



**THE URGENCY OF THE 5C PRINCIPLE IN MINIMIZING FINANCING
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Abstract

The purpose of this study was to analyze the urgency of the application of the 5C principles in minimizing the risk of financing at Bank Syariah Indonesia KC Diponegoro. This research includes a type of Field Research (field research) which is essentially a method to find specifically and realistically about what is happening in society. As for the informants in this study amounted to 5 people who consist of employees of bank BSI AFO Division (Area Financing Operation) and customers of Bank Syariah Indonesia (BSI) KC Bandar Lampung. Overall, the application of the 5c principles includes character assessment through interviews and track records, Capacity through business observation and cash flow analysis, Capital from the customer's initial capital, Collateral as additional liquid and legal security, and Condition through environmental economic analysis is a comprehensive approach that is essential in mitigating financing risks in Islamic banking. This study implies that the optimal application of the 5C principles (Character, Capacity, Capital, Collateral, and Condition) can significantly minimize the risk of financing at Bank Syariah Indonesia KC Diponegoro, resulting in a positive impact on the financial health and sustainability of the bank's operations. This study offers an original perspective by specifically analyzing the urgency of implementing the 5C principles (Character, Capacity, Capital, Collateral, Condition) in minimizing financing risks at Bank Syariah Indonesia KC Diponegoro, filling the void of in-depth empirical studies on Sharia entities in the region.

Keywords: Principle 5C, Financing Risk, Islamic Banks



INTRODUCTION.

Economic development in Indonesia is increasing with the support of Islamic financial institutions; this growth is characterized by the number of Islamic financial institutions, accompanied by facilities and products offered (Ahmad, 2022). In this case, the existence of Islamic financial institutions must be seen in the context of the existence of the community, along with the values that prevail in the community, one of which is by helping to return humanity to a blessed savings and loan system (Nurrachmi and Setiawan, 2024).

The emergence of Islamic financial institutions is one indication of Islamic power. Islamic banking is one of the newly established Islamic financial institutions. Islamic banking has grown and now operates in more than 70 countries, including most Muslim countries, since the mid-1970s. Assets worth US\$148 billion are owned by 176 banks that submitted financial information to the International Association of Islamic banks (IAIB) in 1997 (Ryandono and Wahyudi, 2021). More than half of the Islamic world's future savings will be under the management of Islamic financial institutions, according to some estimates that may be overly optimistic. The concept of establishing Islamic banks in Indonesia has existed since the mid-1970s, but has never been realized. In the end the concept reappeared in 1988, and in 1991 the deed of establishment of PT. Bank Mu'amalat Indonesia. Following then sprung up a variety of Islamic financial institutions, both banks and non-banks such as BPRS (people's Financing Bank). The interest system is used by banks and other organizations such as Sharia, BMT (Baitul Mal Watamwil), Kopsyah (Sharia Cooperatives), KJKS (Sharia Financial Services Cooperatives), Sharia pawnshops, Sharia insurance, Sharia Leasing, and others to open Sharia business units (UUS) or Sharia branches to expand their reach. Some even directly established Sharia commercial banks.(Adri, 2023)

On February 1st, 2021 marks the merger of Bank Syariah Mandiri, BNI Syariah and BRI Syariah in accordance with 19 Jumadil Ahir 1442 H into one legal entity, namely Bank Syariah Indonesia (BSI).(Basri & Sinilele, 2022) the merger combines the strengths of the three Islamic banks to provide complete services, wider coverage, and greater capital capacity. Synergy with the parent company (Mandiri, BNI, BRI) and the commitment of the government through the Ministry of SOEs encourages Bank Syariah Indonesia to compete globally. This merger is an effort to create an Islamic bank that is expected to be a new energy for National Economic Development and contribute to the welfare of society as a whole. The



presence of Bank Syariah Indonesia reflects Bank Syariah Indonesia's modern, versatile, and natural offerings (Rahmatan Lil ' aalamin).(Irawan et al., 2021)

Indonesia has experienced significant growth in the Islamic banking sector over the past few decades. As part of the rapidly growing financial system in the country, Bank Syariah Indonesia (BSI) has become one of the main actors in facilitating financial services in accordance with Sharia principles. Many contracts in Islamic banking, such as funding (fund collection), financing (fund distribution), and fee-based services (Multi-Service Banking), are based on Islamic contracts. Wadi'ah and Mudharabah, financing through the sale and purchase of Murabahah, salam, and Istishna, which are realized in the form of profit sharing, mudharabah, Musharakah, and ijarah are among the forms of funding (Hisam, 2023). Meanwhile, Sharia credit card transaction services and hiwalah, rahn, kafalah, and sharf paid services are provided. In this context, the Murabahah contract is one of the main instruments used by Islamic banks, including BSI, to meet the financial needs of their customers. Murabaha is one of the sale and purchase contracts in which banks buy goods requested by customers and sell them back with an additional profit that has been agreed.(Hasibuan, 2024) this contract plays an important role in facilitating financing for individuals and business entities that adhere to Sharia principles. However, despite the importance of Murabaha's role, there are still some challenges and obstacles faced in its application in the field, especially in Islamic bank branches in the regions (Fitriani and Nisa, 2024).

The establishment of a business always involves the need for money or capital to start its operation (Nurwakhidah & Musfiroh, 2024). Individuals who already have sufficient capital will find it easy to set up a business. Conversely, for those who do not have adequate funds, or the funds they have are not sufficient, they will certainly face difficulties in starting a business. Therefore, there is a need for financing to support the business establishment process.(Sofyana et al., 2024) financing can be defined as the act of providing financial facilities or financial support from one party to another, aiming to support the smooth operation of a business or investment that has been previously planned. In a more specific context, financing refers to funding provided by financial institutions such as Islamic banks to customers.(Amelia et al., 2024)

Financing is a crucial aspect in the business world because through financing, the acquisition of the main source of income can be realized, becoming the main pillar that supports the continuity of a business's operations.(Fataron, 2021) with financing, the limited funds that may be faced by business managers



can be overcome. However, it should be emphasized that the management of financing must be done well. The inability to manage financing carefully can cause various problems and even result in the cessation of business activities. Thus, it is important to ensure that financing is managed efficiently and effectively in order to maintain the sustainability and success of the business.(Muawanah, 2018)

Some types of financing used in the world of Islamic banking include *embiayaan Musharakah*, *Mudharabah* and *Murabahah* *Musharakah* financing is a cooperation agreement between two or more parties to run a business but each party contributes funds and profits and losses are borne jointly in accordance with the agreement.(Sari et al., 2021) additionally, *mudharabah* financing is a contract of cooperation between the two parties but the First party as the provider of capital and the second party as the manager and business profits depend on the agreement between the two parties, but if the loss was caused by fraud or negligence of the manager then the manager must be responsible for the loss. The *Murabaha* financing is a contract of sale and purchase of certain goods, in this transaction there is production, distributors and consumers, production gives goods to distributors and explains the goods then distributors sell goods to consumers at a price higher than production.(Bahri, 2022)

As is known, the activities carried out by the bank in addition to collecting funds and providing services to customers are also fund distribution products, fund distribution products which are financing (Hutagalung, 2022). However, the product of *Murabaha* financing is the most dominant product in the world of Islamic Banking, Islamic banks in Indonesia and in various other countries. Islamic banking is more interested in using *Murabaha* products because the system and its implementation are not complicated with a more definite profit so that the percentage of the use of the contract in Islamic banks is 60% - 90%.(Imamah, 2021) it is not surprising that this has received criticism from various parties because the *Murabaha* contract, whose profit is certain, is no different from conventional banks, which differ only in the contract process.(Maya et al., 2023)

Table 1.
Murabaha financing PT. Bank Syariah Indonesia Tbk (BSI) Tahun 2021-2023
(in millions of rupiah)

Year	Quarter	Murabahah Financing
2021	I	92.036.919



	II	94.307.278
	III	96.558.481
	IV	101.181.900
2022	I	106.583.388
	II	112.374.179
	III	118.958.430
	IV	124.284.807
2023	I	127.192.568
	II	129.162.730
	III	133.544.386
	IV	135.879.671

Source: Annual Report BSI, 2023

Based on Table 1. above, it can be seen that murabahah financing from 2021 to 2023 has increased significantly; the lowest murabahah financing value was in Quarter 1 of 2021 at Rp. 92,036,919 and the highest Murabaha financing value in Quarter 4 of 2023 of Rp. 135.879.671.

Where in this financing activity also, the bank as a seller who provides customer needs and sells to customers at the acquisition price plus the agreed profit (margin). The types of financing that can be provided with this scheme are investment financing, working capital financing, consumer financing. Bank Syariah Indonesia provides financing/credit assistance in the form of payment in installments (Mutiara and Aravik, 2021). In conducting Murabaha financing, banks should conduct customer feasibility analysis first to minimize risk, namely by applying the 5C principle.

Banking institutions, especially Islamic banks, need to apply the 5C principle to the distribution of financing as a form of implementation of the Banking Act which has been regulated in law No. 10 of 1998 on banking more specifically described in the law on banking which describes the members who do the financing in an Islamic financial institution is a trustworthy person, to be able to know or determine the members can be trusted in the application of financing, it must perform an analysis of 5C as the application of the principle of prudence in the provision of financing. 5C analysis as a benchmark or guideline that reflects related to the health of Islamic financial institutions in the hope that



the financing channeled does not occur problems and jams that will cause losses for Islamic financial institutions. According to Rio Christiawan, the 5C principles are as follows: character (character) in the form of information obtained related to information where the person concerned has an honest, good faith nature that is expected not to make it difficult for cooperatives in the future to pay off their responsibilities. The ability (capability) in this case the Islamic bank is able to assess related to the field of business and the ability of the debtor in running the business. The cooperative has confidence that the business to be channeled funding is managed by the right people. Capital (capital) the cooperative must conduct an analysis of the overall financial between last year's financial or financial this year. So that it can be known the ability of the Capital owned by the debtor in supporting the debtor's business financing. Collateral (collateral) the cooperative must assess the guarantees provided for the proposed financing can be judged from the legality of the goods pledged. The prospective debtor's business prospects (condition of economy) can be seen from the economic situation around the debtor's residence where as a support the business can continue to run until the future (Christiawan, 2020).

Observations made at the research site describe the financing products at Bank Syariah Indonesia Bandar Lampung branch office, namely financing using Murabaha contract as financing of interest to customers. In line with the use of these financing products, the financing process resulted in problems for customers, the fact that in the field there are customers who do not understand the purpose and purpose of this financing agreement, as a result sometimes after making a loan the customer feels that the financing provided is still not in accordance with Islamic law. In this regard, the researcher is interested in conducting a study to understand the financing process and to analyze the compliance of Islamic law in Bank Syariah Indonesia Pringsewu Branch.

In a previous research review, in 2021, Angelina et al. conducted a study entitled "5c analysis on Murabaha financing in BMT Itqan Sharia Cooperative in the real sector of MSME Bandung". In their research, the principle of 5C has been applied in Sharia Cooperative BMT Itqan, but there are weaknesses in the field of Account Officer and Marketing due to lack of human resources in the supervision of financing. This results in credit risk on Murabaha financing. The research method used involves qualitative research with field research and literature search. Data collection is done by conducting observations, interviews, and documentation.(Bauty et al., 2021) in the same year, Hamonangan (2020) also conducted a study entitled "analysis of the application of the 5c principle in the



distribution of financing at Bank Muamalat KCU Padangsidempuan". Hamonangan uses descriptive analysis research method, which focuses on describing the condition of the research object in depth. Data collection techniques with observation, documentation, interviews, and triangulation, where researchers use a variety of data collection methods to obtain information from various sources. The results of research conducted Hamonangan that is, Bank Muamalat KCU Padangsidempuan less than optimal in assessing the capacity, seen from the lack of assessment of the spouse/wife of the customer. This deficiency is considered important as an anticipatory measure to reduce the risk of bad loans at Bank Muamalat KCU (Hamonangan, 2020). Furthermore, Jumarni & Sariyani (2021) conducted a research entitled "analysis of the urgency of the 5c principle in minimizing Financing Risk (Case Study on BMT as'adiyah Sengkang)". The research method used is qualitative with a descriptive approach, the goal is to provide a precise and accurate description of the topic and phenomenon under study. The 5C principle is used to determine whether financing customers are eligible for financing or not (Jumarni and Sariyani, 2021).

The difference of this study with the previous study is that this study analyzes the 5C principles in financing at Bank Syariah Indonesia (BSI) KC Diponegoro, Bandar Lampung City. Financing is a general agreement that is often used to carry out financing at Bank Syariah Indonesia (BSI) KC Diponegoro, Bandar Lampung City. In addition, researchers are interested in conducting research at Bank Syariah Indonesia (BSI) KC Diponegoro, Bandar Lampung city because of the location of Bank Syariah Indonesia (BSI), which is close to public facilities such as markets, terminals, and schools and is located in downtown Bandar Lampung. So many customers use financing as a business opening Fund or develop a business.

Based on the background and these problems, it can be seen some interesting phenomena to be studied and analyzed regarding the urgency of the 5c principle in minimizing the risk of financing at Bank Syariah Indonesia KC Diponegoro. The results of this study can provide views and input for the surrounding community who want to apply for financing in Islamic banks.

The main purpose of the study on the urgency of the 5c principles in minimizing financing risk at Bank Syariah Indonesia KC Diponegoro is to analyze and evaluate how effective the application of these principles (Character, Capacity, Capital, Collateral, and Condition of Economy) in the financing decision-making process. This study aims to identify how each element of 5C is applied practically by the bank in assessing the feasibility of prospective



customers, as well as its impact on the level of non-Performing Financing (NPF). Thus, the results of this study are expected to provide a comprehensive overview of the vital role of the 5C principles as a risk mitigation tool, as well as formulate strategic recommendations to improve the effectiveness of the implementation of these principles to maintain the stability and health of the financing portfolio at Bank Syariah Indonesia KC Diponegoro.

LITERATURE REVIEW

Stakeholder Theory

Stakeholder theory describes how a company's management meets or manages the expectations of its stakeholders. (Ni Putu Manik Julythiawati & Putu Agus Ardiana, 2023) according to this theory, the survival of a company depends on the support of stakeholders, and such support must be obtained through various efforts of the company. (Adrai & Perkasa, 2024) therefore, the company's activities are focused on seeking and maintaining this support. The more powerful or influential a stakeholder, the greater the effort made by the company to adapt to its needs and expectations. Social disclosure is considered an important part of the dialogue between companies and their stakeholders, which helps build and maintain mutually beneficial relationships (Sudaryo et al., 2020).

This theory argues that the long-term success of a company is not only measured by financial benefits to shareholders, but also by its ability to manage relationships with various stakeholders, including customers, employees, regulators, and society. In the context of Islamic financing, the customer is one of the main stakeholders. Therefore, the implementation of the 5C principles is not only an operational procedure for assessing credit worthiness, but also a manifestation of BSI's responsibility to protect the interests of customers, prevent them from falling into problem financing, and maintain the sustainability of the bank's business. By analyzing in depth the character, capacity, capital, guarantees, and conditions of customers, BSI can ensure that the financing provided is truly beneficial for customers and in accordance with Sharia principles, thereby minimizing the risk of financial losses for all parties and strengthening stakeholder confidence in the bank.

Financing

Financing or financing is funding provided by one party to another party to support planned investments, either done by themselves or institution. (Rizky, 2021) in other words, financing is funding issued to support planned investments. According to Banking Law No. 10 of 1998, financing is the provision of money or



bills that can be equated with it, based on an agreement or agreement between the bank and another party financed to return the money or bills after a certain period of time in exchange or profit sharing. In Sharia banking, the financing provided to the fund users is based on sharia principles. The rules used are in accordance with Islamic law (Ilyas, 2020).

Stakeholder Theory has a close relationship with corporate finance because this theory argues that the sustainability and success of the company depends not only on shareholders (shareholders), but also on good relations with all parties who have interests (stakeholders) in it. These parties include employees, customers, suppliers, creditors, to the public and government. From a financing perspective, this theory states that maintaining positive relationships with stakeholders can directly affect a company's access to funding sources and the cost of capital. For example, creditors and investors tend to be more willing to lend or invest in companies that have a good reputation, ethical business practices, and demonstrate a commitment to Social Responsibility (CSR). Conversely, conflicts with stakeholders, such as disputes with employees or complaints from customers, can increase business risk and potentially cause financing costs to become more expensive or even prevent the company from getting the funds it needs. Therefore, effective management of stakeholder relationships is seen as a key strategy to secure and optimize a company's financing structure.

5C Principles

5C principles are principles that are carried out before granting loans to debtors, by monitoring to test the eligibility of debtors to receive financing (Hamonangan, 2020). The first character, namely the character of the customer in taking financing. Both capacities, namely the customer's skills in managing the business that will be given financing. The third is capital, which is the amount of business capital needed by customers in managing the business. The fourth collateral, namely the loan provided by the customer to the bank. The fifth condition, namely the state of the customer's business in the future whether it has a chance or not (Wangi & Sunarya, 2023).

In the context of corporate governance, Stakeholder Theory has a close and complementary relationship with the 5c principles, namely Control, Communication, Collaboration, Commitment, and Compliance. Stakeholder theory asserts that the sustainability and success of a company is not only determined by the interests of shareholders, but also by all parties who have a share or are affected, such as employees, customers, suppliers, society, and



government. The 5C principles became the operational framework for implementing this theory. Control and Compliance ensure that the company has a transparent governance mechanism and comply with regulations to protect the interests of stakeholders. Communication and Collaboration are vital tools for building effective dialogue and cooperation, enabling companies to understand the needs and expectations of stakeholders, and find mutually beneficial solutions. Meanwhile, Commitment reflects the company's determination to integrate stakeholder values into its business strategy, thus creating a harmonious and sustainable relationship. Thus, the 5c principles serve as a practical guide for companies to realize their responsibilities to stakeholders, as outlined by Stakeholder Theory.

Islamic Banks

Islamic Bank is a financial institution whose main business is to provide financing and other services in payment traffic and money circulation whose operation is adjusted to the principles of Islamic law.(Jannah, 2023) a similar understanding was also expressed by Karnaen and Muhammad Syafi"Antonio who defined a Sharia Bank as a bank that operates in accordance with Islamic principles, namely banks whose operations follow the provisions of Islamic Sharia, especially those concerning the procedure for bermuamalah (Antonio, 2001).

RESEARCH METHOD

This research is a type of Field Research (field research) which is essentially a method to find specifically and realistically about what is happening in society so conduct research on some of the actual problems that are now raging and expressed in the form of symptoms or social processes. In accordance with the problem that the author researched, then this type of research is categorized as a type of library research, namely research conducted by collecting data and information with the help of various books related to the problem that the author researched that will be discussed in this study.

As for the informants in this study amounted to 5 people who consist of employees of bank BSI AFO Division (Area Financing Operation) and customers of Bank Syariah Indonesia (BSI) KC Bandar Lampung.

To obtain the data needed in this study, the authors used the methods of observation, interviews, and documentation. Data processing methods used are



data inspection (Editing), data verification (Verification), data classification (Classification), and Data Systematization (Systemizing).

The method of analysis used is to use a qualitative approach that is a research procedure that produces data in the form of written words from people and understandable behavior. This method is used as an analysis of various literature or data sources that have been collected related to the application of 5C principles in minimizing financing risk at Bank Syariah Indonesia KC Diponegoro.

RESULTS AND DISCUSSION

Data Quality Analysis

In this study used validity and reliability testing on the sample in advance to measure the accuracy of the instrument each question or statement of the questionnaire used.

Based on the results of in-depth direct interviews with the Area Financing Operation (AFO) of BSI KC Diponegoro, several important information was obtained that substantially strengthened the results of field observations and provided a detailed overview of the implementation of the 5C principles in the financing analysis process:

1. Character

Character assessment of prospective customers is a fundamental aspect that is carried out through a combination of comprehensive methods. First, intensive live interviews with prospective customers are conducted to dig up personal information and observe their behavior directly. Second, checking the track record of previous financing through credit information systems, such as the Financial Information Service System (SLIK) of the Financial Services Authority (OJK), to see payment history and customer compliance with financial obligations. Third, AFO officers make careful observations of the behavior and attitudes of prospective customers during the entire interaction process, from submission to interview. The overall effort is made to precisely identify the integrity, honesty, and willingness to pay prospective customers non-financial factors that are crucial in determining the feasibility of financing.

"We not only look at the BI Checking data (Financial Information Service System of the Financial Services Authority), but also from the way of speaking, openness, and attitude of prospective customers during interviews. It is decisive in the assessment of character. We seek honesty and good faith



from the beginning, as this is the main foundation of trust in a Sharia financing relationship."(Interview with Mr. Veriza, May 21, 2025)

2. Character

The AFO stated that the assessment of the capacity or ability of prospective customers to repay financing is carried out through direct observation of business conditions and in-depth analysis of the income structure of prospective customers. This process includes physical verification of the existence and activities of the business to ensure that the source of income claimed by the customer is real and sustainable. Capacity assessment is not only about the numbers on paper, but also about the sustainability and growth potential of the customer's business in the future.

According to Mr. Veriza (2025) "we will, take to the field to see for ourselves the condition of the business. This direct observation is crucial to ensure that the business really works, not just claims. If the business is active, the turnover is regular, and has good prospects in the market, it becomes the main consideration in assessing the customer's payment capacity. We look at cash flow and realistic profit projections."

3. Capital

Assessment of the initial capital of potential customers is an important indicator in assessing the resilience of the business to potential financial risks that may arise, such as market fluctuations or unexpected operational constraints. The initial capital shows the level of financial commitment of the customer to his own business and serves as a buffer (buffer) that can absorb initial losses or help overcome periods of economic famine. Islamic banks tend to trust customers who have a significant personal investment in their business.

According to Mr. Veriza (2025) "at least they have their own initial capital. We cannot rely solely on financing from banks completely for all business operations. If a potential customer has no capital at all, it becomes a red flag" or a danger sign that indicates a higher potential risk, because it shows a lack of commitment or adequate financial reserves."

4. Collateral

The valuation of the collateral is carried out Strictly and carefully taking into account the current market value of the pledged asset, as well as the validity and completeness of the accompanying ownership documents.



Collateral, although in Murabaha Sharia financing is not always the main requirement as in conventional banks, still serves as additional collateral and risk mitigation instruments for banks. This collateral assessment also includes the liquidity aspect of the asset, how easily it can be cashed out in the event of an undesirable event.

According to Ibu Noni (2025) as a staff, "collateral is still important. Although it is not the main and absolute requirement in any sharia financing based on the Murabaha contract, this is the last risk mitigation that will be used by the bank in the event of default or failure of payment from the customer. Collateral provides an additional sense of security for banks in the face of potential default risk."

5. Condition

Assessment of economic conditions involves an analysis of the macro- and microenvironment that affects the residence and business of potential customers. The aim is to understand the general economic stability, industry trends and business prospects in the region or sector. This includes an analysis of the purchasing power of people around the business location, the level of competition, as well as the potential impact of government policies or global conditions.

According to Ibu Noni (2025) "if he (the prospective customer) lives in a security-vulnerable area or his business is in an economically unstable location, it will certainly affect the assessment of financing feasibility. We also look at the purchasing power of the surrounding community to measure the potential sustainability of the business and the ability of customers to generate revenue. These external factors largely determine the payback prospects of financing."

Implementation of the 5C principles in the distribution of financing

In the distribution of financing, there are 4 indicators that researchers use to analyze research from the implementation of the 5C principles at BSI KC Bank. Diponegoro, namely, filing, Survey, Committee, and contract process, from the 4 (four) indicators can be obtained as follows:

1. Filing Stage

At this stage, the initial stage of the financing distribution process, where customers who want to submit a financing application must meet several conditions that have been determined by the BSI.



According to Ms. Sulis (2025), as a customer, “the necessary files are husband and wife ID CARDS, marriage books, KK, collateral, salary slips, account mutations.

At this stage, customers are also interviewed related to financing, as said by Mr. Adi as a customer (2025), “in addition to collecting files, we are also slightly touched upon regarding the use of funds, or capital if financing has been approved”. From the above explanation of the filing requirements, it is very clear that the requirements that must be met by prospective customers are husband and wife ID cards and marriage books for those who are married, KK, account mutations, salary slips, and collateral.

2. Survey

After all the filing is complete, the bank BSI survey section will visit the House, place of business or to the location of the collateral to see firsthand the condition of the collateral.

According to Mr. Veriza (2025) “in addition to direct interviews with prospective customers, we also carry out checks or environmental checks where we find out personally related to this prospective customer whether he is honest, has been in debt, or just paid not”. In addition, according to Ibu Noni (2025) “we first see what is appropriate, whether what is worthy and marketable”.

It can be concluded that in conducting a survey BSI bank is very thorough and careful, not only interviewing prospective customers themselves but ask for information directly to the surrounding environment, and also see firsthand the conditions of the collateral pledged.

3. The Joint Committee

Furthermore, the Joint Committee where at this stage the survey team has provided the results of their visits to prospective customers, where the survey team declared marketable or not marketable.

According to ibu Noni (2025) “ refinancing approval at the Financing Committee, such as area manager, Branch Head, or Segment manager, my task is to provide survey results whether marketable or not, whether in accordance with what is pledged”.

It can be concluded that at this stage the survey team provides the results of their visits in the field to the committee team that decides whether financing is approved or not.

4. Akad



After the committee team approves the financing, then the next is the contract process which ends with consent. At BSI bank many use Murabaha contract.

In the contract process, the bank asks prospective customers to come directly to the office, this is confirmed by the results of an interview with Ms. Mutiah (2025) “after my survey and financing application are approved, I am asked to go to the office to make a contract and disburse financing”.

Based on the description above, it can be concluded that BSI bank has run the 5C principle optimally; it can be seen from the interview results from the bank and the customer in sync.

Theoretical Analysis

The application of 5C principles (Character, Capacity, Capital, Collateral, Condition) in the financing process at BSI KC Diponegoro can be analyzed theoretically through two main frameworks: (1) Risk Management Theory and (2) Stakeholder Theory.

1. Linkage with Risk Management Theory

Academically, the 5C principles are an integral part of financial risk management, emphasizing prevention rather than resolution after problems arise. This approach is the foundation for sound banking practice, ensuring that credit risk has been comprehensively assessed before funds are disbursed. The 5C principles provide for a systematic credit decision-making based on the identification of the customer's individual risks. Each "C" serves as a filter layer that helps banks evaluate potential payment failures from various perspectives: customer integrity (Character), financial capability (Capacity), capital stability (Capital), availability of collateral (Collateral), and external economic conditions (Condition).

Strong financing risk management not only protects banks from financial losses, but also supports the stability of the financial system as a whole. In the context of Islamic banks, risk management must also be in line with Sharia principles that prohibit gharar (excessive uncertainty) and maysir (gambling). By carefully analyzing the 5Cs, BSI seeks to minimize risk in financing transactions, ensure that decisions are based on solid information and reduce uncertainty about customer returns. This is in line with the objectives of Sharia risk management which focuses not only on financial benefits but also on justice and blessings.

2. Linkage with Stakeholder Theory



In terms of Stakeholder Theory, financing decisions made by BSI are not only related to bilateral relations between banks and customers, but also reflect the bank's commitment and responsibility to other parties who have interests (stakeholders) in the banking ecosystem. These stakeholders include regulators such as the Financial Services Authority (OJK) who oversee the bank's compliance and soundness, investors who invest in BSI, and the wider community who have an interest in economic stability and the availability of fair financial services.

When the bank applies the 5C principles in a disciplined manner, it means that the bank is trying hard to maintain a healthy, transparent and accountable Islamic financial ecosystem. This principle ensures that funds disbursed are managed responsibly, minimising the risk of default that could impact the health of banks and public confidence. Thus, financing decisions based on 5C principles are a form of social and economic responsibility carried by BSI towards all its stakeholders. It also strengthens BSI's image as a financial institution that is not only profit-oriented but also upholds ethical and sustainability values.

3. Critical analysis of the application of the 5C principles

Although the application of the 5C principles is fundamental, it can be critically argued that there are inherent challenges in their application, especially in the aspects of “character” and “condition,” which are often subjective.

a. The challenge of subjectivity in the assessment of "Character"

The "character" aspect, assessed through behavioral observations, interviews, and personal experiences of AFO officers, is particularly vulnerable to cognitive bias. These biases can include confirmation bias (a tendency to seek out, interpret, and recall information that confirms an officer's initial beliefs) or the halo effect (in which a positive or negative general impression of a person influences the assessment of other specific traits). This is confirmed by the statement of a source from AFO: “yes, the character is subjective. That's why we usually discuss the results of interviews in the AFO team before approving [approving financing].” - (Interview with Mr. Veriza, May 21, 2025) Although team discussions are a mitigation effort, early, highly personalized decisions have the potential to reduce the consistency of assessments between cases and open up loopholes for less objective decision-making.



For this reason, a more standardized SOP (Standard Operating Procedure) and a more structured assessment instrument are needed. For example, the development of interview rubric guidelines based on specific behavioral indicators that can be observed and scored. Furthermore, the application of technologies such as credit scoring based on Artificial Intelligence (AI) and big data can be an innovative solution to increase objectivity. The system can analyze historical transaction data, payment patterns, and customer digital footprints (with due regard to privacy and Sharia ethics) to provide a more empirical and predictive character assessment. This system-based assessment is important to reduce the risk of decisions based solely on perception and strengthen the decision-making process that is more data-based.

b. The challenge of subjectivity in the assessment of "Condition"

The "condition" aspect also has an element of subjectivity as macro- and microenvironmental assessments may vary depending on the interpretation and source of the attendant data. Although AFO officers make observations, the scope of their analysis may be limited to physical areas and easily accessible information. Rapid economic fluctuations and market dynamics also make assessing conditions a challenge. To combat this, BSI can integrate the analysis of broader external economic data, such as industry survey reports, regional economic indices, or economic projections from leading research institutions, into the assessment process. The use of geospatial technology can also help in analyzing business environmental conditions more objectively.

c. Synergy between field observation and Sharia principles

On the other hand, direct observation of the capacity and condition of the business, as revealed by the AFO, shows an excellent application of the principle of field verification: "a direct look at the place of business is much more convincing than just talking at the interview table." (Interview with Mrs. Noni, 21 May 2025)

This is very much in line with the principles of maqashid al-Shariah, especially Al-amanah (honesty) in information and al-'adl (justice) in transactions. By conducting direct verification, the bank ensures that the information submitted by the customer is truthful and that financing decisions are made based on fair and real conditions. This is also in line with the well-known rule of jurisprudence, "al-ghunmu bi



Al-ghurmi” (profit must be accompanied by risk). This rule underlines that parties entitled to profits must also bear the risks associated with such business activities. By conducting direct verification, the bank also takes a measured risk based on the validation of the customer's business conditions, so that financing is not only funding but also a partnership based on business realities. In this context, Islamic banks must carefully balance the intention to make a profit with Sharia principles that avoid gharar (excessive uncertainty). Field observation is one of the effective ways to reduce gharar and ensure that financing is channeled to productive and tangible economic activities. Thus, the implementation of the 5C principles at BSI KC Diponegoro has reflected a good combination of prudence, sharia compliance, and responsible risk management. However, improvement space remains. There is a need for innovation in a more measurable and technology-based assessment system, as well as increasing the capacity of human resources to understand the dynamics of customer character and business more objectively and analytically. In the long run, these efforts will not only improve the efficiency and quality of BSI's financing portfolio, but will also strengthen BSI's image (brand image) in the eyes of the younger generation as a modern, professional, and trusted Islamic financial institution. This in turn, will encourage the growth of a healthy and inclusive Islamic financing ecosystem, as well as increase Generation Z's investment interest in sharia-based digital products such as digital gold.

CONCLUSION

Based on the results of research on the application of 5C principles in minimizing financing risk at Bank Syariah Indonesia KC Diponegoro, it can be concluded that the character principle is applied through in-depth interviews, observation of prospective customer behavior, and examination of financing history through the OJK SLIK. This effort aims to assess the integrity, honesty, and good faith of customers as a basis to build trust and minimize financing risks. The capacity principle is applied through direct observation of the customer's business conditions and analysis of cash flow and business prospects. This is to ensure that the customer has a real ability to pay off the financing. The principle of capital is assessed from the amount of Initial Capital owned by prospective customers. This capital shows the customer's commitment to their business and becomes a buffer in the face of financial risk, so that the risk of financing from the



bank can be suppressed. The principle of collateral remains an important aspect although it is not the main requirement in the Murabaha contract. Collateral is assessed based on its market value, legality and liquidity, so it can be an additional guarantee in case of default. And the condition principle is applied through the analysis of economic conditions around the customer's residence and business. Factors such as environmental stability, purchasing power, and market potential are analyzed to assess business sustainability.

Based on the research findings, the main implication of the application of the 5C principles (Character, Capacity, Capital, Collateral, Condition) at BSI KC Diponegoro is that a holistic and in-depth assessment of prospective customers is significantly able to minimize financing risk. This practice not only focuses on the financial aspect, but also assesses the integrity and sustainability of the customer's business, in line with the principle of prudence in Islamic banking. Thus, this study reinforces the argument that qualitative assessment (character and condition) is as important as quantitative assessment (capacity, capital, and collateral) in maintaining the quality of financing assets. For further research, it is advisable to conduct comparative studies with other Islamic banks or conventional banks in order to identify differences in the effectiveness of the application of the 5C principles and specific factors affecting them. In addition, future research may explore the role of technology, such as fintech and big data, in optimizing 5C assessments, particularly in analyzing the character and capacity of customers who do not yet have a formal financial track record.

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