies for non-performing loans in the Mitraguna Berkah product, which is a consumptive financing scheme.

Mochammad Syahrul Asy'ari, in his article titled; *"Analisis Kelayakan Nasabah Menggunakan Prinsip 5C 1S Dalam Pembiayaan Pemilikan Rumah (PPR) (Studi Pada KB Bank Syariah KC Sidoarjo),"* analyzed the eligibility of prospective customers for home ownership financing based on the 5C+1S principle. His study aimed to assess the extent to which the principle can be used to minimize the risk of problematic financing (Asy'ari, 2024). The similarity with the present research lies in the use of the 5C+1S principle to assess customer eligibility and minimize risk. However, the difference lies in the type of financing and the strategic focus. Asy'ari's research focused on home ownership financing (PPR) and emphasized the initial eligibility analysis, while this study examines the Mitraguna Berkah product at BSI KCP Surabaya Rungkut 1 and assesses the effectiveness of risk management strategies for non-performing loans.

M. Arief, in his article titled; *"Analisis Pengawasan Pembiayaan Syariah Pada Perbankan Syariah Sebagai Penerapan Prinsip Kehati-Hatian (Studi Kasus Bank Syariah Indonesia KCP Serang Timur),"* explored sharia financing supervision strategies at BSI KCP Serang Timur as an implementation of the prudential principle, through the application of the 5C+1S principle, and its impact on preventing problematic financing (Arief et al., 2023). The similarity with this study lies in the use of the 5C+1S principle in the context of Islamic financing and the focus on preventing non-performing financing. However, Arief's research emphasizes general supervision through preventive and repressive strategies, while the current study specifically evaluates the effectiveness of risk management strategies for non-performing loans in the Mitraguna Berkah product, including how the 5C+1S principle is applied within the context of consumptive financing.

After reviewing the existing literature, it is clear that no prior research has specifically examined the effectiveness of risk management strategies for non-performing loans in the Mitraguna Berkah product using the 5C+1S principle within the context of consumptive financing. Previous studies have primarily focused on the application of the 5C+1S principle in working capital financing, home ownership financing, or general supervision of Islamic financing. This study occupies a distinct position by deepening the application of the 5C+1S principle specifically in the Mitraguna Berkah product. The focus of this research is to evaluate the effectiveness of the 5C+1S principle not only as a risk mitigation tool but also as a component of strategic risk management relevant to local needs. By highlighting actual practices and existing challenges, this study aims to provide practical solutions to improve the quality of credit risk management, which has not been specifically discussed in previous research on the Mitraguna Berkah product.

Research Methodology

This article is a field research study with a qualitative approach. The methodology used is a case study aimed at analyzing the effectiveness of the 5C+1S principle implementation in managing non-performing loan risks in the Mitraguna Berkah product at BSI KCP Surabaya Rungkut 1. The qualitative approach was chosen as it is suitable for exploring phenomena in depth, particularly regarding the dynamics of prudential principles in the practice of Islamic financing in the banking sector. The primary data sources in this research were obtained through interviews with internal parties at BSI KCP Surabaya Rungkut 1, especially from the marketing department and the Mitraguna Berkah product distribution team. The interviews were conducted to understand the implementation of the 5C+1S principles, which include aspects of Character, Capacity, Capital, Condition, Collateral, and Sharia in the process of financing application, disbursement, and evaluation. Secondary data sources were obtained through internal BSI documentation, Islamic banking policies, and relevant literature to strengthen the analysis and provide broader context for the research findings.

Data analysis was conducted through the stages of data reduction, data presentation, and conclusion drawing. Data reduction was carried out by filtering relevant information that supports the research focus, while data presentation was arranged in narrative, thematic, and tabular forms to show the alignment of the 5C+1S principle implementation. Conclusion drawing was performed by formulating general patterns from field findings validated through theory and supporting documents. Data validity was ensured through source triangulation techniques, which involved comparing interview results with internal documentation and relevant literature. This triangulation method was used to ensure the consistency of information and avoid subjective bias from single data sources. The article writing method was conducted narratively and deductively, starting from a general discussion on credit risk in Islamic banking, then narrowing down to the case study of the 5C+1S principle implementation in Mitraguna Berkah financing at BSI KCP Surabaya Rungkut 1.

Credit Risk: Banking and Regulatory Perspectives

Risk is an inseparable part of economic activity, especially in the banking sector, which operates on the principle of trust and public fund management. In management terms, risk is defined as uncertainty that has the potential to cause losses, whether in the form of asset depreciation, loss of profit, or disruption of an institution's economic capacity. In general, risk refers to the possibility of loss or danger due to inappropriate actions or decisions. Bank Indonesia also defines risk as the potential occurrence of events that may cause losses to banking institutions, as stated in the regulations it issues (Al Rasyid & Sazly, 2021). In economics and finance, risk is typically classified into several types. One common classification divides risk into business risk and financial risk. Business risk is related to uncertainties resulting from operational characteristics of a company and market conditions that affect the products produced. Financial risk, on the other hand, arises from the potential losses due to the movement of financial variables in the market, such as fluctuations in exchange rates, interest rates, or the prices of derivative instruments (Ilyas, 2019).

One of the most dominant types of risk in banking activities is credit risk. This risk arises when a debtor or party receiving credit facilities is unable to fulfill repayment obligations, both principal and interest. Chorafas (2000) defines credit risk as the likelihood that one party in a financial transaction or instrument will fail to meet its obligations under the agreement, often due to issues like bankruptcy. Credit itself is defined as the provision of funds based on an agreement between a bank and a borrower, where the borrower is obliged to return the funds within a specified period along with interest as compensation (Tektona & Risma, 2020). Law No. 10 of 1998 states that credit is the provision of funds requiring the borrower to repay the debt along with interest within a predetermined period (Kemenkeu, 1998). Bank Indonesia, through Regulation No. 7/1/PBI/2005, broadens the definition to include various forms of financing such as overdrafts and factoring.

Credit risk can originate from various banking business activities, including loan provision, trade financing, interbank transactions, bonds, and derivatives and foreign exchange transactions (Hassan, M. K., Khan, A., & Paltrinieri, 2019). Therefore, it is important for banks to implement a comprehensive credit management system that includes evaluation of customer financial conditions, compliance with credit agreements, adequacy of collateral, and classification of non-performing loans (Mulyaningrum, 2016). If a credit facility shows signs of default or falls into the category of Non-Performing Loan (NPL), the bank must take rescue measures. These may include rescheduling, reconditioning, and restructuring (Kuspramadya, 2021). In some cases, a combination of restructuring and collateral execution is the most effective solution for resolving non-performing loans (Dinar Dwinta Lestari et al., 2022).

To prevent and reduce credit risk from the outset, banks require mature risk mitigation strategies. Risk mitigation is a strategic plan developed based on the probability level of a risk occurring, with the aim of minimizing the adverse impact if the risk materializes (Anita et al., 2010). Septiarin adds that mitigation strategies also involve drafting contingency plans, providing reserve funds, and enhancing public relations to support institutional stability (Septiarin, 2016). Based on the COSO Integrated Framework (2004) and ISO 31000:2009, there are four main approaches to risk mitigation: avoid, reduce, share, and accept. However, in the legal practice of guarantee institutions in Indonesia, the risk-sharing approach is less relevant. Zuleha (2018) emphasizes that in the context of *sharia*, a more common approach is the transfer of the debtor's obligations to a guarantor or reinsurer, as stipulated in Law No. 1 of 2016 (Zuleha, 2018).

Additionally, risk management in banking plays a vital role in the decision-making process. The responsibilities of risk management include identifying key risks, understanding operational risks, selecting risk control strategies, and establishing procedures for monitoring risk positions (Suyanto, 2021). In practice, banks need to have technology-based support systems to ensure mitigation effectiveness. Banks enhance supervision of account officers and develop credit disbursement systems capable of early detection of potential customer defaults (Putra et al., 2023). Credit risk is not always caused solely by debtor negligence. Sitti Ruwaida Ramlan states that external factors such as macroeconomic conditions or internal factors like weak credit analysis processes can also be primary causes of problem loans. Therefore, banks are required to adhere to prudential principles and sound credit norms (Ramlan et al., 2018).

In the context of national regulation, the government has established several rules to support the resolution of non-performing loans and protect both debtors and creditors. Law No. 10 of 1998 serves as the primary legal foundation for bank operations, including the obligation to manage risk and maintain the Capital Adequacy Ratio (CAR) to anticipate potential losses from bad loans. In response to the COVID-19 pandemic, the Financial Services Authority (OJK) issued Regulation No. 11/POJK.03/2020, providing flexibility in loan restructuring, such as extending tenors, reducing interest, and partially writing off debts for affected borrowers. This regulation became a crucial foundation for creating efficient and balanced NPL handling (Nicholas et al., 2024). Meanwhile, Bank Indonesia's regulation on Credit Risk Management emphasizes the importance of credit quality monitoring systems, transparent reporting, and the establishment of loan loss provisions.

These regulations also set out the procedures for risk identification, monitoring, and mitigation that must be carried out by each financial institution. Altogether, the existing regulations provide a clear legal framework for managing non-performing loans in Indonesia. However, these regulations must be periodically evaluated to remain aligned with national economic developments and the ever-evolving global financial market dynamics. In connection with the main focus of this article, effective credit risk management can only be achieved if banks apply comprehensive analytical principles. In the context of Bank *Syariah* Indonesia KCP Surabaya Rungkut 1, the *5C+1S* principle is a key foundation in managing financing risk, especially in the *Mitraguna Berkah* product. Through assessments of character, capacity, capital, collateral, condition, and compliance with *sharia* principles, banks can not only mitigate default risk but also maintain business sustainability and public trust in the *sharia* financial system.

Analysis of the 5C+1S Principle in Assessing Financing Feasibility in Islamic Banking

The disbursement of financing by banks involves various risks, making the application of prudential principles essential to prevent potential losses. Based on PBI No. 5/7/PBI/2003 Article 2 Paragraph (1), this principle includes a business feasibility analysis that considers five key aspects (5C), business prospects, financial conditions, and the debtor's ability to make payments (A. Najib Umar, 2008). The prudential principle aims to maintain the operational soundness of banks and prevent financing from falling into the wrong hands. In its implementation, banks conduct customer feasibility analyses to screen and assess the extent to which customers can repay financing. This process is based not only on written documents but also on an in-depth evaluation of the customer's character and financial condition. Thus, the prudential principle becomes a critical foundation for safe and responsible financing decisions (Rizki et al., 2024).

Before disbursing financing, *sharia* banks must ensure that all procedures and provisions have been followed in accordance with *sharia* principles as stipulated in Article 29 Paragraph (3) of the Banking Law. To minimize the risk of loss, banks apply the prudential principle through customer feasibility analysis using the 5C+1S approach: character, capacity, capital, collateral, condition of economy, and *sharia*. This principle helps banks assess the customer's capability and compliance, as well as ensure that financing is provided appropriately and safely (Asy'ari, 2024). The Character aspect refers to a person's personality or traits. In financing, it is important for banks to ensure that prospective debtors have integrity and can be trusted to fulfill their obligations. To assess character, banks typically review the debtor's employment background, lifestyle, and personal financial history, including their debt payment track record.

Next, the Capacity aspect relates to the debtor's ability to repay the loan. This assessment considers the extent to which the debtor can successfully carry out their business or profession, which is generally linked to their educational background and work or business experience. Through this analysis, the bank can evaluate the debtor's income-generating potential to meet credit obligations. The Condition aspect evaluates external factors that may affect the debtor's ability to meet their obligations. This includes current and projected economic, social, and political conditions. The bank will also review the debtor's business prospects to ensure the business has the potential to sustain and grow. The Collateral aspect pertains to guarantees provided by the debtor, which can be physical assets such as property or non-physical documents like ownership certificates or statements. These guarantees must exceed the financing amount and be legally accountable. Therefore, in the event of loan default, the bank has recourse to reduce losses (Kasmir, 2016).

In the context of sharia banking, an additional aspect that must be considered is sharia compliance. The sharia principle is applied to ensure that the debtor's business activities do not contradict Islamic law. Furthermore, the type of financing provided must align with the applicable *akad* and principles, such as avoiding *riba*, *gharar*, or *maysir*. This assessment also includes evaluating whether the intended use of financing aligns with sharia values (Sari, 2022). The provision of financing must consider the 5C principle, which serves as a guideline in decision-making. The 5C principle is used by banks to analyze and monitor customer financing applications by examining aspects of character, capacity, capital, collateral, and condition of economy (Hamonangan, 2020).

Overall, the 5C principle serves as a reference for determining customer feasibility in receiving financing from banks. The sharia principle ensures that the business being financed truly complies with sharia, in line with the DSN fatwa: "The manager must not violate Islamic sharia law in actions related to *mudharabah*." According to Shofiyah (2015:16), the *sharia* principle is applied to examine whether the prospective member's business is *sharia*-compliant and whether the financing need matches the type of financing based on sharia principles (Shofiyah, 2015). Through the application of the 5C+1S principle, sharia banks assess the feasibility of prospective customers not only from technical and financial perspectives but also in terms of compliance with sharia values. This makes the 5C+1S principle a key foundation in risk management and financing feasibility assessment. In the context of this study, the principle serves as an important instrument in analyzing the effectiveness of risk management for the *Mitraguna Berkah* financing at BSI KCP Rungkut 1 Surabaya, as part of efforts to ensure that each financing is granted wisely, safely, and in accordance with sharia.

Implementation of the 5C+1S Principle in the Mitraguna Berkah Product at BSI KCP Surabaya Rungkut 1

To minimize the risk of problematic financing, BSI KCP Surabaya Rungkut 1 implements a comprehensive credit analysis strategy based on the prudential principle. One of the main approaches used is the 5C+1S principle, which includes Character, Capacity, Capital, Collateral, Condition, and Sharia. This principle is not merely an administrative screening tool but has been developed into a strategic framework integrated into the financing risk management system (Hamonangan, 2020). Its implementation ensures that financing is channeled exclusively to debtors with a worthy profile and the ability to consistently fulfill their obligations. By aligning the conventional 5C principle with the additional sharia-based principle, namely Sharia, BSI demonstrates its commitment to operational compliance with Islamic values. This is essential in the sharia finance industry, where moral values, spirituality, and integrity are key pillars that distinguish the sharia system from the conventional banking system.

The first aspect analyzed is Character, which holds a fundamental position in the debtor selection process. The character of prospective debtors is evaluated to understand their level of responsibility, integrity, and moral commitment to financial obligations. Based on an interview conducted on January 23, 2025, it was revealed that BSI does not automatically offer financing to all customers listed in its internal database. The approach used is an informal classification of prospective debtors into "raw" and "semi-cooked" categories. This classification helps bank officers to carry out a gradual approach process, while continuing to observe the prospective debtor's responses, intentions, and behavioral consistency. In addition to interviews, character assessments are also conducted through trade checking and BI Checking to review the debtor's financial history, including any delays, arrears, or past credit failures (Informant 1, Interview, 2025). This shows that the character analysis process goes beyond superficial assessments and reflects a holistic approach in understanding the personality and moral worthiness of the prospective financing recipient.

The next aspect is Capacity, or the financial ability of the debtor to pay financing installments regularly and consistently. This ability is evaluated through various variables, including employment status, length of employment, retirement age, and the installment-to-income ratio. In practice, BSI pays special attention to the profession of the prospective debtor. Professions such as lecturers and specialist doctors, for example, are considered to have longer active working periods and more stable income, making them eligible for medium- to long-term financing (Mira, 2020). This assessment also considers the debtor's collectibility status, which must be in the "current" category (KOL 1) for at least the last three months. Installments are also limited to a maximum of 70% of total monthly income, to ensure the debtor is not burdened with installments that exceed their capacity. This policy reflects BSI's commitment to building a financing system that not only focuses on fund distribution but also protects the debtor's financial sustainability.

Meanwhile, the Capital aspect in the Mitraguna Berkah product is transformed from the traditional concept, which usually refers to asset or wealth ownership, into an indicator of fixed income from formal employment. This is in line with the nature of the Mitraguna Berkah product, which does not require physical collateral or material guarantees. Therefore, the evaluation of capital focuses more on the consistency and continuity of the debtor's income source (Informant 2, Interview, 2025). In this context, permanent employees who receive regular monthly salaries from reputable institutions are considered to meet the intended capital criteria. Although this financing is an unsecured loan, the prudential principle is still strictly applied by considering the debtor's collectibility and measurable ability to repay. This strategy proves that BSI upholds prudential banking principles, even in products that do not require physical guarantees. The thorough assessment of capital provides additional assurance that financing is granted only to individuals with stable and accountable financial capacity.

Unlike other productive or commercial financing schemes, the Collateral aspect in the Mitraguna Berkah product does not require physical assets as guarantees. Instead, BSI uses formal documents such as the Appointment Decree (SK) of Permanent Employees as a form of non-material guarantee. This decree serves as evidence of the debtor's binding relationship with their employing institution, and simultaneously ensures fixed income throughout the employment contract period. In indirectly assessing collateral, BSI analyzes the reputation, stability, and credibility of the debtor's employing institution. Good relationships with the Person In Charge (PIC) at the institution also play a central role in the financing process. PICs such as HR personnel, treasurers, or branch heads assist BSI in obtaining valid employee data and ensuring smooth administrative processes (Informant 3, Interview, 2025). Furthermore, every financing is equipped with life insurance and layoff protection, which function as substitutes for physical collateral to mitigate default risk caused by sudden death or termination of employment. This strategy shows that risk mitigation is still enforced even without traditional collateral.

The Condition aspect refers to an analysis of macroeconomic conditions, government regulations, and the stability of partner institutions. BSI routinely evaluates all partner institutions every 3–6 months or annually, referring to key indicators such as the credit collectibility level of employees who have received financing (Hadratullah, 2024). If a significant increase in non-performing loans is found within a certain institution, BSI may take preventive measures such as temporarily halting or freezing financing facilities for that institution. This evaluation reflects the importance of connectivity between micro (customers) and macro (institutions) aspects in risk assessment. Extraordinary conditions like the COVID-19 pandemic have also prompted BSI to implement adaptive policies such as rescheduling and installment restructuring. This approach allows the bank to maintain liquidity without sacrificing customer trust. Such flexibility reflects a risk management system that is responsive to external dynamics and proves that sharia-based financing is not rigid and can offer solutions in difficult times.

Fundamentally, the Sharia aspect is an integral and inseparable component of the entire financing process at BSI. In every financing application, BSI must assess the compatibility of the contract (*akad*) with sharia principles as stipulated by the Sharia Supervisory Board (DPS). This assessment includes analyzing the purpose of fund utilization, the validity of the *akad* used, and the clarity of benefits and risks borne by each party. Internal and *sharia* audits are conducted regularly to ensure that operational practices do not deviate from Islamic regulations (Wahyuningsih, 2024). BSI also updates contract documents and compiles sharia checklists as structured and measurable control instruments. All these measures indicate that the success of financing in the *sharia* banking system is not only measured in terms of financial profit but also in terms of *barakah* (blessing), justice, and ethics in conducting transactions. The Sharia principle strengthens accountability and provides assurance that each financing does not contradict the Islamic values that form the foundation of *sharia* banking operations.

Through consistent and comprehensive implementation of the 5C+1S principle, BSI KCP Surabaya Rungkut 1 has proven that financing management can be conducted with integrity, sustainability, and in line with Islamic principles. This approach does not merely emphasize administrative accuracy but also builds an analysis system based on values, social responsibility, and risk resilience (Wahyuni, 2017). In the context of the Mitraguna Berkah product, which is an unsecured loan, applying the 5C+1S principle addresses credit default risks comprehensively. It is not an exaggeration to say that this principle has become a foundational element linking commercial success with spiritual fulfillment in the sharia banking system. Therefore, the implementation of the 5C+1S principle is not merely a technical framework but also a manifestation of ethical commitment to realizing justice and *maslahah* (public benefit) in the financial sector.

Effectiveness of the 5C+1S Principle in the Mitraguna Berkah Product at BSI KCP Surabaya Rungkut 1

The implementation of the 5C+1S principle in the *Mitraguna Berkah* product by BSI KCP Surabaya Rungkut 1 reflects the effort of Islamic banking institutions to maintain financing quality and comprehensively manage risk. This principle consists of six main components: Character, Capacity, Capital, Condition, Collateral, and Sharia. Each component plays a strategic role in analyzing customer eligibility and preventing non-performing financing. The 5C principle has long been adopted in both conventional and Islamic financing systems due to its ability to comprehensively portray a customer's risk profile (Hamonangan, 2020). The addition of the +1S element, sharia, is a significant differentiator in the context of Islamic banking, which demands financing compliance with *muamalah* principles in Islam (Mira, 2020). At BSI KCP Surabaya Rungkut 1, this principle is not merely applied as an administrative formality but is integrated into all financing process lines as an evaluative system. This is reinforced by an interview result stating that this approach; *"Already adequately represents a comprehensive analysis to mitigate risk"* (Informant 2, 2025), which means the principle forms the main foundation for financing eligibility selection from the outset.

The character of prospective customers is the primary focus, evaluated deeply to assess moral track record, personal integrity, and responsibility toward financial obligations. This approach aligns with the idea that character is a key indicator of one's tendency to fulfill obligations, especially under economic or social pressure (Sejati & Hadratullah, 2024). Assessments are conducted through credit history checks, personal interviews, and recommendations from the applicant's workplace. At BSI, this also involves observing the customer's social stability and lifestyle as part of non-financial risk mitigation. Capacity, as the second aspect, is evaluated based on the customer's fixed income, employment status, and installment-to-income ratio, capped at 70%, as a precaution to maintain repayment ability under stable personal financial conditions. This reflects the prudential principle that is integral to Islamic banking practices (Najib Umar, 2008), and has proven effective in minimizing default risks.

In the capital aspect, the bank prioritizes stable and lawful income as the basis for financing approval without relying heavily on physical assets. This is essential because *Mitraguna Berkah* is a non-collateralized product, making regular salary the only guaranteed repayment source. Capital assessment also serves as an indicator of the customer's financial sustainability, considered more crucial than asset accumulation in consumer-based financing. For collateral, BSI applies administrative guarantees in the form of permanent employee appointment decrees (*Surat Keputusan/SK*), supported by life and layoff insurance. This strategy aligns with risk mitigation approaches in Islamic financial institutions, where guarantees need not be physical but can be based on trusted administrative structures (Anita et al., 2010). Insurance coverage provides an additional protection layer against unexpected risks that may impact a customer's repayment continuity.

Condition analysis is conducted through macro and institutional evaluation, including observing the economic stability of the customer's workplace, the performance of the salary-providing institution, and financing collectability trends. If an increase in non-performing financing is detected within an institution, BSI will delay fund disbursement as a form of systemic risk control. This approach reflects proactive risk management practices as recommended in both Islamic and conventional banking literature (Al Rasyid & Sazly, 2021). Meanwhile, the sharia aspect serves as the final component and reinforces BSI's distinction from conventional financial institutions. Every financing application is reviewed for sharia compliance in terms of both fund usage purpose and transaction process. The Sharia Supervisory Board (DPS) plays a crucial role in periodic oversight and issuing *fatwas* on offered products. This reinforces compliance in both spiritual and ethical dimensions of Islamic business.

The effectiveness of the 5C+1S principle is reflected in the low Non-Performing Financing (NPF) ratio consistently maintained by BSI KCP Surabaya

Rungkut 1. Internal sources report that problematic customers range from only 1:300 to 2:700—an achievement indicating consistent risk mitigation success. While risk dynamics remain inevitable, strict implementation of the principle allows for controlled fluctuations within tolerable limits. This aligns with previous research showing that 5C-based evaluations significantly reduce default probability (Chorafas, 2000; Dinar Dwinta Lestari et al., 2022). Even during portfolio expansion, BSI maintains a maximum risk threshold of 2% of total financing. If exceeded, the institution temporarily halts fund disbursement for the product and initiates customer selection process evaluations. *"If it exceeds, then the financing segment will be temporarily stopped,"* stated one informant (Informant 1, 2025).

Quantitatively, *Mitraguna Berkah* financing has shown a positive growth trend, increasing by around 15% from IDR 100 billion to IDR 119 billion. This performance is accompanied by third-party fund (DPK) growth of up to 130%, reinforcing the branch's liquidity and operational stability. However, this growth is not used as justification to loosen customer screening standards. BSI continues to uphold prudence as its main guide in business expansion. This aligns with risk management theory that portfolio growth must be followed by appropriate risk control mechanisms to remain within safe tolerance limits (Sobarsyah et al., 2020). BSI's practices demonstrate that Islamic banks can grow their portfolios aggressively yet prudently, as long as foundational principles like 5C+1S are consistently and adaptively implemented.

In conclusion, the application of the 5C+1S principle in the *Mitraguna Berkah* product at BSI KCP Surabaya Rungkut 1 has proven effective in supporting operational success and financing risk control. This principle functions not only as an initial selection tool but also as an ongoing risk management framework throughout the financing period. It allows the bank to adjust policies in response to external environmental dynamics, including economic conditions, employer institution stability, and broader macroeconomic developments. In the context of Islamic banking growth, the 5C+1S principle serves as a strategic instrument that supports business continuity, customer protection, and strengthens the responsible image of Islamic banking. BSI thus serves as a concrete example that integrating modern financial principles with sharia values is not only feasible but also provides tangible impact on financing sustainability.

Conclusion

Based on the research findings regarding the risk management strategy for non-performing loans in the Mitraguna product at BSI KCP Surabaya Rungkut 1, it can be concluded that the implementation of the 5C+1S principle (Character, Capacity, Capital, Condition, Collateral, and Syariah Compliance) is fairly effective in minimizing the potential risk of problematic financing. Each element of the principle is applied with a selective and procedural approach, such as conducting in-depth analysis of the customer's character, assessing repayment ability, and evaluating the provided collateral. This strategy enables the bank to be more selective in distributing financing while maintaining a healthy financing portfolio, even though external challenges such as national economic conditions remain beyond full control.

Nevertheless, the effectiveness of this strategy also highly depends on the consistency of its implementation and the quality of human resources on the ground, especially in the analysis and post-contract monitoring processes. In the context of BSI as a sharia-compliant bank, the additional principle of adherence to sharia values (Syariah Compliance) serves as a key differentiator, emphasizing not only material aspects but also morality and ethics in financing transactions. Therefore, strengthening human resource capacity, leveraging information technology for risk monitoring, and providing customer education are crucial to optimizing the 5C+1S strategy in sustainably reducing non-performing loans.

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