

Islamic Financing Risk Identification and Management in a Frontier Sharia Pawn Financing Context

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Abstract:

This study examines the identification and management of Islamic financing risks at PT Pegadaian Syariah Klademak Branch in Sorong, Southwest Papua, categorized as frontier (3T) region of Indonesia. A qualitative case study with thematic analysis approach was used to collect data through in-depth interviews with manager, officers and customers along with the document observation and analysis. According to the findings, financing risk can be divided into four main categories: financing, operational, reputational, and compliance. One of the most significant findings concerns financing risk, particularly in the Arum Haji financing product. This demonstrates that financing evaluation techniques that assess religious perspectives rather than a customer's ability to repay debt are considered irrelevant. The study also found that Pegadaian Syariah Klademak has implemented flexible risk management based on Islamic principles, as assessed by its flexible payment settlement process, humanistic communication, proactive reminders to customers to make timely payments, and active monitoring. Customers also trust the institution because they are honest and transparent, particularly in the collateral valuation process. Problems with repayment are generally caused by unstable customer behavior and income. These findings demonstrate the importance of financial literacy and behavioral interventions in Islamic financing risk mitigation and offer empirical insights from a frontier area context, it also provides recommendations for enhancing the effectiveness of risk management while maintaining institutional resilience, financial inclusion, and Sharia compliance.

Keywords: *Risk Management; Islamic Financing; Islamic pawnshop; Financing Risk; Non-Performing Financing*

Abstrak :

Penelitian ini mengkaji identifikasi dan pengelolaan risiko pembiayaan syariah pada PT Pegadaian Syariah Cabang Klademak di Sorong, Papua Barat Daya, yang dikategorikan sebagai wilayah terdepan, terluar, dan tertinggal (3T) di Indonesia. Penelitian ini menggunakan pendekatan kualitatif dengan desain studi kasus dan analisis tematik. Pengumpulan data dilakukan melalui wawancara mendalam dengan pimpinan, petugas, dan nasabah, serta observasi dan analisis dokumen. Hasil penelitian menunjukkan bahwa risiko pembiayaan dapat diklasifikasikan ke dalam empat kategori utama, yaitu risiko pembiayaan, risiko operasional, risiko reputasi, dan risiko kepatuhan. Temuan penting berkaitan dengan risiko pembiayaan, khususnya pada produk pembiayaan Arum Haji. Temuan ini menunjukkan bahwa teknik evaluasi pembiayaan yang lebih menekankan pada aspek religius dibandingkan kemampuan nasabah dalam melunasi kewajiban pembiayaan dinilai kurang relevan. Penelitian ini juga menemukan bahwa Pegadaian Syariah Klademak telah menerapkan manajemen risiko yang fleksibel berdasarkan prinsip-prinsip syariah, yang tercermin dari mekanisme penyelesaian pembayaran yang luwes, komunikasi yang humanis, pengingat proaktif kepada nasabah untuk melakukan pembayaran tepat waktu, serta pemantauan yang berkelanjutan. Nasabah menunjukkan tingkat kepercayaan yang tinggi terhadap lembaga karena kejujuran dan transparansi, khususnya dalam proses penilaian agunan. Permasalahan keterlambatan pembayaran umumnya disebabkan oleh ketidakstabilan perilaku dan pendapatan nasabah. Temuan ini menegaskan pentingnya literasi keuangan serta intervensi perilaku dalam mitigasi risiko pembiayaan syariah, serta memberikan bukti empiris dari konteks wilayah perbatasan. Selain itu, penelitian ini juga memberikan rekomendasi untuk meningkatkan efektivitas manajemen risiko dengan tetap menjaga ketahanan kelembagaan, inklusi keuangan, dan kepatuhan terhadap prinsip syariah.

Kata kunci: *Manajemen Risiko; Pembiayaan Syariah; Pegadaian Syariah; Risiko Pembiayaan; Pembiayaan Bermasalah*

Introduction

Given the support of regulations that reinforce the country's Islamic financial ecosystem, Indonesia's Islamic financial sector has shown steady asset growth and rising market penetration (Andriani et al., 2025). Through financing mechanisms that connect finance industry with real sector activities, Islamic financial institutions positively impact Indonesia's economic growth (Sakinah et al., 2022). Pegadaian Syariah is a non-bank financial institutions that serves a wide range of costumer segmentation with Sharia-compliant pawn and microfinancing services (D Amri et al., 2024). However, even though this is a good trend, not much research has been done on how islamic financial institutions, especially Pegadaian Syariah, deal with financing risks in areas that are somewhat remote, on the edge, or not very developed. These areas are very different from cities when it comes to infrastucture, the maturity institutions, and how clients behave.

Financing risk management continues to be a critical issue for contemporary financial institutions, including Pegadaian Syariah. As a Sharia financial institution, Pegadaian Syariah must adhere to Islamic financial principles, which prohibit usury, gharar, and maysir (unlawful activity), while maintaining the institution's business continuity.. At the same time, risk management must be implemented in compliance with the relevant framework and guidelines for Sharia financial institutions. According to (Nuzulia & Kasanah, 2024), risk management in Islamic financial differ from the practice of conventional financial institutions because it involves both financial and non-financial risks that call for distinct regulatory strategies in the process of stabilization and mitigation. The process of planning, organizing, directing, monitoring, and evaluating risk mitigation efforts in order to protect institutional stability is the definition of risk management (Hasanah & Mahya, 2023). Poorly managed financing risks can threaten financial stability, customer trust, and the institution's reputation. D Amri et al., (2024) distinguish between two forms of borrower defaults: intentional defaults by solvent borrowers

and insolvency-related defaults due to Sharia-recognized circumstances. Non-Performing Financing (NPF) presents a complex challenge in Islamic finance because Islamic contracts rely on partnership principles and moral responsibility. To manage NPF effectively, it is necessary to conduct feasibility analysis, monitor progress, and reduce risk. This includes looking at internal factors like the Capital Adequacy Ratio and Operating Expense Ratio, as well as the external factors including inflation and Gross Domestic Product (Zs et al., 2022). Other research done by Oktapian & Fauzi (2023) emphasize the importance of the 5C principle (Character, Capacity, Capital, Collateral, Condition) in guiding financing assessments (Oktapian & Fauzi, 2023). Agustina & Widyaningsih (2023) demonstrate that operational risk significantly affects service quality and institutional performance. The literature also points out that financing risks can be managed into two steps: first, identifying the financing risks present in all products and activities; and second, measuring these risk by evaluating written financing procedures and other risk measurement systems used in the company (Alvan Fathony & Rohmaniyah, 2021). Still, most studies have'nt look at the unique environmental, socio-cultural, and economic factors that affect frontier regions, where the access problems, low levels of financial literacy, and informal transactional norms create risk dynamics that are different from those in non-frontier areas.

This study contends that frontier-region context requires a unique analytical approach to accurately identify specific risk attributes. These findings underscore the necessity of thorough examination of Pegadaian Syariah's risk management system for both institutional processes and customer experiences. Table no.1 shows that NPF at the PT Pegadaian Syariah Klademak Branch in Sorong changed from 2019 to 2023. Most issues tied to Arum Haji and Arum BPKB (vehicle ownership book-collateralized) products. Though the numbers stay in safe limits, study looks at hidden risks behind those numbers alongside current c

ontrol methods. Instead of focusing only on financing risks, the firm also faces daily operation risks, reputational risks, along with the legal adherence risks. In terms of institutional and sectoral progress, it is important to understand how these risks are identified and addressed, and how effective mitigation methods are in reducing risks while maintaining operational stability. This research aims to contribute theoretically to Islamic risk management literature and provide practical recommendations for Pegadaian Syariah to enhance financing risk management effectiveness.

This study specifically addresses a significant research gap by investigating the implementation of Sharia-based risk control principles by Islamic financial institutions in frontier regions characterized by constrained economic ecosystems. This study distinguishes itself from previous research on Islamic pawnshops or financing risk management by presenting a "frontier-based Islamic risk management framework" that explicitly incorporates (1) Islamic risk management theory, (2) maqasid al-sharia—specifically hifz al-mal (protection of wealth) and adl (justice in transactions), and (3) the unique economic and institutional conditions prevalent in frontier regions. This study provides empirical evidence from the 3T region (Sorong) and offers practical insights for enhancing institutional and policy-driven risk management practices at Pegadaian Syariah.

Table 1. NPF Data of PT. Pegadaian Syariah Klademak

No	Year	Total NPF	NPF (%)
1	2019	234.133.382	2,08%
2	2020	503.407.466	2,08%
3	2021	699.656.547	2,17%
4	2022	375.044.904	3,74%
5	2023	402.189.230	1,7%

Source: Data Processed by Researcher (2025)

To further clarify the analytical objectives within a clear and systematic case study, this study outlines a series of questions that

directly reflect the identified managerial risks and challenges. These questions will provide structured guidance to enable informants to provide a clear picture of how Islamic financing risks are identified, assessed, and managed in practice:

1. What types of financing risks are identified by PT Pegadaian Syariah Klademak in its Islamic financing operations? and how are these risk characterized in relation to institutional performance and customer welfare?
2. What are the internal and external factors influence financing risk? and what specific causes contribute to the emergence of non-performing financing within the institution?
3. How does PT Pegadaian Syariah Klademak assess financing risks before and after disbursement?
4. What risk management and mitigation approaches has PT Pegadaian Syariah Klademak developed and implemented to address identified financing risks? How effective is the implementation of these strategies, measured from both the institution's and customer's perspectives?
5. What are customers' perceptions of institutional risk and management processes, financing arrangements, and risk mitigation approaches? Do their experiences verify or contradict with the institutional risk assessments?

Methods

Research Design

This study employs a qualitative-case study approach to examine the identification and management of financing risk at the PT Pegadaian Syariah Klademak Branch. The qualitative methodology provides a comprehensive analysis of institutional protocols, stakeholder perspectives, and contextual factors that impact risk management decisions. (Creswell, 2014). This method aligns with modern Islamic finance research, highlighting comprehensive description and contextual understanding. The case study design is particularly relevant to explain the complex relationships between

institutional actors and customers in the context of Islamic finance in developing regions, where contextual factors influence risk perceptions and management strategies

Data Collection Methods

To ensure validity and triangulation, a number of techniques were employed during the data collection process. Primary data was gathered through semi-structured in-depth interviews with institutional players, including the branch manager, finance staff, and six clients from different demographic backgrounds. Interviews lasting between sixty and ninety minutes were audio recorded with informed consent and then transcribed for analysis. To collect secondary data, internal reports and the documents of standard operating procedures, were reviewed. In total, eight informants participated in this study: one branch manager, one finance staff member, and six customers who had active or recently settled Islamic financing contracts with PT Pegadaian Syariah Klademak. In total, eight informants participated in this study: one branch manager, one financial staff member, and six customers who took out sharia financing products or had just completed contracts with PT Pegadaian Syariah Klademak. The sample size was determined by measuring the rationality of the strength of information and the concept of data saturation, so additional interviews were deemed to be discontinued after no substantial new themes related to the research questions, namely regarding risk identification, factors causing problematic financing, and mitigation strategies emerged (Guest et al., 2006; Hennink et al., 2017). Due to the narrowly defined research objective, the uniformity of the institutional context, and the richness of the interview data, the final count of eight informants was deemed adequate for thematic sufficiency. Details of research informants are explained in the Table. 2.

Table 2. Profile of Research Infromants

Category	Institutional Role	Length of time as customer	Main Financing Products Utilized
Management	Branch Manager	5–10 years	Arrum Haji, Arrum BPKB, Gold Pawn
Operational Staff	Finance Officer / Credit Analyst	3–7 years	Arrum Haji, Arrum BPKB, Microfinancing
Customer	Retail Customer	≥ 2 years	Arrum Haji
Customer	Retail Customer	≥ 1 year	Arrum BPKB
Customer	Retail Customer	≥ 3 years	Gold Pawn, Microfinancing
Customer	Microenterprise Customer	≥ 2 years	Microfinancing, Arrum BPKB
Customer	Retail Customer (Repeat Client)	≥ 4 years	Gold Pawn, Arrum Haji
Customer	Retail Customer (Restructured)	≥ 1 year	Financing with Rescheduling History

Source: Data Processed by Researcher (2025)

The interview questions had two primary focus areas: (1) risk management strategies and (2) risk identification processes. Respondents were given the freedom to elaborate the answers of the topics questioned while still adhering to subject matter consistency. While customer interviews offered firsthand accounts of service delivery, risk perception, and financing experiences, the institutional manager interviews examined strategic viewpoints, operational experiences, and institutional challenges. During field visits, observational data was gathered by direct interaction with customer, the physical environment, and institutional operations. This multi-method approach gave us a full understanding of both institutional contexts and real client experiences. The use of interviews, document analysis, and non-participant observations together made methodological triangulation possible. This made the results more

reliable and less likely to be biased by a single source (Lincoln & Guba, 1985; Bekmezci & Sürücü, 2025)

Data Analysis Method

The thematic analysis by Braun & Clarke, (2006) were utilized in the data analysis. The six steps of the analytical process were as follows: (1) familiarization through repeated review of interview transcriptions; (2) initial coding through line-by-line identification of key phrases and recurring expressions; (3) theme clustering by grouping codes into preliminary categories such as "risk identification," "internal risk factors," "external risk factors," and "risk management strategies"; (4) theme review ensuring internal consistency and distinctiveness from original data; (5) refinement and naming of themes in accordance with research objectives and conceptual frameworks; and (6) report production incorporating themes with supporting verbatim quotations. Coding was performed inductively from the data, informed by the conceptual frameworks of Islamic risk management theory and maqasid al-sharia. This process facilitated the emergence of themes from participants' narratives, which were subsequently organized into higher-order categories reflecting institutional, customer-related, and contextual (frontier-region) risk dimensions. The transition from codes to sub-themes and ultimately to final themes was achieved through an iterative, reflexive analytical process, wherein initial thematic maps were continuously revised, consolidated, or divided to improve internal coherence and analytical precision, rather than simply outlining superficial patterns (Braun & Clarke, 2006). This helped the analysis go from just descriptive labeling to an interpretive account that explains how and why certain risk mechanisms work in the frontier-region setting.

Validity and Trustworthiness

Validation procedures were implemented to strengthen analytical accuracy. Data triangulation was used to identify similarities and differences between the two parties' responses, in other words, to

compare the institutional managers' insights with the clients' perspectives and procedures. To verify the responses and analytical results, clients participated in client-checking interviews. An audit trail was recorded and updated as needed throughout the analysis process to ensure accountability and transparency of the methodology. This process ensured that the results were consistent with the theoretical and conceptual framework while still accurately representing the participants' perspectives. The study's trustworthiness was evaluated based on the criteria of credibility, transferability, dependability, and confirmability, which encompassed extended engagement with the field, comprehensive description of the institutional context, and methodical documentation of analytical decisions. (Lincoln & Guba, 1985; Elo et al., 2014)

Result and Discussion

This section presents the results of in-depth interviews with internal stakeholders at PT Pegadaian Syariah Klademak (management and employees) and customers using the thematic analysis method developed by Braun and Clarke. A comprehensive understanding of financing risk identification and management is developed and serves as a thematic foundation for deeper reader understanding.

RQ1: Types of Dominant Financing Risk: Institutional and Social Implications

Based on data observations and interviews, PT Pegadaian Syariah Klademak faces financing risks that must be managed. Managers and employees frequently stated during interviews that the primary cause of problems and non-performing loans was the inability to pay installments or even the desire of customers to pay off their loans. The institution also manages operational, reputational, and other risks, but these risks are considered less impactful than financing risk. financing risk is closely linked to the long-term well-being of customers and healthcare institutions. Portfolio stability and operational efficiency can increase the risk of non-performing loans (NPF). If NPF is not managed properly, it can lead to the surrender and sale of customer collateral, which can undoubtedly compromise the customer's financial position. This two-way impact signals the

importance of a proper risk assessment process in Islamic financing products, balancing repayment capacity and moral considerations. Management has identified a specific issue with Arum Haji financing, which has a higher NPF ratio than other financing portfolios. Because this product is small, even a few non-performing accounts can significantly impact the overall risk ratio, making the risk appear higher. In the context of the 5C credit scoring framework, these findings suggest that "Character" is sometimes overemphasized due to assumptions about the client's religiosity and piety, while "Capacity" and "Condition" (including income volatility and economic shocks) have not been properly evaluated with full rigor, thus increasing the risk that morality replaces the analysis of contingent repayment.

RQ2: Internal and External Sources of Financing Risk

Both internal and external risk factors contribute to the increase in financing problems. Internal errors such as human error and misjudgments in Financing scoring systems are often associated with these problems. The institution acknowledges that there are several weaknesses in the collateral assessment process that may be inadequate or misjudged, thus posing a risk to the customer's potential repayment. Bias may be particularly prevalent in products motivated by religious reasons, such as Hajj Arum financing, where there is an assumption that both the institution and the customer tend to prioritize repayment for religious reasons. This emotional assessment element can certainly influence low or inaccurate risk assessments. Furthermore, the client's economic circumstances have a significant external impact on financing risk. Problems faced by customers such as decreased business income, unstable employment, and unexpected financial shocks are still common. In addition, collateral risks such as theft, especially for collateral still controlled by the customer, face the risk of damage or loss, resulting in increased financing risk and reducing the deliverable value of the collateralized assets. In terms of the 5C, This means that "Character"-based judgments influenced by religiosity don't match up with the systematic evaluation of "Capacity"

and "Capital." For example, not keeping good records of income streams and not checking cash-flow patterns well enough can lead to an underestimation of default risk. If these biases based on religion keep happening, they could slowly make underpricing of risk normal, change the indicators of portfolio quality, and make the institution's long-term asset quality more vulnerable, even if the current NPF ratios seem manageable.

RQ3: Risk Identification and Evaluations Across Financing Stages

Risk identification can occur both before and after the distribution process at PT Pegadaian Syariah Klademak. Officers typically monitor and verify the customer's character, repayment capacity, and collateral quality, including evaluating the physical condition of the collateral, business conditions, and income level. Risk assessments must be conducted periodically in accordance with the payment schedule during the post-disbursement phase. To identify early signs of potential default, officers will regularly monitor customer payment activity and interact with customers, while also recording the results. This provides a rapid response before financing problems arise. The combination of continuous monitoring and character evaluation demonstrates a sufficiently prudent approach to risk management that has become part of daily operations. When applied within the 5Cs framework, pre-disbursement activities primarily address Character, Capacity, and Collateral. Meanwhile, post-disbursement monitoring applies "Conditions" and "Controls" to new risks by recognizing changes in customer revenue, business environment, and repayment behavior observed across their history.

RQ4: Risk Management and Mitigation Strategies and Their Effectiveness

This financial institution has demonstrated its ability to implement mitigation strategies and correct financing risks. Prudence in accepting customers who meet strict criteria for financing, improving collateral assessments to be more accurate, and explaining

financing terms transparently and timely are efforts to minimize risk and prevent delinquency. The strategy described in this study is a mitigation effort that includes routine monitoring and proactive reminders to customers to pay bills on time.. Corrective measures, such as extending payment terms or renegotiating repayment plans, are implemented flexibly and focus on solutions when customer late payment issues arise. The institution's internal management assesses that this strategy has proven to help the institution address long-term payment default issues while maintaining client trust. An adaptive risk management paradigm that combines institutional risk control and social responsibility is linked with a focus on communication and adaptability. From an analytical standpoint, these practices can be seen as attempts to align the 5C framework with maqasid al-sharia: a stricter initial evaluation of Capacity and Collateral aims to prevent excessive debt and safeguard wealth (hifz al-mal), while restructuring and adaptable repayment plans promote the maintenance of social welfare and dignity by avoiding forceful collateral liquidation except as a final measure.

RQ5: Customer Perceptions and Validation of Institutional Risk Practices

The validation process for the pawnshop institution's assessment of financial risk governance and management effectiveness was supported by customer interviews. The majority of clients provided information through effective communication, demonstrating a thorough understanding of financial terms, contracts, obligations, and related risks. However, exposure to ongoing financial literacy remains crucial, as evidenced by one client who researchers assessed as having limited understanding. Customers strongly trust the company's collateral appraisal process, which they consider to be accurate, impartial, and expertly assessed. This perspective provides crucial support for the company's risk management through credible appraisal procedures. Declining income, urgent financial needs, or forgetfulness remain common reasons for customers to delay

payments. Importantly, they emphasized that Pegadaian Syariah responded efficiently with direct communication, reminders, and the availability of alternative payment methods. Customers generally found the institution's risk management strategies to be humane, accommodating, and helpful, especially during difficult times. The experiences gained from these clients prove that institutional risk mitigation techniques not only protect the quality of the financing portfolio but also strive to maintain lasting client relationships based on ethical Islamic finance principles and trust. From the perspective of the maqasid al-Shariah (Islamic principles), customers' appreciation of comprehensive explanations, humane collection methods, and the opportunity to readjust requirements demonstrate that existing practices help protect wealth (hifz al-mal) and maintain social harmony. However, formal credit screening processes should enhance the integration of objective measures of repayment capacity to prevent unfair outcomes.

Discussion of Thematic Findings

Empirical evidence from this study indicates that financing risk is the most important aspect of financing risk management at PT Pegadaian Syariah Klademak, followed by operational, reputational, and compliance risks. Objectively assessing the level of financing risk based on morality or religion compared to the customer's ability to repay becomes irrelevant, even religious-based financing products are vulnerable to default risk, as demonstrated by the Hajj Arum financing, which is a priority for financing risk management. These results are in line with Islamic finance literature and theory, which highlight the importance of a comprehensive risk assessment aspect. Institutions must maintain the sustainability and welfare of their clients, and of course in accordance with maqasid al-sharia (Dusuki & Bouheraoua, 2011). Recent literature also explains financing risk mitigation in Islamic financial institutions, where regular monitoring and structured controls are crucial for maintaining low NPF (Non-Performing Finance). PT Pegadaian Syariah Klademak's implemented

risk management strategies, such as proactive reminders, individualized communication, flexible payment options, and regular monitoring, reflect a preventive and mitigating risk management framework (Khairina & Kurniawan, 2024). This strategy is expected to build long-term relationships and customer trust, while simultaneously reducing financing issues. Other recent research shows that a financing assessment process based on system and machine learning data in Islamic finance can reduce assessor bias and more accurately assess default risk. This research also indicates that continuous improvement is still needed in financing assessment systems to reduce reliance on subjective assessments, particularly for religious financing products that rely heavily on emotional sensitivity (Nihlahhania & Wasesa, 2025).

From a customer perspective, these findings validate institutional risk assessments and suggest areas for improvement. This is consistent with case study data from a Pegadaian Syariah branch, which showed that internal controls over collateral valuation and repayment processes were generally considered reliable and helped ensure that loan amounts corresponded to market-based collateral values, supporting early-stage risk mitigation (Elva Lianda Nasution et al., 2024). The majority of customers showed a sufficient comprehension of financing terms and a high level of confidence in the accuracy of collateral valuation, indicating that Pegadaian's appraisal procedures work well as an early risk mitigation tool. The majority of customers demonstrated a sufficient understanding of the financing terms and a high level of confidence in the accuracy of collateral valuations, suggesting that Pegadaian's valuation procedures functioned well as an early-stage risk mitigation tool. Repayment difficulties were mostly caused by income instability, urgent needs, or forgetfulness rather than intentional default, reinforcing the importance of financial literacy and reminder systems in Islamic finance. These results are consistent with microfinance evidence

suggesting that income instability and lack of financial planning skills, rather than intentional default, are the primary causes of repayment problems (Giné & Karlan, 2014). Furthermore, extensive empirical research shows that behavioral interventions such as payment reminders effectively reduce delinquency rates, while higher levels of financial literacy significantly improve borrower repayment performance (Lusardi & Mitchell, 2014). These findings are particularly significant considering the border region (3T) classification of Southwest Papua, where structural barriers include inadequate infrastructure, limited administrative capacity, and relatively low levels of financial sophistication. Pegadaian Syariah's community-rooted operational model, characterized by trust-based relationships, reliance on social networks, and intense personal involvement, appears to be a contextually relevant adaptation strategy in this environment. This suggests that successful Islamic financing in underserved areas requires not only technical risk management expertise but also deliberate cultural and contextual sensitivity to local socioeconomic conditions

Conclusion

As this study shows, PT Pegadaian Syariah Klademak's Islamic finance risks are the most significant, followed by operational, reputational, and compliance risks. Financing risk indicates that faith-based finance, particularly religiously motivated products like Arum Hajj, is vulnerable to default when financing assessments rely too heavily on moral or religious assumptions rather than rational repayment capacity. These results suggest that to ensure institutional continuity and customer well-being, a comprehensive and balanced risk assessment framework that aligns with the *maqasid al-sharia* (the objectives of Islamic law). The company has successfully maintained a reasonable NPF level while maintaining client trust thanks to its humanistic risk management approach, characterized by frequent monitoring, proactive reminders, personalized communications, and flexible repayment options.

In addition to demonstrating that customers place high trust in collateral assessment and institutional transparency, this study also

shows that repayment issues are most often caused by behavior and income instability, rather than intentional default. These results suggest that strategic behavioral interventions and financial literacy are crucial to mitigating the risks associated with Islamic financing, particularly in the border areas of Southwest Papua. This paper contributes to the Islamic finance literature by offering empirical data from a neglected frontier region and providing useful guidance for Islamic pawnshops seeking to balance financial inclusion and risk resilience. However, the single-case study method is not widely applicable, suggesting that future research should employ comparative or quantitative approaches and explore digital and data-driven financing evaluation tools if it is to improve the risk management of Islamic finance.

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