Modification Of Sharia In Risk And Return Framework

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Abstract

This article covers speculations related to risk, consideration of decision making, and also the profit from return in Shariah modification. Types of risks are also discussed in this chapter as for the risks and returns of a single asset both on a single asset (security), a set of assets that make up a portfolio or optimal portfolio. (return) Returns are also divided into two namely Realized Return (Expected Return) and expected return (Expected Return). Selection of Single Assets and Securities Very influential in decision making so that the maximum return is obtained by choosing the optimal portfolio to be the goal of investors in making decisions.

Keywords: ***Speculation related to risk*****,** ***consideration of decision making and profit***

A. Introduction

Risk is a matter of speculation (uncertain) in the past including the loss, caused by an event of a party's fault. There are aspects that must be considered in making decisions, decision making (return) and risk (risk) decisions. Namely the level of taking (rewards) to be desired, financial decisions that are more risky will certainly get a greater reward with the term " *high risk high return* " using the coefficient of variation, a (risk / unit) of the desired reward by the amount of *standard deviation* divided by level return. While Return is the return / profit (profit) obtained from the company called investment. Investment is the activity of raising funds on an asset during the expected period in order to get results and the level of investment value. Investment = risk of dealing with speculation / uncertainty in obtaining a return or not fixed, while interest is a business activity that is not too risky because it is certain. Both of these are very close to investment, it needs a financial management to manage it.

Therefore, using assets must be productive. An investor also has 2 things, the desired profit and the risk that continues to think, of the two things are interrelated, many investors want to give a plus (added) turns out investors are more focused on fees (income) alone without thinking about the existing risk , the level of fee from a risk that the higher the risk taken, the higher the level of benefits obtained , from this writing will explain what is the return and risk to what are the types of both to portfolio realization

The purpose of this paper is to make reference material for various groups in understanding the risks and returns in sharia mofication, especially in sharia financial learning.

B. Literature Review

A. Definition of Risk & Return

Discussing these two things is something that we often hear, especially in terms of finances, both investment and profit sharing. In order to understand risk and return, we need to know first its meaning, return is the return or term of return on the capital that we spend. These benefits can be obtained through investments, companies and individuals.

Some understanding of the return proposed by the investment field is RJ.Shook as investment benefits as follows:

- Return on Equality is the equity or income of the investor
- Return Of Capital a capital return from payment of cash that is not taxed to investors including rewards that are not from distribution
- Return Of Investments are rewards of investments (investments and profits)

B. Types of Risk

According to PBI No. 13/25 / PBI / 2011, namely the application of risk management for BUS & UUS. Risk is po tension loss due to a particular event. The application of risk management in Islamic banks must be adjusted to the objectives , business policies, measurements , and complexity of the business as well as the ability of the bank itself . Cement the fig, the ability of banks should also include financial viability, infrastructure, and human resources human.

The supervisor also requires each Islamic bank to implement risk management for the following programs:

1. Credit risk, is a resulting risk of the failure of customers or the -pihak other in fulfilling the obligations kepa da bank in accordance with the promise that has been agreed upon.
2. The risk of market or markets, is a risk on the balance sheet and administrative accounts as a result of market price perubaahan itself , among others , namely the risk of changing the value of assets that can be perjual traded or sold and leased.
3. Liquidity risk , is a risk of the bank's inability to meet the obligations due from the funding source of a high quality cash flow and liquid assets constructed , without disrupting the activities or financial condition of the bank.
4. Risk pengoprasian or operat ional, is the risk of losses caused by an internal m emadai, internal failures , errors people and systems, or / incident external mem p engaruhi operations of the bank itself .
5. Risk Legal or Law's, is a lawsuit or Kele Mahan bank itself
6. The risk of reputation, is the risk of decline in ti incidence of trust of the interest derived from a negative perception of the bank.
7. Strategic risk is the risk due to inaccuracy in decision making, both the implementation of a strategic decision and failure to anticipate changes in the business environment.
8. Compliance risk, is the risk of bank compliance not complying, not implementing the laws and regulations in accordance with the provisions in force in sharia principles.

9. The yield risk , is the risk of change, the results paid by the bank to the customer because there is a change in the rate of return that the bank receives from the channeling of funds, which can influence customer behavior
10. Investment risk , is the risk of the bank taking part in bearing the customer's business losses, financed in profit sharing based on profit sharing financing.

C. Risk and return of a single asset

There are 2 models used to measure risk and return, both in a single security, a collection of assets that make up a portfolio or optimal portfolio, namely the Markowitz model and the single index model.

1. Markowitz model risks and returns

Is the result obtained from investment. Returns can be realized returns that have already occurred or expectations that have not yet happened, but which are expected to occur in the future .

$$\text{Return} = \frac{P_{t-} P_{t-1}}{p_{t-1}} + \text{Yield}$$

Explanation:
Pt = Price of assets or securities in period t
Pt-1 = Price of assets or securities in period t-1
Yield = Percentage of periodic cash receipts to asset prices, for stock *yield* is the percentage of dividends to Pt-1

2. Risk and return of a single index model

The single index model developed by Wiliiam Sharpe (1963) states that the rate of return of a security is influenced by market changes. If the market index strengthens, the price of securities tends to increase. Similarly, if the market index decreases, the price of securities also tends to fall.
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$$R_i = a_i + \beta_i \,.\, R_m$$

R_i = Return of securities
a_i = part of the rate of return of securities i that is not affected by market changes
β_i= different securities i, i.e. parameters that measure change when changes occur
R_m = market return rate

D. Risk, uncertainty, and risk-return parity

Karim (2003: 288) in his book describes clearly the *taghrir* or *gharar* which originates from Arabic, which means effects, disasters, hazards, risks, uncertainties, and so on. As a term in fiqh muamalah, taghrir means to do something blindly without sufficient knowledge to take one's own risk from an action that carries risk without knowing exactly what the consequences will be to enter the risk without thinking about the consequences.

F. Risk and portfolio return

1. Markowitz model portfolio

Realized portfolio returns are the weighted average of the realized returns of each single asset or security in the portfolio .

2. Single index model portfolio

In its calculations, the single index model is able to reduce the number of variables that must be estimated compared to the Markowitz model and provide the input needed in the calculation of the Markowitz model.

3. Optimal portfolio selection

The selection of an optimal portfolio is the destination of investors in investment activities. To determine the optimal portfolio, efficient portfolios are needed. The optimal portfolio selection process from the available efficient portfolios will very much depend on the individual investor. Efficient portfolio is portfolios that provide the greatest expected return with certain risks, or portfolios that contain the smallest risk with a certain expected rate of return.

4. The optimal portfolio of the Markowitz model

The determination of the optimal portfolio can be analyzed with the Markowitz model. This Markowitz model uses the following assumptions: the time used is only one period of no transaction costs, investor preferences are only based on expected returns and risks from a portfolio of no loans and risk-free deposits.

5. Optimal portfolio of single index models

In the single index model, to determine whether certain assets can be included in an optimal portfolio, it is directly related only to the ratio of excess return to *beta* (*excess return to beta,* ERB)

6. Optimal portfolio with risk-free deposits and loans

Investments in risk-free assets will provide a certain expected return with a standard deviation equal to zero.

G. Returns

Returns (return) is the result from investments. Returns consist of:

a. Realized return

is a return that has occurred. Realized returns are calculated based on historical data. Realized returns are important because they are used as a measure of company performance.

b. expected return

is a return that is expected to be obtained by investors in the future. Unlike the realized returns that have occurred, the expected return has not occurred.

Risk (risk) is often associated with deviations from the results received with the expected. Risks consist of:

1. The risk of realized return is the risk that has occurred on the realized return.

2. The risk of expected return is the risk that will occur from the expected return.

H. Realized Return measurement

Some realized returns measurements that are widely used are:

Total returns

a. Total return is the overall return of an investment in a given period. Total returns are often referred to as returns only.
b. Relative return
   Relative returns can be negative or positive. Sometimes, for certain calculations, for example geometric averages that use the calculation of the case, a return is required that must be of positive value.
c. Cumulative return
   Total returns measure changes in prosperity, i.e. changes in income from dividends received. This prosperity return shows the additional wealth from the previous wealth. Total returns only measure changes in prosperity at a certain time, but do not measure the total wealth owned.
d. Adjusted Return
   Returns discussed earlier are nominal returns that only measure changes in the value of money but do not consider the purchasing power of the value of the money. To consider this the nominal return needs to be adjusted to the existing inflation rate.

I. Closing

Conclusion

After studying this article, it can be concluded that both the model used in measuring a risk and return, which is divided into 2, namely Securities Assets (single) in determining prices and existing assets, in assets that are single calculation, a single index model is able to reduce the number of variables which he has to estimate. While the second is the optimal portfolio and portfolio, the Markowitz model itself. From the entire contents of the article that we can conclude both assets and portfolios are equally beneficial and have risks because every thing and action directly / decision-making must be brave in making policies or decisions or rules that have been agreed. Whether it's from the bank or the customers.

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