

# RISK MANAGEMENT ANALYSIS OF THE INVESTMENT MANAGEMENT MODEL FOR HAJJ FUNDS AT THE HAJJ FINANCIAL MANAGEMENT AGENCY (BPKH)

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**Abstract:** This study aims to analyse the investment management models of Hajj funds at BPKH, the potential risk forms faced, and the risk management of Hajj fund investments performed by BPKH. The research method used is literature research. The results indicate that BPKH manages Hajj fund investments using two models: 1) investing in securities in Sharia capital market instruments including Sharia stocks, Sharia bonds or sukuk, and Sharia mutual funds, and 2) direct investments in various company sectors such as hospitality, aviation fuel, airlines, catering, bus transportation, and national banking to acquire money changers in Saudi Arabia, as well as certified gold investments and other investments. The potential risks of these two forms of Hajj fund investments include exchange rate risk, liquidity risk, default risk, and legal risk. Based on the analysis, it was found that the implementation of Hajj fund investment risk management by BPKH has applied economic principles, especially the principle of prudence.

**Keywords:** Risk Management, Hajj Fund Investment, BPKH

## Introduction

The Saudi Arabian government has increased the Hajj quota for Indonesia by 20,000 in 2024, bringing the total quota to 241,000, consisting of 221,720 regular Hajj pilgrims and 19,280 special Hajj pilgrims. This decision was made due to the high enthusiasm of Indonesian Muslims to perform the Hajj pilgrimage. Consequently, there has been a growing waiting list of Indonesian Hajj pilgrims from year to year. According to the Ministry of Religious Affairs Indonesia website in 2023, as of the end of March 2023, the waiting list for Indonesian Hajj pilgrims numbered 5,283,777. This increase in the waiting list of Indonesian Hajj pilgrims as mentioned above is positively correlated with the accumulating Hajj Rituals Costs (BPIH) deposits from year to year as shown in the following table.

Table 1. Accumulated Hajj Fund Indonesia 2017-2022



Source: BPKH Financial Report (Oktavia, 2023)

The table above shows that the accumulated hajj funds continue to increase, starting from Rp 102.51 trillion in 2017 and reaching Rp 112.35 trillion in 2018, Rp 124.43 trillion in 2019, Rp 144.91 trillion in 2020, Rp 158.79 trillion in 2021, and Rp 166.01 trillion in 2022.

Managing the collected hajj funds must be done cautiously to generate optimal benefits for the Muslim community. This prompted the government to seek solutions to prevent the funds from sitting idle and losing their value. The Ministry, as the regulator, consistently aims to provide the best service to the public by focusing on financial management of the hajj funds to enhance the Ministry of Religious Affairs' service and guidance to pilgrims. This initiative led to the establishment of the Hajj Financial Management Agency (BPKH).

The main objective of forming BPKH is to manage the hajj funds in Indonesia and provide benefits for the Muslim community in Indonesia. BPKH is responsible for managing the financial aspects of hajj, including revenue, growth, expenditure, and financial accountabilities for hajj (Witjaksono, 2020). One fundamental aspect of investment fund management is risk management. By implementing good risk management, investment activities can avoid potential losses or bankruptcy. Therefore, many companies realise the importance of implementing risk management as part of their business strategy to prevent losses and bankruptcy. The implementation of Risk Management offers many advantages and benefits to companies in investment fund management, such as facilitating investment fund management, identifying investment risks, and controlling inherent risks experienced by the company (Witjaksono, 2020).

The Law Number 34 of 2014 Article 53 paragraph 1 stipulates that the performance of Hajj financial management must take into account the risks faced in determining investment instruments. Due to various uncertainties, risks must be considered in financial decision-making. Therefore, an investment instrument can assess the extent of the risks it contains. In order to evaluate the existing risks and how to avoid or minimise them in financial instruments, the BPKH issued the BPKH Regulation No. 5 of 2018, regarding Procedures and Forms of Hajj Financial Investment which also includes articles related to risk management in the implementation of Hajj Financial investments. Based on the above explanation, this research aims to conduct a more in-depth study on Risk Management Analysis of the Investment Fund Management Model in the Hajj Financial Management Agency (BPKH).

## **Problem and Research Objectives**

### **Research Problem**

The research issues encompass the investment management models of hajj funds by BPKH, the various forms of potential investment risks of hajj funds at BPKH, and the analysis of risk management of hajj fund investments at BPKH.

### **Research Objectives**

This research aims to: 1) understand the investment management models of hajj funds by BPKH, 2) identify the different forms of potential investment risks of hajj funds at BPKH, and 3) analyze the risk management of hajj fund investments at BPKH.

## **Literature Review**

### **Basic Concept of Risk Management**

According to Royyan (2023), the basic concept of risk management involves a series of steps that must be taken to reduce risks and minimize the negative impacts that may occur within an organization. These steps to reduce risks are carried out through:

1. Risk Assessment

The risk assessment process evaluates identified risks from previous steps. It involves: 1) Identifying potential impacts for each identified risk, 2) Assessing the likelihood of these impacts, 3) Determining risk levels by considering potential impacts and their likelihood, 4) Establishing risk priorities based on their levels and potential impacts.

#### 2. Risk Management Strategy Development

The development of risk management strategies determines the appropriate approach to reduce, transfer, or avoid identified risks.

#### 3. Strategy Implementation

The steps for implementing risk management strategies involve executing selected strategies to reduce, transfer, or avoid identified and assessed risks.

#### 4. Monitoring and Evaluation

Monitoring and evaluation in risk management ensure the effectiveness of implemented strategies in reducing, transferring, or avoiding identified and assessed risks.

### **Investment of Hajj Funds**

Investment is a term related to finance and economics, often referred to as capital investment. For investors, investment involves spending or expenses to purchase capital goods or equipment to enhance the ability to produce goods or services. (Ramadhani, 2022)

The management of Hajj Funds is governed by Law Number 34 of 2014 regarding the Management of Hajj Financial Affairs. Hajj funds consist of the cost deposits for the implementation of the Hajj pilgrimage, efficiency funds for the organization of Hajj, community endowment funds, and the value of benefits controlled by the state for the organization of the Hajj pilgrimage and the implementation of programs for the welfare of the Muslim community.

Government Regulation of the Republic of Indonesia Number 5 of 2018 regulates the Implementation of Law Number 34 of 2014 regarding the Management of Hajj Financial. The Government Regulation explains in detail about the management of both receipts, expenditures, and the wealth of the Hajj fund. It clearly states the sectors where the Hajj fund can be placed/invested.

### **Method**

#### **Research Scope**

The scope of this research is to discuss the various investment management models of the Hajj funds by BPKH, the types of potential investment risks of the Hajj funds at BPKH, and the analysis of risk management of the Hajj funds investments at BPKH.

#### **Research Period**

This study was conducted from 01 January 2024 to 28 February 2024.

#### **Data Collection Method**

The data source for this research is secondary. The data collection technique involved using documentation, which includes searching for information on relevant topics or variables through records, books, papers, articles, journals, and so on.

#### **Data Analysis Technique**

The data analysis technique used is known as content analysis. According to Fraenkel & Wallen, content analysis is a research tool that focuses on the actual content and internal features of media. This technique enables researchers to indirectly examine human behavior through the analysis of their communications such as: textbooks, essays, newspapers, novels, magazine articles, songs, advertising images, and all types of analyzable communication (Sari, 2021).

## Result and Discussion

### Investment Management Model for Hajj Fund

#### 1. Investment Management Model for Hajj Fund prior to BPKH

Before being managed by BPKH until 2017, the management of the Hajj Fund was the responsibility of the Ministry of Religious Affairs (Kemenag). Investments in the Hajj fund have been made since the approval of Law Number 13 of 2008 concerning the Organization of Hajj. Kemenag had the authority to invest the Hajj operational costs in three investment instruments: sharia time deposits, State Bonds (SUN), and State Sharia Securities (SBSN).

As a result, investments in the real sector or other business sectors were not yet feasible. Subsequently, Kemenag focused the placement and investment of the Hajj fund on two instruments: savings/deposits, accounting for 65% of the total managed Hajj funds, and the remaining 35% allocated to sukuk instruments. This investment placement was considered unable to generate optimal benefits.

#### 2. Management Model of Hajj Fund Investment at BPKH

One of the hallmarks of a new era in the management of Hajj finances is the enactment of Law Number 34 of 2014 concerning the Management of Hajj Finances, which includes the establishment of an independent public legal entity responsible for managing Hajj funds directly to the president. While previously Hajj finances were only placed in Shariah time deposits and Shariah Government Securities (SBSN), under the management of the Hajj Financial Management Agency (BPKH), Hajj finances are now invested in a wider range of instruments. In accordance with the law, BPKH's Hajj finances can be invested in shariah-compliant securities, gold, direct investments, and other types of investments. As part of risk management, investment diversification is now an integral part of risk management, and the following are the types of investments and allocation limits carried out by BPKH:

**Table 2. BPKH Investment Allocation Limits**

No.	Investment Type	Investment Limitations
1	Investing in gold/precious metals	Investment in the form of gold/precious metals is a maximum of 5% of the total Hajj financial placement and/or investment.
2	Direct investment	Direct investment is a maximum of 20% of the total placement and/or investment of Hajj Finance
3	Other investments	Other investments are a maximum of 10% of the total placement and/or investment of Hajj Finance
4	Securities Investment	Securities investment which is the remainder of the total Hajj Financial placement after deducting the amount of Hajj Financial investment in the form of gold, direct investment and other investments.

Source: (Witjaksono, et al., 2020)

#### Forms of Hajj Fund Investment Risk Management by BPKH

The formulation of the level of risk taken and risk tolerance for financial investment instruments is part of the scope of risk management for investments which is the spirit of BPKH Regulation No. 5 of 2018. Because investment risk management activities can affect the achievement of predetermined investment objectives. The investment target as referred to in paragraph 1 of article 9 of BPKH Regulation No. 5 of 2018 is determined by taking into account potential risks, returns, as well as potential weakening of the Rupiah exchange rate against foreign currencies required for expenses for organizing the Hajj pilgrimage.

##### a. Exchange Rate Risk Policy

The most common currency used in BPKH spending for Hajj purposes is in US Dollars and Saudi Arabian Riyals. There are 3 Hajj services that use foreign currency in every transaction, namely transportation services, congregational catering services and accommodation services. There is a risk if you invest in rupiah, namely the stability of the exchange rate. The fluctuating condition of the Rupiah exchange rate against foreign currencies, especially the US Dollar, means providing foreign currency (FX) for the three services can be problematic.

To meet the needs of US dollars and reals, BPKH buys directly from the market. Then, the need for US dollars and Saudi Arabian Riyals is used by the Ministry of Religion to finance the Hajj. To reduce and control the risk of loss from exchange rate fluctuations, BPKH makes provisions regarding hedging policies.

In accordance with Article 38 of BPKH Regulation No. 5/2018, that in an effort to reduce the risk of loss and/or reduce the optimization of the value of benefits due to an increase in the Cost of Organizing the Hajj Pilgrimage as a result of the weakening of the Rupiah value against foreign currencies, BPKH can carry out hedging transactions either directly or Indirectly, including optimizing natural hedging.

The hedging policy is in the form of natural hedging, the results of which are able to overcome the risk of weakening the Rupiah exchange rate against other currencies. Activities related to natural hedging are direct investment or investment in foreign currency. The returns obtained from direct investments will depend on the risks. Direct investments have the highest returns, but the risks are also high. BPKH will choose moderate steps with controlled risks.

#### **b. Liquidity Risk Policy**

BPKH investment planning considers the investment period with the liquidity requirements for BPIH expenditures. In accordance with article 46, the investment horizon of BPKH funds in various investment instruments is aligned with the profile of estimated liquidity needs for expenditures for organizing the Hajj pilgrimage to achieve a match between the liquidity needs for expenditures for the Organizing of the Hajj Pilgrimage and the disbursement of investment funds, both short-term and short-term. medium or long.

Short-term investments include BPKH policy to meet liquid funding needs, such as placement in cash equivalent financial instruments. This also includes the mandate of Law No. 34 of 2014. Article 48 stipulates that "it must be carried out in accordance with sharia principles by considering aspects of security, prudence, value of benefits and liquidity." Several other articles also emphasize the importance of the liquid aspect of the investments made. The law mandates that BPKH must manage and provide Hajj finances which are equivalent to 2 (two) times the costs of organizing the Hajj (article 47).

#### **c. Default Risk Policy**

Investments in the capital market, such as investments in SBSN, Sukuk, shares and mutual funds have good returns, but of course have greater potential risks, one of which is the risk of default. BPKH securities investment has the largest proportion compared to other types of investment. Of course, BPKH's investment in securities still has a low risk profile, which is reflected in the investment rating.

BPKH policy is guided by the Investment Rating or Investment grade of the counterparty. Investment rating or investment grade is the qualification given to an investment instrument from a rating agency recognized by the Financial Services Authority for domestic investments and/or an official rating agency for overseas investments, namely a credit rating of A- (A minus) or above for investments issued by State-Owned Enterprises or BUMN Affiliates or a credit rating of A (A Flat) or above for investments issued by other Corporations.

To mitigate the risk of loss, the BPKH Implementing Body can allocate funds for investment loss reserve purposes.

#### **d. Legal Risk Policy**

Legal risk is the risk that occurs due to the emergence of legal problems in investment activities. Direct investment in Saudi Arabia, such as investment in providing hotels or accommodation for Hajj pilgrims in Mecca and Medina, Saudi Arabia, is considered natural hedging. By investing in Saudi Arabia, BPKH can utilize the returns in the form of US Dollars or Saudi Arabian Riyals so that the results can be reused for meet the needs of dollars or riyals for the congregation. However, the regulations for ownership of assets in the form of land and buildings in Saudi Arabia, especially in Mecca and Medina, are very complicated, and they must be implemented carefully considering that the regulations in the Holy Land are quite complicated. So there are legal risks faced if direct investment in Saudi Arabia, especially in Mecca and Medina is carried out.

BPKH is prohibited from investing in companies that are in legal proceedings or currently have legal cases in court that have the potential to materially affect the company's business continuity potential and/or affect the company's ability to gain profits in the future. Every Hajj financial investment is carried out based on the principle of prudence.

BPKH risk management can provide great benefits for Indonesian Hajj Pilgrims, as mandated. In accordance with BPKH regulation no. 5/2018, Hajj Financial Investment aims to increase the beneficial value of funds managed by BPKH.

To achieve this goal, BPKH creates good governance in order to achieve this goal, by making policies that include elements in accordance with the provisions of Law Number 34 of 2014 Article 53 paragraph 1 which requires that the performance of Hajj financial management must take into account the risks faced by BPKH. determine investment instruments.

This element is to identify risks to create an optimal monitoring system and risk control strategy for investment instruments. Because Hajj Finance is a mandate from prospective Hajj Pilgrims, every Hajj financial investment is carried out based on the principle of prudence.

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#### **Conclusion**

The Hajj fund investment management model at BPKH is carried out in two areas, namely investment in securities in sharia capital market instruments including sharia shares, sukuk or sharia bonds, and sharia mutual funds, and also in direct investment in various company sectors such as the hotel, aviation fuel, aviation, catering, bus transportation, and national banking to acquire money changers in Saudi Arabia as well as certified gold investments and other investments.

Potential forms of investment risk in Hajj funds at BPKH include; exchange rate risk, liquidity risk, default risk and legal risk. The implementation of Hajj fund investment risk management at BPKH from an Islamic economic perspective is in accordance with the principles of Islamic economics, especially the principle of prudence.

Managerial Implications and Recommendations

### Managerial Implications

One of the most basic things in managing Hajj investment funds is risk management. By implementing good risk management, investment activities can avoid potential losses. The performance of Hajj financial management must take into account the risks faced in determining investment instruments. There is a lot of uncertainty faced so that risks must be considered in making financial decisions.

### Recommendation

1. The management of Hajj funds by BPKH needs to be closely monitored both internally and externally to prevent irregularities and misuse of Hajj funds.
2. It is necessary to socialize sharia-based investment instruments and mechanisms for placing and using Hajj funds and publish them in a transparent and accountable manner.
3. For those interested in this research, for further research it is recommended to use field research methods, not limited to literature research so that they can understand the application of risk management in managing Hajj funds at BPKH.

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