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The Effect of Gender Diversity and Expertise of Risk Monitoring Committee on Equity Investment Risk in Islamic Banks

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ABSTRACT: The study of risk in Islamic banks emphasizes more on the general risk of Islamic banks, this general risk in Islamic banks arises from transactions unrelated to special transactions of Islamic banks. The profit and loss sharing system implemented by Islamic banks raises equity investment risk (EIR). This study uses the agency theory approach in explaining EIR. In the agency theory approach, the risk monitoring committee has the responsibility of evaluating and monitoring the risk management in Islamic banks. The characteristics of risk monitoring committee members can affect the capability of the risk monitoring committee to provide risk management assessments and policies and can affect the effectiveness of the risk monitoring committee in carrying out its duties and responsibilities. The study population was 109 Islamic banks spread across 18 countries in ASEAN and the Gulf Cooperation Council, where the sample was observed in 2021 during the peak of COVID-19. The results of this study indicate that the gender diversity of the risk management committee and the risk management monitoring committee's expertise in accounting/risk management have a significant negative effect on equity investment risk.

KEYWORD: Equity Investment Risk, Expertise, Gender, Risk Taking, Risk Monitoring Committee, Islamic Banks.

I. INTRODUCTION

The development of Islamic banks is currently very rapid, both in terms of the types of products offered to customers, as well as the number of Islamic bank offices in the community (Zeineb & Mensi, 2018). Baehaqi (2014) revealed that the development of Islamic banks was formed because of the very positive response from customers to the products issued and public awareness of Islamic banks in accordance with Islamic law. Islamic banks have differences from conventional banks in terms of operations, regulations, and principles adopted. Islamic banks themselves refer to Islamic law (sharia), in Islam prohibiting the existence of interest systems, *gharar,* usury, and *maysir* (Siddique *et al.,* 2022). Because this causes and harms one of the parties in terms of Islamic transactions. Virk *et al.* (2022) mentioned that the prohibition of the use of interest in Islamic banks, both in channeling and collecting funds, causes a variety of diverse transactions in Islamic banks, including profit sharing, leasing, buying and selling, and so on, while conventional commercial banks in terms of operations refer to Law Number 10 of 1998 concerning banking. (Andari, 2019; Daly & Frikha, 2017). OJK and IFSB (2005) said that conventional banks face fewer credit, operational, market, liquidity, reputation, legal, compliance, and strategic risks when compared to Islamic banks (Ashraf *et al.,* 2015; Mollah & Zaman, 2015). This can be drawn as an outline where, the risks faced by Islamic banks are more unique and diverse in various aspects when compared to conventional banks, so that management in Islamic banks is required to have more appropriate strategies or techniques to be able to parse or face risks in Islamic banks (Ben & Mensi, 2018).

Based on research Purwoko & Sudityatno (2013) suggest that the value Non Performing Financing (NPF) in Islamic banks shows a greater value when compared to the value of Non Performing Loan (NPL) in conventional banks. This can be seen from several cases that have occurred in Indonesia or even the world, cases of NPF that are considered too high when compared to conventional banks have occurred at Bank Muamalat Indonesia, where in early 2020 gross NPF reached 5.33% where this can be said to have exceeded the health ratio of commercial banks set by OJK of 5%. (Kuncoro *et al.,* 2020). Miah & Sharmeen (2015) in their research revealed that something similar had also happened in Malaysia in 2005, where the Bank Negara Malaysia had reported a loss of US $ 127,000,000, this was due to the very high value of bad credit. The high value of NPF has also been felt by Islamic banks in Bahrain in 2018 where the NPF value at Al Salam Bank reached 18.4%, and Ithmaar Bank reached 9.4% (Salih *et al.,* 2019). Research conducted by Srairi (2019), found that of the 29 banks in the GCC (Gulf Cooperation Council) where the average NPF value in the Gulf countries was 11%, while for conventional banks it was less than 5%, this is course higher when compared to the health ratio of Islamic banks. The same research results have also been conducted by Safiullah (2019), where in his research using 188 samples of Islamic banks from 28 countries, Islamic banks reported the results of the average NPF value in Islamic banks ranging from 6.29%. Because of these various phenomena Bitar *et al.* (2015); Khan (2020); and Mollah *et al.* (2021), argue that Islamic banks are more prone to bad debts than conventional banks and are more prone to bankruptcy if it continues. Therefore, Islamic banks must have better risk management (Abu & Al-Ajmi, 2012).

In accordance with OJK regulation No. 65/POJK.03/2016 concerning the implementation of risk management for Islamic commercial banks and Islamic business units, and according to the IFSB (2005), Islamic banks have more complex operational risks when compared to conventional banks. These risks include: 1. market risk; 2. credit risk; 3. operational risk; 4. liquidity risk; 5. sharia compliance risk; 6. strategic risk; 7. reputation risk; 8. legal risk; 9. rate of return risk, and; 10. equity investment risk. Srivastav & Hagendorff (2016), the risks faced by Islamic banks in this case are more complex and greater than conventional banks. Conventional banks do not have Shariah compliance risk, rate of return risk, and equity investment risk. These risks can be said to be special risks owned by Islamic banks (Hamza, 2016). These Islamic banks face many risks as they face *mudharabah* and *musyarakah* return risks as well as investment risks, which if not managed properly can lead to liquidity. This research concentrates on equity investment risk, because previous research did not find research that discussed specific risks related to equity investment risk in Islamic banks. This study uses agency theory as the main theory, this is because this theory is able to describe the problem between the principal and the agent, this can certainly be seen where agency theory emphasizes the agent as the main problem in this study so that this theory is predicted to be able to describe the problem. By using Corporate Governance (CG) as a factor that can describe and manage risks in Islamic banks. Based on agency theory, the owner as principal has the right to give orders to managers (agents) to carry out their duties on behalf of the principal (Felício *et al.,* 2018; Rashid, 2018). The CG in the Islamic economic system protects the rights of the owner so that there is no information asymmetry with management which is often not considered by management in Islamic banking operations (Chaffai & Hassan, 2019; Khatib *et al.,* 2021).

The risk monitoring committee is a determining factor in determining the extent of problems or scandals in financial reporting regarding the health level of Islamic banks and analyzing the severity of risks that occur in Islamic banking. The structure of qualified risk monitoring committee members will play an important role in banking to establish good corporate governance. The purpose of establishing a risk monitoring committee is to assist the function of the board of commissioners in carrying out the function of supervision and evaluation of policies and implementation of risk management in Islamic banks. In this case, the characteristics of the risk monitoring committee determine the quality of the risk monitoring committee members themselves. In previous studies, the characteristics used in measuring the quality of the risk monitoring committee still focus on the number of risk monitoring committees in the company (Basiruddin & Ahmed, 2020; Dupire & Slagmulder, 2019; Nahar *et al.,* 2020; Srairi *et al.,* 2022); as well as the frequency of meetings during one year (Abid *et al.,* 2021; Basiruddin & Ahmed, 2020; and Isa & Lee, 2020). This study develops diversity by using gender variables and risk monitoring committee expertise in the field of risk management in carrying out their duties as a measurement of the quality of the risk monitoring committee. The use of these variables is thought to explain the effectiveness of the risk monitoring committee and increase the quality of the risk monitoring committee in managing risk in Islamic banks.

II. THEORETICAL REVIEW

Jensen & Meckling (1978) revealed that agency theory is an agency relationship or contract between one or more people as the principal, then assigns tasks or powers to other parties or agents in carrying out certain activities or tasks including decision-making on behalf of the principal. Agency theory is a theory in justifying accounting research, this is because the idea of its approach describes the framework in explaining the contractual relationship between the agent and the principal (Beasley *et al.,* 2009; Vafeas, 1999). Agency theory can lead to information asymmetry and agency conflicts between the principal and the agent (Heath, 2011). Corporate Governance is considered to be able to describe agency problems in a company (Saona & Azad, 2020). Malik *et al.* (2021) said that CG can reduce the level of information asymmetry and increase monitoring so that transparency in the company will be better. If the monitoring and control mechanisms in the company run effectively, it is certain that the agency's problem will be resolved properly (Alam *et al.,* 2021). In this case, company management should consider the interests of all stakeholders. Thus CG can be concluded as a set of fundamentals, rules, practices, and processes of control and supervision to fulfill the objectives of a company (Mollah *et al*., 2017).

According to Bank Indonesia Regulation No. 11/33/PBI/2009 on the implementation of good corporate governance for Islamic commercial banks and Islamic business units, the risk monitoring committee is formed by the board of commissioners and works professionally and independently. This committee is responsible for assisting and strengthening the board of commissioners in carrying out its supervisory function in the process of monitoring and managing the risk profile of Islamic commercial banks and Islamic business units. The risk monitoring committee consists of at least three people: one independent commissioner, one independent party with expertise in risk management, and one independent person with expertise in accounting, finance, risk management, or banking. Each independent risk monitoring committee member must at least have experience in accounting, finance, banking, or risk management.

The characteristics of individuals are influenced by three main factors, predisposing factors consisting of knowledge, values, gender, economic status, education level, etc; enabling factors consisting of skills and facilities; and reinforcing factors consisting of laws and regulations. Gender diversity can be defined as two or more classes of people who have differences between each other where one is believed to have different roles or social expectations in society or the environment. Gender diversity variables have been used by Abou-El-Sood (2019; Aslam & Haron (2021); Gulamhussen & Santa (2015); and Isa & Lee (2020), research on gender diversity has been carried out in many previous studies on risk-taking in Islamic banks, there are controversial results between previous studies Meanwhile, other studies explain that gender diversity in the risk monitoring committee will increase the effectiveness of the quality of the risk monitoring committee in carrying out its duties. If in an Islamic bank, the gender of the risk monitoring committee is uniform, then decision-making regarding risk management cannot be maximized (Abou-El-Sood, 2019; M. H. Khan *et al*., 2020; Saeed Jagirani *et al*., 2023). Therefore, the presence of female risk monitoring committee members in carrying out their duties to oversee financial performance and internal control,- can increase the effectiveness of the audit committee's performance. Research conducted by Abou-El-Sood (2021); Isa & Lee (2020); and Jagirani *et al.* (2023), revealed that gender diversity has a significant negative effect on risk-taking in Islamic banks.

Risk monitoring committee expertise in risk management provides an understanding of the risks faced by Islamic banks. Risk monitoring committees with expertise in accounting/risk management will provide better advice or monitoring compared to risk monitoring committees that do not have this expertise. The importance of Islamic banks having risk monitoring committee members who are experts in the field of risk management is expected to make the performance of the risk monitoring committee more qualified in making decisions to minimize the amount of risk that will occur in Islamic banks. In this case, the risk monitoring committee has a duty in terms of effective supervision and consultants so that it can control managers in taking high-risk policies. This research has been conducted by Basiruddin & Ahmed (2020); Isa & Lee (2020); Jizi *et al.* (2014); and Srairi *et al.* (2022), his research explains that a risk monitoring committee that is more knowledgeable in the field of accounting/banking/finance will be more effective in providing direction or monitoring in the face of taking excessive risks. The variables in this study are based on the assumption that the risk monitoring committee functions to make policy decisions and evaluate risk management as a consultant and supervisor for managers in managing Islamic bank risk management. Expertise in accounting/risk management is needed to assist the risk monitoring committee in carrying out its duties.

According to the Financial Services Authority Regulation No. 65/POJK.03/2016 concerning the implementation of risk management for Islamic commercial banks and Islamic business units, Equity Investment Risk (EIR) is the risk that must be borne by Islamic banks as a result of customer business failure. This risk is financed by Islamic banks through a return system, either net revenue sharing or profit and loss sharing. Profit and loss sharing uses a calculation of results between the customer and the Islamic bank based on the profit earned by the customer from his business rather than revenue or sales. If the customer experiences bankruptcy while running the business, the principal financing that has been issued by the Islamic bank to finance the customer's business will not be returned. (Alandejani & Asutay, 2017). In addition, customers and Islamic banks can use the net revenue sharing method, where profit sharing is calculated from the amount of revenue received by customers after deducting capital (Ajmi *et al.*, 2019).

III. METHOD

This study aims to analyze and provide empirical evidence regarding the effect of gender diversity (GEN) and expertise in accounting/risk management (EXP) of the risk monitoring committee on equity investment risk in Islamic banks. This research is a type of inferential research because this research tests the relationship between the independent variable and the dependent variable by testing the hypothesis. The population in this study is Islamic commercial banks in the Association of Southeast Asian Nations (ASEAN) and GCC (Gulf Cooperation Council) countries. This study chose ASEAN and the GCC because there are significant gaps between Islamic banks in ASEAN and the GCC. This study uses 2021 as the observation period because 2021 is the year when the peak of COVID-19 occurred when there was a banking crisis. The COVID-19 pandemic has caused banks to experience market pressure, especially on small banks (Duan *et al.,* 2021). In this study, to select samples using the purposive sampling technique, namely the sampling technique with certain considerations as the key to determining the sample (Nurhayati, 2019). The criteria used as samples in this study are Islamic Commercial Banks in the ASEAN and GCC Regions; The financial reports provided are financial reports and annual reports that have been published by state banking regulators in ASEAN and GCC; and Islamic Commercial Banks in ASEAN and GCC countries which in the annual report and financial statements contain the variables studied. This study uses descriptive statistical analysis techniques, classical assumption tests, and multiple linear regression so that it can be formulated as follows:

$$Y_{EIR} = \boldsymbol{a} + \boldsymbol{\beta_1}\, \boldsymbol{GEN} + \boldsymbol{\beta_2 EXP} + \boldsymbol{e}$$

This study also conducted a hypothesis test, this hypothesis test was conducted to determine the regression coefficient where the value was significant or not equal to zero. Decision-making obtained from the results of data processing through the parametric statistical SPSS program is as follows, if the significant value <0.05 then the hypothesis is accepted; and if the significant value> 0.05 then the hypothesis is rejected.

IV. RESULT AND DISCUSSION

This study examines how gender diversity and risk monitoring committee expertise impact equity investment risk in Islamic banks. The study looked at 109 Islamic banks across 18 countries in the ASEAN and GCC regions, and a purposive sampling method was used. The results of the descriptive analysis of the study are as follows:

Statistics

		GEN	EXP	EIR
N	Valid	109	109	109
	Missing	0	0	0
Mean		.04	.99	.029025
Median		.00	1.00	.023800
Std. Deviation		.189	.096	.0193374
Skewness		4.997	-10.440	1.178
Std. Error of Skewness		.231	.231	.231
Sum		4	108	3.1637

Sumber : Ouput Hasil SPPS 20

The result of the classical assumption test, namely the normality test with the Kolmogorov-Smirnov method with a scale level of more than 0.05, is 0.155. Thus, it can be concluded that this regression test has a normal distribution. The VIF values of the two variables used in this study show tolerance above 0.1 and VIF less than 10, which indicates that the variables in this study do not experience multicollinearity problems. The results of the heteroscedasticity test show that the gender diversity variable has a value of 0.123 which is greater than 0.05, and the expertise in accounting/risk management variable has a value of 0.168, which indicates that this variable does not show symptoms of heteroscedasticity. Then conduct an autocorrelation test where this study shows the dw value is between dU = 1.7252 < 1.846 < 2.2748. So it can be explained that in this study there is no autocorrelation between the variables studied.

The results of multiple linear regression analysis resulted in the equation Y = 0.095 - 0.018 GEN - 0.066 EXP + e. where Y is equity investment risk; GEN is gender diversity of the risk monitoring committee; EXP is expertise in accounting/risk management of the risk monitoring committee. The coefficient of determination (R2) with an R Square value of 0.141 or 14.1% which can be defined if the gender diversity variable and expertise in accounting/risk management of the risk monitoring committee have an influence of 14.1% on equity investment risk in Islamic banks.

A. The Effect of Gender Diversity of the Risk Monitoring Committee on Equity Investment Risk

The results of this study indicate that the risk monitoring committee gender diversity variable has a negative effect on EIR. This can be explained by the presence of women in the risk monitoring committee has a tendency to be more careful in making decisions that contain risk. Islamic banks that have gender diversity, in this case, there are female committee members, it can be said that they will avoid investment risk,- because female committee members will avoid making policies that contain gambling and will be more conservative in managing existing risks in the company. In Islam itself, gender does not make a barrier to getting the opportunity to become a member of the risk monitoring committee. because in Islam itself, encourages gender equality in work. In the Qur'an Surah Al-An'am verse 165 Allah SWT says:

وَهُوَ الَّذِيْ جَعَلَكُمْ خَلٰۤىِٕفَ الْاَرْضِ وَرَفَعَ بَعْضَكُمْ فَوْقَ بَعْضٍ دَرَجٰتٍ لِّيَبْلُوَكُمْ فِيْ مَآ اٰتٰىكُمْۗ اِنَّ رَبَّكَ سَرِيْعُ الْعِقَابِۖ وَاِنَّهٗ لَغَفُوْرٌ رَّحِيْمٌ ࣖ

Meaning: "It is He who made you caliphs over the earth, and He exalted some of you above others to test them for what He has given them. Verily your Lord punishes swiftly. He is indeed the Most Forgiving and the Most Merciful". (Source Ministry of Religious Affairs of the Republic of Indonesia 2023)

Based on this source, it can be said that in carrying out their role as caliphs on earth, men and women have the same responsibilities. Likewise, with the scope of the company as a member of the risk monitoring committee, both men and women have the same duties in carrying out their mandated responsibilities. Based on psycho-economic theory, it states that there are very significant differences in risk decision-making between male and female risk monitoring committees. In this case, female risk monitoring committee members are more selective in making policies regarding risk-taking in Islamic banks, and are more careful in evaluating risks. Gender diversity in the structure of risk monitoring committee members will improve financial performance, because decision-making on a policy in Islamic banking will be more rational and prudent.

This research is relevant to those conducted by Abou-El-Sood (2019); Attah-Boakye *et al*. (2020); Mukhibad *et al*. (2024); Saeed Jagirani *et al*. (2023), where having different and diverse risk monitoring committee members, can be interpreted as the company having diverse capital and networks, so that they will fill the shortcomings and vacancies of each other. The weaknesses of male members who are less effective in supervising financial reports will be covered by female risk monitoring committee members. Therefore, the presence of female risk monitoring committee members in carrying out their duties to oversee financial performance and internal control can increase the effectiveness of the risk monitoring committee's performance.

B. The Effect of Risk Monitoring Committee Expertise in Accounting / Risk Management on Equity Investment Risk

This study shows that the expertise of risk monitoring committee members in accounting/risk management has an influence on EIR risk. This is in line with research conducted by Minton *et al*. (2014); Trinh *et al*. (2020); and Jabari & Muhamad (2022), where their research revealed that the expertise of board members in Islamic banks has a negative influence on risk-taking in Islamic banks. Monitoring committee members must have accounting and risk management expertise to complete their duties. If risk monitoring committee members do not have expertise in accounting or risk management, they will fail to monitor and evaluate management's performance in managing the risks of Islamic banks. Therefore, members of the risk monitoring committee must be independent and always be objective in carrying out their duties.

This research is different from research conducted by Mukhibad & Setiawan (2022), Where research argues that the expertise of board members does not affect investment risk-taking or yield risk in Islamic banks, this is because decision-making is not only based on the expertise of members, but also based on other factors, but this causes decision making to be very long and less efficient. It can also be drawn conclusion line where risk monitoring committee members who have expertise in accounting/risk management are more willing to take risks, this is because they have a better understanding and experience of banking products and risk management, the current economic situation, and the risks that will arise during decision making in evaluating and monitoring risk management.

V. CONCLUSION AND SUGGESTION

A. Conclusion

This study examines the effect of risk monitoring committee gender diversity and risk monitoring committee expertise in accounting/risk management on equity investment risk in Islamic banks in the ASEAN and GCC regions. This study expands the previous research literature by using two updates, where the first update focuses on the special risks of Islamic banks, especially equity investment risk, which has not been widely studied by previous researchers. The second is by expanding the attributes of risk monitoring committee characteristics, where this study uses gender diversity and expertise in accounting/risk management. The results of this study indicate that the gender diversity of the risk monitoring committee and the risk monitoring committee's expertise in accounting/risk management have a negative and significant effect on equity investment risk in Islamic banks.

B. Suggestion

Based on the research limitations, this study can provide the following suggestions:

1. In finding sources of banking data in the world, we can use data sources from service providers such as Bankscope, Osiris, Bloomberg, Fitchconnect, etc. To make the research sample wider. So that the research sample becomes wider.
2. Can add special risk rate of return risk and general risk in Islamic banks such as credit risk, liquidity risk, operational risk, sharia compliance risk, etc. as a comparison between special risk and general risk in Islamic banks.

3. Researchers can further add other attributes of risk monitoring committee diversity in explaining the risk of Islamic banks.
4. Using the observation year during the period before COVID-19, during COVID-19, and after the COVID-19 recovery period so that there is a comparison to add a broader discussion.

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