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Risk Management in Wealth Protection from an Islamic Economic Perspective

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Abstract

This study aims to explore risk management in wealth protection from the perspective of Islamic economics. The main issue is how Islamic economics provides sustainable risk management solutions that align with Sharia principles for safeguarding individual and collective wealth. The scope of this research includes relevant Islamic economic concepts, mechanisms, and instruments for wealth protection, such as zakat, waqf, and takaful. The research method used is qualitative descriptive with a library research approach, where data is collected from various sources such as scientific journals, books, and reports related to Islamic economics and risk management. The data analyzed included Islamic economic theories from experts such as Al-Ghazali and Ibn Khaldun and contemporary concepts related to Sharia risk management. The results show that risk management in Islamic economics aims not only to protect wealth but also to ensure social balance and the distribution of economic justice. An interesting finding from this study is the application of instruments such as zakat and waqf that can effectively reduce people's financial risks, help redistribute wealth, and create economic resilience. In addition, the concept of takaful as Sharia-based insurance also plays a role in mitigating individual financial risks fairly and transparently. The implications of this study reinforce the importance of integrating Sharia principles into economic policy to achieve long-term financial sustainability and stability.

Keywords: Islamic Economics, Risk Management, Wealth Protection, Takaful

Introduction

Risk management in asset management is a systematic process that aims to identify, analyze, evaluate, and control risks that can affect organizational or individual assets. This includes different risks, including operational, financial, legal, and reputational. In asset management, risk management focuses on protecting assets from unexpected losses and ensuring the continuity of an organization's operations.

Wealth protection is a strategic issue amid global economic uncertainty affected by inflation, financial market volatility, regulatory changes, and environmental risks. From the perspective of Sharia economics, wealth is a mandate that must be managed optimally, not only for personal gain but also for the benefit of the people. The inability to manage risk to wealth can impact financial losses, economic instability, and lost opportunities to support social welfare.

The importance of risk management can be seen from the increasing need for mitigation strategies to minimize uncertainty's negative impact. For example, natural disasters can destroy physical assets, while high inflation can erode the value of wealth. The Sharia economic system offers a unique approach by emphasizing fairness, transparency, and sustainability in managing wealth and risk.

Global uncertainties, such as the COVID-19 pandemic, geopolitical conflicts, and climate change, have shown how vulnerable wealth is to external risks. In the financial sector, fluctuations in the value of currencies and the stock market can quickly reduce the value of individual and institutional assets. On the other hand, regulatory changes, such as new taxes or trade restrictions, can also affect wealth stability. For individuals and companies that are not prepared, these risks can lead to bankruptcy or lost opportunities to grow.

In the Islamic economy, the wealth protection approach includes proactive strategies such as asset diversification, protection through halal instruments, and Sharia-based risk management, such as takaful (Islamic insurance). This approach is designed to provide fair protection while adhering to Sharia principles. Departing from the existing challenges, several fundamental questions arise: How can risk management be used strategically to protect wealth from the perspective of Sharia economics? What are the best methods and approaches for identifying, measuring, and mitigating risks to individual and institutional wealth assets? The study aims to identify different risks that can threaten individuals' and institutions' wealth. Then, explain effective risk management strategies based on Sharia principles to protect wealth from global economic uncertainty.

Literature Review

Risk management can be understood as everything that risks occur in society (loss of property, life, finance, business, and others) from the perspective of individuals in the community and a company. In practice, risk management can be closely related to the functions and functions of the company (financial, accounting, marketing, production, personnel, and engineering and maintenance functions) because these functions contain many risks in the management of the company.

Risk management is an important process for businesses and organizations that identifies, analyzes, and handles potential risks. The implementation of risk management can include various aspects such as marketing, operations, human resources, and finance (Wibisono et al., 2023). The risk management process generally follows standards such as ISO 31000:2018, which includes scoping, risk identification, analysis, evaluation, and risk management (Yoewono & Prasetyo, 2022). Effective risk management can help companies minimize potential losses, capitalize on opportunities, and achieve performance goals (Wibisono et al., 2023).

Risk management is a logical and systematic method of identifying, quantifying, determining attitudes, establishing solutions, and monitoring and reporting risks in each activity or process. Risk management is a structured/methodological approach to managing uncertainty related to threats, a series of human activities including risk assessment, development of strategies to manage it, and risk mitigation/mitigation using empowerment/resource management. Strategies that can be taken include transferring risks to other parties, avoiding risks, reducing the negative effects of risks, and accommodating some or all of the consequences of certain risks. Traditional risk management focuses on risks arising from physical or legal causes (such as natural disasters or fires, deaths, and lawsuits. On the other hand, financial risk management focuses on risks that can be managed using financial instruments. The goal of implementing risk management is to reduce the risks related to the chosen field at a level acceptable to the community.

In general, the objectives of the implementation of risk management are, according to Mehr and Hedges: (1) Survival; (2) Continuation of the company's operations; (3) Profit stability; and (4) Business growth; (5) Good Kewarga_negaraan (Good citizenship) and good response from the public. Meanwhile, the costs that must be incurred when assuming risks or uncertainties can be divided into two: a. The cost of unexpected losses; b. The cost of uncertainty itself (Suparmin, 2018).

In companies, the disclosure of enterprise risk management is influenced by factors such as the size of the company and the concentration of ownership (Fayola & Nurbaiti, 2020). The Islamic spiritual approach can be applied in business risk management, with Islamic values becoming the company's culture and creating value for stakeholders (Indrawati et al., 2012). In libraries, risk management involves identifying, evaluating, and managing risks, including information security in the digital environment (Sungadi, 2020). In the context of microfinance, financial institutions such as Baitul Qiradh apply the concept of 5C (character, capacity, capital, condition, collateral) to minimize the risk of musharakah financing, especially business and character risks (Nisak & Ibrahim, 2014). These approaches demonstrate the importance of comprehensive risk management in protecting the wealth of individuals and organizations.

Risk management in the Islamic economic system offers a unique approach to managing uncertainty and protecting the value of assets. Sharia risk management practices include setting context, risk assessment, and risk handling, which aims to increase stakeholder trust and institutional values (Hasyim M et al., 2022). The application of risk management in Islamic banking includes financing, liquidity, operational, and market risks, with different characteristics from conventional banks (Hakim & Samsudin, 2023). The Islamic approach to risk management is based on three levels: foundation (monotheism, justice, *nubuwah*, caliphate, *ma'ad*), pillars (multiple ownership, freedom to act, social justice), and noble morals (Suganda, 2015).

Research Method

The research method used in this study is qualitative with descriptive analysis, which aims to analyze risk management in wealth management from the perspective of Islamic economics. This research collects and analyzes various literature sources such as books, fatwas, scientific journals, articles, newspapers, and magazines. In addition, this study also examines the opinions of scholars and experts in Sharia economics who are relevant to this topic. The collected data is analyzed qualitatively to understand the concept of Risk management in Islamic economics.

Result and Discussion

Risk management is essential in running a business to protect the company from losses. Its implementation aims to reduce various risks related to the chosen field to a level acceptable to the community (Adri, 2023). The application of risk management can produce guidelines that help companies or individuals identify various types of risks and their levels.

1. The Concept of Wealth and Its Role in the Economic Sustainability of Individuals and Institutions

Wealth can be defined as assets owned by a person or institution that can be both material and non-material. According to literature, wealth includes three main dimensions: financial, physical, and intellectual. The financial dimension includes cash, stocks, and other investment instruments that serve as a means of exchanging and storing value. The physical dimension includes tangible assets such as property, vehicles, and production equipment. The intellectual dimension, on the other hand, includes copyrights, patents, and special know-how that can be a sustainable source of income.

In the perspective of Islamic economics, wealth is considered a mandate from Allah and must be used for the common good. Wealth that is not distributed fairly can create social and economic inequality. This principle is reflected in the teachings of the Qur'an, especially in Surah Al-Hasyr verse 7, which emphasizes the distribution of wealth to prevent monopolies by a small group of people.

Each type of wealth has unique characteristics that affect how it is managed. Financial wealth, such as savings or investments, is easy to disburse but is susceptible to market fluctuations and inflation. Physical wealth, such as property, is stable but less liquid and requires maintenance costs. Meanwhile, intellectual property requires legal and marketing management to provide optimal value. In the protection context, each asset type requires a different strategy. For example, investing in property requires insurance to protect against physical damage, while intellectual assets such as trademarks require official registration and legal protection. This management ensures that assets remain productive in the long term.

Wealth plays an important role in economic sustainability for individuals and institutions. For individuals, wealth provides financial security and investment opportunities, supporting personal economic growth. For institutions, wealth in the form of fixed assets and working capital is the foundation of operations and business development. From the perspective of Sharia economics, wealth is considered a tool for creating social justice and welfare. Islam encourages the redistribution of wealth through zakat, infaq, and alms mechanisms, which not only help underprivileged individuals but also support overall economic stability.

2. **Types of Risks That Threaten Wealth**

a. **Financial Risk**

Market Fluctuations

Market fluctuations refer to changes in the price of assets, such as stocks, bonds, or commodities, caused by global economic uncertainty, changes in monetary policy, or shifts in investor sentiment. Market fluctuations significantly impact individual and institutional wealth, primarily driven by economic uncertainty, changes in monetary policy, and investor sentiment. Research shows that these fluctuations can lead to increased financing costs for companies and volatility in financial markets, necessitating effective risk management strategies such as diversification and hedging to mitigate adverse effects (Sukomardojo et al., 2024). Some of the factors that affect market fluctuations include:

1) Economic Variables. Macroeconomic indicators such as GDP growth, inflation, and monetary policy directly affect stock prices and market stability (Zhang, 2024).

2) Investor sentiment. Emotional responses among investors can exacerbate market volatility, leading to significant price swings and corrections (Bitencourt & Iquiapaza, 2024) & (Gong, 2024).

3) Global Events. Events such as the COVID-19 pandemic and geopolitical tensions have historically triggered spikes in market volatility, impacting investor behavior and market dynamics (Agarwal, 2024).

Inflation

Inflation significantly reduces the purchasing power of assets over time, impacting investments and savings. Research shows uncontrolled inflation can erode real wealth, prompting investors to look for inflation-resistant assets. Investing in real estate, gold, and inflation-indexed securities is commonly used to mitigate these effects. Real estate is often seen as a hedge against inflation due to rising property values and rental income, which can maintain capital during periods of inflation (Malović & Roganović, 2024). In addition, gold and other commodities are also traditional inflation hedges, maintaining value as prices rise. Government Gold Bonds (SGBs) offer a safe investment alternative with additional interest benefits (Spasojević & Đukić, 2024).

Deflation

Deflation, characterized by a general price decline, can significantly affect business profits, asset values, and loan default risk, especially in the small business sector. Research shows that deflation reflects not just the abundance of goods but a contraction in the money supply, leading to adverse economic consequences (Barber et al., 1997). Deflation can have an impact on Business Profits and Asset Value. The impact on business profits is that as prices fall, businesses may struggle to maintain profitability, leading to reduced investment and potential layoffs. Meanwhile, the impact on asset value can cause asset depreciation, namely, asset value decreases, which can hinder the ability of businesses to secure financing because collateral becomes less valuable. While deflation is often viewed negatively, some argue that it can increase purchasing power and may not necessarily hinder long-term economic growth. Still, the direct effects on businesses and the financial sector can be severe (Wang, 2021).

Credit Risk

Credit risk refers to the possibility of payment failure by the borrower. Credit risk management is essential to minimize the potential loss of a borrower's default. Effective strategies include creditworthiness assessment, loan diversification, and integration of advanced technology (Kamara, 2024).

b. Legal and Regulatory Risks

Changes in Tax Policy

Changes in tax policy significantly affect cash flow and wealth valuation, especially through the lens of tax policy uncertainty. Research shows that such uncertainty can hinder strategic financial planning, reduce tax planning investment, and increase cash ownership. Investment in tax planning decreases under high uncertainty, resulting in lower tax planning effectiveness and company value (Brown et al., 2024).

Litigation

Litigation refers to the legal risks arising from lawsuits, often leading to significant financial losses. Research shows that while legal protection insurance can effectively reduce litigation exposure, its effectiveness can vary based on the political and legal context of the Company (Zhang, 2024). In addition, an effective legal risk management strategy can significantly reduce the likelihood of litigation disputes, thereby increasing the resilience of the Company (Yang et al., 2024).

Compliance Risk

Non-compliance with regulations can lead to significant financial penalties and damage a company's reputation. Research shows that organizations with strong compliance systems are better equipped to reduce legal risks and improve operational resilience. Non-compliance consequences include financial losses, large fines, and operational disruptions, as seen in the pharmaceutical sector, where major shortcomings lead to license suspension (Lebanova et al., 2024). In addition, the consequences of non-compliance can also lead to reputational damage; well-known cases of non-compliance, such as in aviation, illustrate the severe consequences of ignoring safety regulations (Glowinski & Majdanik, 2024).

c. Operational Risk

Asset Misuse

Asset misuse, such as theft or embezzlement, is often a major threat to an organization's wealth. Research shows that strict internal controls and regular audits can reduce this risk. Separating tasks, authorization processes, and access control is essential in minimizing the risk of fraud (Ziorklui et al., 2024). In addition, regular internal audits and reconciliation processes help to identify fraudulent activity quickly. Factors that affect asset abuse include high financial pressure among employees and the quality of human resources, where organizations with poorly trained staff are vulnerable to fraud (Ardi & Urumsah, 2024).

Mismanagement

Mistakes in resource management can result in significant losses for the organization. Effective management training helps leaders and staff understand how to manage resources better and reduce potential errors that can harm the organization. Johnson emphasized that good managerial and administrative support is indispensable to creating a productive and innovative work culture (Pantih, 2024). Mismanagement can lead to financial losses, where misallocating resources can waste funds and ineffective investment. In addition, it can also cause a decrease in performance, and the inability to manage human and material resources can reduce the organization's overall productivity.

d. External Risks

External risks refer to threats that originate from the company's external environment and can significantly impact business operations and sustainability. These risks are often beyond management's control and can arise from various factors, such as economic conditions, political changes, natural disasters, and market dynamics. Climate change affects the value of property and other assets. According to research by Stern (2021), changes in weather patterns can cause disasters that harm the wealth of individuals and institutions. Natural disasters, such as earthquakes or floods, often cause significant damage to assets. Geopolitical instability, such as conflicts or trade wars, can affect the value of assets and investments.

3. Wealth Risk Identification

Risk identification is an important first step in risk management; it is important to understand potential threats to wealth. Risks can come from internal factors, such as weaknesses in asset management, and external factors, such as global economic instability. Internal factors such as poor asset management can lead to financial instability. Companies should evaluate asset allocation and management practices to mitigate these risks (Nogoibaeva et al., 2024). Identifying inefficiencies in operational processes can also prevent financial losses. Techniques such as Occupational Safety Analysis (JSA) can help determine specific operational hazards (Kusumastuti et al., 2024). The methods to identify threats to wealth include:

SWOT Analysis

SWOT Analysis is used to analyze the strengths, weaknesses, opportunities, and threats that affect the wealth of an individual or institution. This method helps risk managers map out areas that need more attention. SWOT analysis helps align wealth management strategies with market dynamics, allowing for informed decision-making (Ghaleb, 2024). Individuals can adjust their wealth management plans by identifying strengths, such as financial assets, and weaknesses, such as poor investment strategies (Ivanenko et al., 2024). Opportunities for growth, such as emerging markets, can be leveraged, while threats, such as economic downturns, can be mitigated through proactive strategies (Akbar et al., 2023).

PESTLE Analysis

PESTLE Analysis, which involves evaluating political, economic, social, technological, legal, and environmental factors, is an important tool in identifying external risks. Conducting a PESTLE analysis is essential for several reasons:

a) Identify Opportunities and Threats: By understanding macroeconomic factors, companies can find growth opportunities and identify threats that may interfere with their strategic goals.
b) Better Business Planning: PESTLE helps in aligning strategies with industry trends and consumer expectations, providing insights for long-term planning
c) Effective Risk Management: By being aware of political, economic, and environmental changes, companies can better predict risks and prepare proactive strategies.
d) Better Information Collection: Organizations use PESTLE to gather information about external conditions that can support market decision-making and analysis.

PESTLE analysis is an invaluable tool for organizations to understand the macro environment in which they operate and develop a robust strategy to achieve their goals. By conducting a thorough analysis, businesses can foresee challenges and capitalize on emerging trends to improve their competitiveness in the market.

Multidimensional Approach

A multidimensional approach that combines various analytical tools is often used to improve identification accuracy. Integrating SWOT and PESTLE allows organizations to gain deeper insights into interconnected threats and opportunities. Research shows that such integration is highly effective in navigating complex and dynamic environments (Verma et al., 2022).

Use of Data and Technology

Big data and predictive analytics provide a significant advantage in risk identification. By processing large amounts of data, organizations can identify patterns and trends that reflect potential threats to wealth, as evidenced by various studies highlighting its transformative impact on financial risk management. Predictive analytics uses statistical algorithms and machine learning to analyze historical data, improving the accuracy of risk assessments (Chowdhury et al., 2024). Financial institutions that use big data have reported a reduction in default rates by up to 30% compared to traditional methods (Nahar et al., 2024).

4. Risk Assessment

Risk assessment is a systematic process to identify, analyze, and evaluate risks that can affect the success of an organization. This process is very important in risk management, as it helps companies make better decisions and reduce the negative impact of possible risks. Some of the ways that can be used for risk assessment include:

a) Probability and Risk Impact Matrix: The probability-impact matrix is a popular tool used to evaluate the level of risk based on the likelihood of its occurrence and impact. This tool helps in determining mitigation priorities. For example, high-impact, low-probability risks, such as natural disasters, require a different mitigation approach than high-probability but low-impact risks.

b) Asset Valuation as a Basis for Valuation: Asset valuation aims to determine the economic value of wealth. This process is important for understanding the risks that can affect the value of wealth, such as market fluctuations or inflation.
c) Sensitivity Analysis: Sensitivity analysis evaluates how changes in certain variables, such as interest rates or commodity prices, affect the value of an asset.
d) Qualitative vs. Quantitative Risk Assessment: Qualitative approaches are often used to understand risks that are difficult to measure, such as reputational risk, while quantitative approaches focus on numerically measurable risks.
e) Environmental Factors in Risk Assessment: The external environment, such as geopolitical conditions and climate change, plays an important role in influencing risk to wealth. An in-depth analysis of these factors is necessary to understand their impact on long-term assets.

5. Risk Mitigation

Risk mitigation is an important aspect of organizational management, aiming to identify, assess, and manage potential risks to reduce negative impacts and improve operational efficiency (Aditya et al., 2024). Risk mitigation involves a series of actions designed to identify, assess, and manage potential risks. The goal is to reduce the negative impact that may arise from these risks so that organizations can operate more safely and efficiently. The purpose of risk mitigation is **to Reduce the Likelihood of Risk**: Through prevention and control measures, the organization seeks to reduce the frequency of risks, **Reduce Risk Impact**: If a risk occurs, mitigation measures are taken to minimize its impact on the company's operations and finances, **Improve Compliance**: Ensuring that the organization complies with applicable regulations and standards, thus avoiding legal and financial consequences, **Increasing Stakeholder Trust**: With good risk management, stakeholders will feel safer and believe in the integrity and sustainability of the organization's business. The forms of risk mitigation include:

a) Investment Diversification: Diversification is a strategy to reduce risk by spreading investments across different asset classes.
b) Use of Insurance: Insurance protects wealth from unforeseen risks, such as natural disasters or lawsuits.
c) Conservative Strategies in Portfolios: To minimize risk, the conservative approach focuses on stable investments, such as government bonds or property.
d) Use of Derivatives: Derivatives such as options and futures contracts can protect a portfolio from market fluctuations.
e) Education and Training: Education on risk management for stakeholders is key in ensuring the success of mitigation strategies.

6. Risk Management from an Islamic Economic Perspective

Risk management in Islamic economics integrates spiritual values and Sharia principles into business practices. It aims to create material and immaterial value, promoting well-being and happiness for all stakeholders (Indrawati et al., 2012). Sharia risk management is considered a religious obligation, protecting and creating organizational value for increased productivity. This process involves setting the context, assessing and handling risks, and forming an important part of corporate governance that maintains stakeholder trust (Hasyim M et al., 2022). This is important in addressing potential short-term and long-term risks adversely affecting families and companies (Supriyo, 2017). By incorporating Islamic values, risk management practices foster a true entrepreneurial spirit among managers and distribute value to human and environmental stakeholders (Indrawati et al., 2012).

In a broad sense, Islamic doctrine can be described as two basic principles: the act of worship and muamalah (transaction). The act of worship is articulated, "Do not do it unless there is an order," while the basic principle of muamalah states that the act is considered valid and permissible unless an explicit prohibition is established. In Islamic economics, the concept of risk is not completely avoided; rather, it is systematically managed to reduce adverse consequences. Islam recognizes the inherent nature of risk in human existence while advocating avoiding excessive or unnatural (evil) risks. As a result, risk management aims to encourage transparency in contractual agreements and ensure fair treatment for all parties involved.

From an Islamic perspective, risk management is an effort to maintain Allah's mandate for wealth for the benefit of mankind. Various Quran verses have given humans the importance of managing this risk. Human success in managing risk can bring better benefits. The occurrence of this benefit can be interpreted as human success in maintaining Allah's mandate. The Islamic perspective on managing an organization's risk can be studied from the story of Joseph, who realized the king's dream at that time. As explained in the Qur'an, Surah Yusuf verse 43:

وَقَالَ ٱلۡمَلِكُ إِنِّيٓ أَرَىٰ سَبۡعَ بَقَرَٰتٖ سِمَانٖ يَأۡكُلُهُنَّ سَبۡعٌ عِجَافٞ وَسَبۡعَ سُنۢبُلَٰتٍ خُضۡرٖ وَأُخَرَ يَابِسَٰتٖۖ يَٰٓأَيُّهَا ٱلۡمَلَأُ
أَفۡتُونِي فِي رُءۡيَٰيَ إِن كُنتُمۡ لِلرُّءۡيَا تَعۡبُرُونَ ٤٣

"The king said: "I dreamed that seven fat heifers were eaten by seven emaciated heifers, seven green grains, and seven dry grains." O eminent people: "Explain to me the ta'bir of my dream if you can recite the dream."

Then the Prophet Yusuf recounted the king's dream, which is explained in the Qur'an Surah Yusuf verses 46-49:

يُوسُفُ أَيُّهَا ٱلصِّدِّيقُ أَفۡتِنَا فِي سَبۡعِ بَقَرَٰتٖ سِمَانٖ يَأۡكُلُهُنَّ سَبۡعٌ عِجَافٞ وَسَبۡعِ سُنۢبُلَٰتٍ خُضۡرٖ وَأُخَرَ يَابِسَٰتٖ
لَّعَلِّيٓ أَرۡجِعُ إِلَى ٱلنَّاسِ لَعَلَّهُمۡ يَعۡلَمُونَ ٤٦ قَالَ تَزۡرَعُونَ سَبۡعَ سِنِينَ دَأَبٗا فَمَا حَصَدتُّمۡ فَذَرُوهُ فِي سُنۢبُلِهِۦٓ إِلَّا
قَلِيلٗا مِّمَّا تَأۡكُلُونَ ٤٧ ثُمَّ يَأۡتِي مِنۢ بَعۡدِ ذَٰلِكَ سَبۡعٞ شِدَادٞ يَأۡكُلۡنَ مَا قَدَّمۡتُمۡ لَهُنَّ إِلَّا قَلِيلٗا مِّمَّا تُحۡصِنُونَ ٤٨ ثُمَّ
يَأۡتِي مِنۢ بَعۡدِ ذَٰلِكَ عَامٞ فِيهِ يُغَاثُ ٱلنَّاسُ وَفِيهِ يَعۡصِرُونَ ٤٩

"When the servant had met Joseph, he cried out, "Joseph, you who are very trusted, explain to us the seven fattened heifers that were eaten by the seven emaciated heifers and the seven green heifers and the other dry ones that I may return to the people, that they may know them." Joseph said, "That you may plant seven years as usual; So what you reap, you shall leave it grain except a little for you to eat. Then, there will come seven very difficult years, which consume what you have saved to deal with it, except for a little of the (wheat seed) that you have saved. Then after that, there will come a year in which people will be given rain (enough), and at that time they will squeeze the wine."

From this story, it can be said that there will be a terrible drought in the next seven years. This is a risk that befalls the land of Joseph. However, with the king's dream, which

Yusuf then interpreted, Yusuf has measured and controlled the risks that will occur in the second seven years. Yusuf did this by suggesting to the people throughout the country that they save some of their crops in the first seven years of harvest to face famine in the next seven years. Thus, the danger of famine that threatened the land of Joseph was avoided. It is indeed a perfect risk management. Yusuf implemented the risk management process through understanding, evaluation and measurement, and risk management (Hasanah & Mahya, 2023).

In his efforts to make a living, a Muslim is faced with a condition of uncertainty about what happens. We can plan a business activity or investment, but we cannot be sure what we will get from the investment results, whether profit or loss. This is a sunnatullah or Allah's provision as conveyed to the Prophet Muhammad SAW 1400 years ago in Surah Luqman verse 34 as follows:

إِنَّ ٱللَّهَ عِندَهُۥ عِلۡمُ ٱلسَّاعَةِ وَيُنَزِّلُ ٱلۡغَيۡثَ وَيَعۡلَمُ مَا فِي ٱلۡأَرۡحَامِۖ وَمَا تَدۡرِي نَفۡسٞ مَّاذَا تَكۡسِبُ غَدٗاۖ وَمَا تَدۡرِي
نَفۡسُۢ بِأَيِّ أَرۡضٖ تَمُوتُۚ إِنَّ ٱللَّهَ عَلِيمٌ خَبِيرُۢ ٣٤

"Indeed, Allah, in His side alone, is the knowledge of the Day of Resurrection; He is the One who sends down the rain and knows what is in the womb. And no one can know (for sure) what he will work on tomorrow. And no one can know on which earth he will die. Indeed, Allah is All-Knowing, All-Knowing."

In the Qur'an, Surah Lukman verse 34 Allah SWT expressly states that no one in this universe can know for sure what he will strive for tomorrow or what he will obtain, so with this teaching, all humans are commanded to make investments as provisions for this world and the hereafter. It is required to try so that unexpected events do not impact fatal destruction (mitigating risks). Furthermore, in Surah Al Hashr verse 18, Allah says:

يَٰٓأَيُّهَا ٱلَّذِينَ ءَامَنُواْ ٱتَّقُواْ ٱللَّهَ وَلۡتَنظُرۡ نَفۡسٞ مَّا قَدَّمَتۡ لِغَدٖۖ وَٱتَّقُواْ ٱللَّهَۚ إِنَّ ٱللَّهَ خَبِيرُۢ بِمَا تَعۡمَلُونَ ١٨

"O you who believe, fear Allah and let each of you pay attention to what he has done for tomorrow (the hereafter); and fear Allah, for Allah is Knowing, for you are All-Knowing."

In the Hadith, it is also narrated that one of the companions of the Prophet (peace and blessings of Allaah be upon him) left his camel without being tied to something, such as trees, pillars, and others, and then left it. He s.a.w. asked: "Why don't you tie it up?" He replied: "I have put my trust in Allah." The Prophet (peace and blessings of Allaah be upon him). Unable to agree with the person's thinking, he said, "Tie it first and then pray for Allah."

In short, tawakkal without prior effort is wrong and wrong according to the Islamic view. The spiritual goal mandated by the principles of religion is to surrender oneself to the Divine after diligent and earnest effort. For example, one can place a car in front of the house, ensure it locks securely, and then put confidence in its safety. This implies that even if it is secured, the car is still stolen, and the individual is considered innocent within the framework of religion since they have taken the necessary precautions to prevent losses. This interpretation of tawakkal is understood as a form of risk management. Islam guides the optimal method for managing risk scenarios, just as the Qur'an and Hadith advocate careful planning and calculation when facing potential risks.

Managing Risk with Sharia Insurance (Takaful)

In Arabic, insurance is known as at-ta'min, the insurer is called mu'ammim, and the insured is called mu'amman lahu or musta'min. Atta'min is taken from *amana,* which provides protection, tranquility, security, and freedom from fear (Priyatno et al., 2022). In QS. Quraish verse 4, Allah SWT says:

ٱلَّذِيٓ أَطۡعَمَهُم مِّن جُوعٖ وَءَامَنَهُم مِّنۡ خَوۡفِۭ ٤

"Who has given them food to quench their hunger and secure them from fear".

From the last meaning of the letter, it is considered most appropriate to define the term *at-ta'min*, which means that a person pays/submits installments so that he or his heirs get a certain amount of money as agreed, or to get compensation for his lost property (Priyatno et al., 2022).

The principle of bearing, protecting, and helping each other between Muslims is based on a narration from an-Nu'man bin Bashir that the Prophet said: "The parable of believers in loving, cherishing and sympathizing with each other is like one body, if there is a limb that feels sick, it will make the whole body wake up and feel pain." (HR Muslim)."

Based on this principle, the National Sharia Council of MUI stipulates the definition of Sharia insurance (*ta'min*, *takaful*, or *tadhamun*) is an effort to protect and help each other among several people/parties through investment funds in the form of assets or *tabarru'* which provides a pattern of return to face certain risks through contracts (engagements) following Sharia. What is meant by following Sharia is those that do not contain *gharar* (uncertainty), *maisir* (gambling), *riba* (interest), *zhulum* (persecution), *risywah* (bribery), *haram* goods, and immoral acts. The Indonesian Ulema Council (MUI) through the National Sharia Council (DSN) MUI Fatwa No. 21 of 2001 concerning general guidelines for Sharia insurance states that insurance law is halal when following the contracts that the MUI has outlined. Insurance does not fight against fate, but we meet the demands of fate because it is impossible for people to live without disasters. Life insurance does not mean that we avoid death, but when someone dies, he has savings that can be inherited from his family, so that it does not make it difficult to live (*Fatwa – DSN-MUI*, n.d.)

According to Muhaimin Iqbal (in Priyatno et al., 2022), Sharia insurance is a risk management arrangement that meets Sharia provisions for mutual help involving participants and operators. Sharia comes from the provisions of the Qur'an (the word of Allah conveyed to the Prophet Muhammad PBUH) and as-Sunnah (an example of the life of the Prophet Muhammad PBUH).

Takaful is one of the innovations in the Islamic financial system designed to manage risk per Sharia. In takaful, participants contribute funds to collective savings to help other participants who suffer losses. This model eliminates the element of gharar because the risks are shared fairly among the participants. Takaful provides a framework for managing risk through shared contributions, enhancing participants' financial security (Valentino et al., 2024). The operational framework of takaful is designed to ensure transparency and fairness in risk management (Rizwan & Al-Malkawi, 2024).

One of the legal bases for Sharia insurance in the Qur'an is in QS. al-Hasyr verse 18, as stated in the previous discussion. In the word of Allah, it is clear that Allah commands His servants to always prepare for tomorrow or the future. Therefore, many of us are trying to save or prepare for a future we don't know what it will be like. Saving and insuring are basically the same, aiming to be in case of tomorrow if something urgent and unexpected happens.

Muslims are instructed to consider what is prepared for tomorrow or the future. It can be by saving money and so on. Even though nothing happened, we have prepared ourselves to face various kinds of risks in the future. Having Sharia Insurance is a form of effort to prepare for it because Sharia Insurance that currently exists in Indonesia carries the concept of mutual help, mutual support, and cooperation between one participant and another through *tabarru'* funds.

Conclusion

This article, as a whole, discusses the concept of risk management from various perspectives, including conventional views and Islamic economics, as well as its application in facing economic and social challenges. In the conventional approach, risk management focuses on identifying, analyzing, and mitigating risks to minimize financial and operational losses. This process is carried out through quantitative and qualitative methods, using insurance, diversification, and hedging tools. On the other hand, the Islamic economic approach provides a broader dimension to risk management, combining spiritual and material aspects. Islam emphasizes the balance between human effort (*ikhtiar*) and surrender to Allah (*tawakkal*). Risk management in Islam focuses on Sharia principles that prohibit the elements of *gharar* (excessive uncertainty), *riba* (interest), and *maisir* (gambling). An example of applying this concept can be seen in *takaful* or Sharia insurance, which is based on cooperation, help, and shared responsibility to bear each other's risks. The story of the Prophet Joseph AS vividly illustrates how risk management has been applied in Islamic history. The long-term planning by the Prophet Yusuf to face the seven years of the fertile period followed by the seven years of the famine shows the importance of strategic thinking in resource management. This proves that risk management is a reaction to threats and proactive actions to maintain future welfare.

In conclusion, risk management is an important effort in dealing with uncertainty in both the conventional system and the perspective of Islamic economics. The conventional approach focuses more on technical methods and financial calculations, while Islam offers a more holistic approach by blending spiritual values and social justice. Risk management in Islam not only aims to protect individual interests but also to create sustainable mutual benefits. Thus, implementing appropriate risk management will help individuals, organizations, and society face economic challenges in a fair, transparent, and responsible manner.

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