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Analysis of Liquidity Risk Management at Islamic Banks

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Abstract

This study examines liquidity risk management practices in Islamic banks by analyzing the determinants, governance mechanisms, mitigation strategies, and strategic implications for institutional sustainability. Employing a qualitative descriptive approach through library research, this study analyzes academic literature, regulatory documents, and previous studies related to Islamic banking risk management. The findings reveal that liquidity risk is primarily influenced by maturity mismatch, financing problems, customer withdrawal fluctuations, economic uncertainty, and governance challenges. Effective liquidity management requires integrated mechanisms involving active supervision, risk identification, measurement, monitoring, control procedures, and the implementation of Asset Liability Management (ALMA). The analysis indicates that liquidity governance extends beyond short-term financial control by functioning as a strategic capability that strengthens financial resilience, operational continuity, regulatory compliance, and stakeholder confidence. This study contributes to the development of Islamic banking risk management literature by emphasizing the importance of comprehensive and adaptive liquidity strategies in maintaining sustainable institutional performance.

Keywords: *Liquidity Risk Management, Islamic Banking, Financial Sustainability, Risk Governance, Asset Liability Management.*

INTRODUCTION

The global financial landscape has experienced profound structural transformations driven by financial innovation, digitalization, regulatory intensification, and increasing uncertainty in macroeconomic conditions, positioning liquidity risk management as one of the most critical dimensions of contemporary banking governance. Within the Islamic banking ecosystem, the expansion of Sharia-based financial institutions has generated new opportunities for financial inclusion and ethical intermediation, while simultaneously creating complex risk exposures arising from the distinctive characteristics of Islamic banking operations. Unlike conventional banking institutions that may rely on interest-based instruments and established monetary market mechanisms for liquidity adjustment, Islamic banks operate within a Sharia compliance framework that restricts the utilization of certain liquidity management instruments, requiring more sophisticated approaches in balancing asset allocation, funding stability, and operational resilience. The development of Islamic banking in Indonesia reflects this growing significance, as regulatory institutions continue to strengthen the architecture of Sharia financial stability through strategic frameworks emphasizing risk governance, institutional resilience, and sustainable financial development (Bank Indonesia, 2024; Otoritas Jasa Keuangan, 2024). The transformation of payment systems and financial infrastructure further intensifies the necessity for effective liquidity governance, particularly as digital financial transactions accelerate the velocity of fund movements and reshape conventional assumptions regarding deposit behavior and liquidity demand (Bank Indonesia, 2023).

Previous studies have demonstrated that liquidity risk represents a multidimensional banking challenge influenced by internal operational structures and external economic dynamics. Winanti (2019) emphasized that liquidity risk management in Islamic banking is fundamentally associated with the capability of financial institutions to maintain sufficient cash positions and fulfill financial obligations within their maturity periods, highlighting that weaknesses in liquidity planning may undermine institutional credibility and operational continuity. Similar findings were presented by Putra (2023), who argued that Islamic banks require comprehensive risk management mechanisms involving active supervision, risk identification, measurement, monitoring, and control to anticipate potential liquidity disruptions. However, existing studies have predominantly conceptualized liquidity risk management from an operational perspective, focusing on procedural compliance and internal control mechanisms, while providing limited critical examination of how Islamic banking characteristics influence the strategic formulation of liquidity resilience. Research on broader banking risks has also indicated that effective governance cannot be separated from compliance, legal, and institutional dimensions, as weaknesses in regulatory adherence and organizational accountability may amplify financial vulnerabilities (Novita, 2019; Purnama, 2019). These findings indicate that liquidity management in Islamic banking should not merely be perceived as a technical treasury function but rather as an integrated governance mechanism embedded within the institutional risk management framework.

The existing literature concerning liquidity risk management in Islamic banks has provided valuable theoretical foundations; nevertheless, several conceptual and empirical limitations remain unresolved. Studies conducted by Doni et al. (2022) and Wati and Fasa (2024) have highlighted the importance of liquidity risk mitigation strategies in maintaining sustainability and resilience, particularly during periods of monetary instability, yet these studies tend to emphasize normative recommendations without sufficiently elaborating the interconnected relationship between liquidity management practices, Sharia governance structures, and long-term institutional stability. Research regarding risk management implementation has also frequently concentrated on individual risk categories, such as compliance risk, rather than examining the comprehensive interaction between various governance mechanisms that collectively determine liquidity performance (Fadillah et al., 2020; Putra, R. Y., 2020). This fragmentation creates a theoretical gap because liquidity risk within Islamic banking does not emerge independently but develops through complex interactions among funding structures, regulatory obligations, customer confidence, financing quality, and macroeconomic volatility. Furthermore, empirical discussions regarding liquidity risk management remain relatively limited in explaining how Islamic banks construct adaptive strategies to overcome structural constraints associated with Sharia-compliant liquidity instruments.

The unresolved issues within previous studies generate significant scientific and practical implications for the sustainability of Islamic banking institutions. From a theoretical perspective, insufficient integration between liquidity risk management concepts and Islamic banking governance principles limits the development of a more comprehensive understanding of how Sharia-based financial institutions achieve resilience under uncertain financial conditions. From a practical perspective, ineffective liquidity management may trigger broader consequences, including declining public confidence, inability to fulfill withdrawal obligations, disruption of financing activities, and potential systemic instability within the Islamic financial sector. The increasing complexity of banking activities, coupled with rapid technological advancement and evolving regulatory expectations, requires Islamic banks to develop liquidity management frameworks that are not only reactive toward financial pressure but also preventive and strategically oriented. The effectiveness of governance mechanisms, including the role of the Sharia Supervisory Board in ensuring institutional compliance and strengthening risk oversight, has become an increasingly important aspect in maintaining banking credibility and minimizing operational vulnerabilities (Yusra & Nurnarsrina, 2024). Consequently, liquidity risk management requires deeper investigation as a strategic component of Islamic banking sustainability rather than merely a short-term financial control mechanism.

This research positions itself within the evolving discourse of Islamic banking risk management by examining liquidity risk management as an integrated strategic process involving risk identification, governance mechanisms, liquidity planning, and institutional resilience. Previous literature has contributed substantially to understanding the importance of liquidity control; however, the relationship between liquidity management practices and the broader framework of sustainable Islamic banking governance remains insufficiently explored. The present study seeks to address this limitation by synthesizing theoretical perspectives and empirical discussions regarding liquidity risk management practices within Islamic financial institutions. Through this approach, the research contributes to strengthening the conceptual understanding of how Islamic banks manage liquidity challenges while maintaining compliance with Sharia principles and ensuring operational stability. The study also extends previous discussions by emphasizing that liquidity management should be understood as a strategic capability that determines the capacity of Islamic banks to respond effectively to financial uncertainty, market fluctuations, and evolving institutional demands.

Based on the identified research gaps, this study aims to analyze liquidity risk management practices in Islamic banks by examining the underlying factors contributing to liquidity exposure, the mechanisms implemented to mitigate such risks, and the strategic approaches adopted to maintain financial sustainability. This research contributes theoretically by enriching the academic discourse on Islamic banking risk management through a more integrated perspective that connects liquidity governance, institutional resilience, and Sharia compliance principles. Methodologically, this study contributes by applying a qualitative descriptive approach based on library research to systematically analyze relevant scholarly literature and regulatory documents, enabling a comprehensive interpretation of liquidity risk management practices within Islamic financial institutions. The findings are expected to provide valuable insights for academics, regulators, and banking practitioners in developing more effective liquidity risk management frameworks capable of supporting the long-term stability and competitiveness of Islamic banking.

RESEARCH METHODS

This study employs a qualitative descriptive approach using a non-empirical research design based on conceptual and theoretical analysis. The research is conducted through a library research method aimed at examining the theoretical foundations, regulatory frameworks, and previous scholarly discussions related to liquidity risk management in Islamic banking institutions. The selection of literature was carried out systematically by identifying relevant academic sources, including peer-reviewed journal articles, books, institutional reports, and official regulatory documents concerning Islamic banking risk management, liquidity governance, and financial sustainability. The primary references analyzed in this study include previous studies discussing liquidity risk management practices in Islamic banks, particularly Winanti (2019) and Putra (2023), which provide theoretical perspectives regarding liquidity management mechanisms, risk identification, risk mitigation, and governance implementation. Additional literature from regulatory institutions, including reports issued by Bank Indonesia and the Financial Services Authority (Otoritas Jasa Keuangan), was incorporated to strengthen the contextual understanding of Islamic banking development and regulatory expectations.

The analytical model applied in this study is a descriptive interpretative framework that examines liquidity risk management through several interconnected dimensions, including the sources of liquidity risk, governance mechanisms, risk mitigation strategies, and the role of Asset Liability Management (ALMA) in maintaining financial stability. The interpretation process was conducted through qualitative analysis stages consisting of literature classification, thematic analysis, comparison of theoretical perspectives, and synthesis of findings from various academic sources. This approach enables the study to construct a comprehensive understanding of how Islamic banks manage liquidity risks within the constraints of Sharia principles and changing financial environments. The findings are interpreted by linking conceptual arguments from previous studies with contemporary developments in Islamic banking practices, allowing the research to identify patterns, challenges, and strategic implications associated with liquidity risk management without relying on statistical estimation or econometric testing.

RESULTS AND DISCUSSION

Sources and Determinants of Liquidity Risk in Islamic Banks

Liquidity risk in Islamic banking emerges as a strategic financial challenge because Islamic financial institutions operate under a distinctive intermediation framework that requires balancing funding stability, Sharia compliance, and operational sustainability. The literature analysis indicates that liquidity exposure is primarily associated with the inability of banks to synchronize cash inflows from financing activities with immediate obligations arising from customer withdrawals and operational commitments. Winanti (2019) explains that liquidity risk management fundamentally concerns the capability of Islamic banks to maintain adequate liquid resources while ensuring timely fulfillment of financial obligations. This conceptual perspective demonstrates that liquidity risk is not merely a short-term cash shortage phenomenon but represents a broader governance issue affecting institutional credibility and financial resilience.

The analysis of previous studies reveals that maturity mismatch constitutes one of the most dominant structural factors contributing to liquidity vulnerability in Islamic banking institutions. Islamic banks generally collect funds from customers through relatively short-term deposit instruments, while allocating these resources into financing portfolios with longer repayment periods, creating potential pressure when withdrawal demands exceed available liquid assets. Bani and Yaya (2016) highlight that liquidity risk characteristics in Islamic banking are influenced by differences in asset and liability structures, although the manifestation may differ from conventional banking due to Sharia-based operational restrictions. This condition requires Islamic banks to develop adaptive liquidity strategies capable of maintaining equilibrium between profitability objectives and liquidity protection.

The conceptual review further identifies customer behavior as another significant determinant affecting liquidity stability within Islamic banks. Large-scale withdrawal activities may occur due to declining public confidence, economic uncertainty, or perceptions regarding institutional weaknesses, causing unexpected pressure on available liquidity reserves. Doni et al. (2022) emphasize that liquidity risk management requires banks to anticipate fluctuations in customer fund movements through effective monitoring systems and contingency planning mechanisms. The behavioral dimension of liquidity risk illustrates that financial stability is influenced not only by internal banking conditions but also by external expectations and market confidence.

The relationship between financing quality and liquidity risk represents another important analytical dimension identified from the literature synthesis. Islamic banks rely heavily on financing activities as the primary mechanism for generating income, yet financing problems may disrupt expected cash inflows and reduce the availability of funds for meeting immediate obligations. Ilyas (2019) explains that financing risk has a direct relationship with banking stability because non-performing financing conditions can weaken institutional capacity to maintain sustainable financial operations. The interaction between financing quality and liquidity availability confirms that liquidity risk management requires an integrated approach involving financing supervision and asset quality control.

The literature findings regarding major liquidity risk determinants are summarized in Table 1, which categorizes the primary sources of liquidity vulnerability identified from previous theoretical and regulatory discussions.

Table 1. Key Determinants Influencing Liquidity Risk Exposure in Islamic Banks

No.	Liquidity Risk Determinant	Analytical Explanation	Main Reference
1	Maturity mismatch	Differences between funding maturity and financing maturity create potential liquidity pressure	Winanti (2019); Bani & Yaya (2016)
2	Customer withdrawal volatility	Sudden withdrawal behavior may reduce available liquid resources	Doni et al. (2022)
3	Financing problems	Non-performing financing decreases expected cash inflows	Ilyas (2019); Usanti (2012)
4	Economic uncertainty	Macroeconomic instability increases liquidity demand and financial pressure	Wati & Fasa (2024)
5	Governance weaknesses	Ineffective risk supervision may reduce institutional preparedness	Hajar & Wirman (2023)

Table 1 demonstrates that liquidity risk originates from interconnected financial and governance factors rather than a single operational weakness. The classification confirms that Islamic banks require comprehensive risk management frameworks integrating financial planning, governance mechanisms, and regulatory compliance. Wati and Fasa (2024) argue that liquidity resilience becomes increasingly important during economic disruptions because banking institutions must preserve operational continuity while responding to external financial shocks. These findings reinforce the argument that liquidity risk management should be approached through multidimensional analysis rather than limited cash management practices.

Macroeconomic instability represents an external factor that significantly influences liquidity conditions in Islamic banking institutions. Economic fluctuations may alter customer saving behavior, financing repayment capacity, and overall demand for financial services, thereby affecting the liquidity position of banks. Budiono (2024) states that liquidity risk management plays a crucial role in ensuring the continuity of Islamic banking operations, particularly during periods characterized by economic uncertainty. The implication of this perspective is that Islamic banks must develop forward-looking risk assessment mechanisms capable of identifying potential liquidity pressures before they materialize into operational disruptions.

The regulatory environment also influences the formation and mitigation of liquidity risk within Islamic banking institutions. Regulatory expectations require banks to establish comprehensive risk management structures that include risk identification, measurement, monitoring, and control mechanisms. Putra (2023) emphasizes that Islamic banks must implement active supervision involving management authorities and relevant governance bodies to maintain effective liquidity risk control. The regulatory dimension demonstrates that liquidity management is closely connected with institutional accountability and compliance responsibilities.

The literature review indicates that governance quality has a substantial influence on the effectiveness of liquidity risk management systems. Weak governance structures may reduce the ability of Islamic banks to detect liquidity vulnerabilities and implement appropriate corrective strategies before financial difficulties occur. Yusra and Nurnarsrina (2024) highlight the importance of supervisory mechanisms in strengthening compliance and institutional resilience within Islamic banking organizations. Although their analysis focuses on compliance risk, the governance principles discussed are relevant to liquidity management because effective supervision supports broader risk mitigation objectives.

The relationship between liquidity risk and broader risk management frameworks demonstrates that Islamic banking institutions require integrated approaches rather than isolated risk treatment mechanisms. Liquidity challenges frequently interact with compliance risk, legal risk, financing risk, and operational risk, creating complex exposures that demand coordinated management responses. Fadillah et al. (2020) explain that risk management practices in Islamic banking should consider interconnected risk categories to ensure institutional sustainability and regulatory alignment. This perspective strengthens the argument that liquidity risk analysis must incorporate multiple dimensions of banking governance.

The analytical findings of this section indicate that liquidity risk in Islamic banks represents a complex phenomenon shaped by structural, behavioral, economic, and governance-related factors. The literature synthesis confirms that maturity mismatch, financing deterioration, customer withdrawal patterns, economic uncertainty, and governance effectiveness collectively determine the level of liquidity vulnerability faced by Islamic financial institutions. Rahmawati and Nisa (2024) emphasize that comprehensive risk analysis enables Islamic banks to develop stronger resilience mechanisms and improve institutional stability. The identification of these determinants provides an essential theoretical foundation for understanding how Islamic banks formulate liquidity risk management strategies within a dynamic financial environment.

Liquidity Risk Management Governance and Mitigation Strategies in Islamic Banks

Liquidity risk management governance in Islamic banking institutions represents a comprehensive framework that integrates strategic decision-making, regulatory compliance, internal supervision, and operational control mechanisms. The literature analysis indicates that effective liquidity governance requires coordination between managerial authorities, risk management units, and Sharia supervisory structures to ensure that liquidity strategies remain financially effective and consistent with Islamic principles. Putra (2023) explains that liquidity risk management in Islamic banks is implemented through active supervision, policy formulation, risk identification, measurement, monitoring, and risk control processes. This framework demonstrates that liquidity management functions not only as a financial mechanism but also as an institutional governance system designed to preserve stability and public confidence.

The implementation of liquidity governance begins with the establishment of clear organizational responsibilities among internal banking structures. The board of directors holds a central role in designing liquidity policies, determining risk tolerance levels, and ensuring that operational strategies align with institutional objectives. Meanwhile, the board of commissioners and Sharia Supervisory Board provide oversight functions to ensure that liquidity management practices comply with regulatory and Sharia requirements. Yusra and Nurnarsrina (2024) emphasize that the effectiveness of supervisory institutions contributes significantly to strengthening risk governance because monitoring mechanisms influence the ability of Islamic banks to prevent and manage potential vulnerabilities.

The literature synthesis reveals that liquidity risk mitigation requires a structured policy framework supported by adequate procedures and risk limits. Islamic banks are expected to establish internal guidelines concerning minimum liquidity reserves, funding diversification, emergency financing arrangements, and monitoring indicators that reflect changes in liquidity conditions. Hajar and Wirman (2023) explain that the implementation of risk management in Islamic banking requires systematic processes involving risk assessment, control mechanisms, and continuous evaluation. Such arrangements enable Islamic banks to respond more effectively to liquidity pressure by transforming risk management from a reactive process into a preventive institutional strategy.

The role of internal control mechanisms represents another important component in strengthening liquidity resilience. Effective internal control systems allow banks to identify deviations between projected and actual cash flows, evaluate financing performance, and determine appropriate corrective measures when liquidity conditions deteriorate. Fadillah et al. (2020) highlight that risk management practices in Islamic banking require consistent monitoring systems because weaknesses in internal supervision may increase exposure to various banking risks. The relevance of internal control becomes more significant as Islamic banks face complex financial environments characterized by rapid market changes and increasing regulatory expectations.

The main components of liquidity risk management governance identified through the literature analysis are presented in Table 2 to illustrate the relationship between governance mechanisms and their strategic functions.

Table 2. Governance Framework Components for Liquidity Risk Management Implementation in Islamic Banks

No.	Governance Component	Strategic Function	Main Reference
1	Active supervision	Ensures accountability and effective implementation of liquidity policies	Putra (2023)
2	Risk identification and measurement	Detects potential liquidity vulnerabilities at an early stage	Winanti (2019)
3	Risk limits and internal policies	Controls excessive liquidity exposure	Hajar & Wirman (2023)
4	Sharia supervisory oversight	Ensures compliance with Islamic financial principles	Yusra & Nurnarsrina (2024)
5	Internal control mechanisms	Maintains consistency and reliability of risk management processes	Fadillah et al. (2020)

Table 2 indicates that liquidity risk governance involves interconnected mechanisms rather than independent procedures. The existence of supervisory structures, risk measurement systems, and internal controls creates an institutional foundation for maintaining liquidity stability. Novita (2019) argues that effective risk governance requires strong compliance management because regulatory weaknesses may negatively influence institutional reliability. These findings suggest that liquidity management effectiveness depends heavily on organizational capability to integrate financial objectives with governance responsibilities.

One of the central strategies in liquidity risk mitigation is the implementation of Asset Liability Management (ALMA), which functions as a strategic framework for balancing asset composition and liability structures. ALMA enables Islamic banks to evaluate maturity patterns, manage funding sources, and maintain adequate liquidity reserves while preserving profitability objectives. Ramadhan et al. (2026) explain that the implementation of Asset Liability Management contributes to reducing liquidity exposure by improving coordination between asset allocation decisions and funding requirements. This approach reflects the importance of strategic balance between maintaining sufficient liquidity and optimizing income-generating activities.

The application of ALMA within Islamic banking requires specific adjustments because Islamic financial institutions operate under different contractual and regulatory characteristics compared with conventional banks. Islamic banks cannot rely on interest-based instruments for liquidity adjustment, requiring alternative Sharia-compliant mechanisms to manage funding pressures. Fasa (2016) explains that Islamic banking risk management requires adaptation to the unique characteristics of Sharia-based financial operations while maintaining institutional competitiveness. This condition highlights that liquidity mitigation strategies must consider both financial efficiency and adherence to Islamic legal principles.

Liquidity risk mitigation also depends on the availability of diversified funding sources and effective cash flow planning. Islamic banks need to maintain sufficient liquid assets while avoiding excessive liquidity holdings that may reduce profitability potential. Wati and Fasa (2024) emphasize that liquidity resilience becomes a critical determinant of banking sustainability, particularly during periods of financial instability and crisis conditions. The strategic challenge faced by Islamic banks lies in achieving an optimal balance between liquidity protection, financing expansion, and profitability sustainability.

The relationship between liquidity management and broader risk governance indicates that liquidity mitigation cannot be separated from compliance, legal, and operational considerations. Islamic banks must ensure that liquidity strategies comply with regulatory provisions, contractual obligations, and Sharia principles to maintain institutional legitimacy. Suharto (2022) explains that legal risk management in Islamic financial institutions requires careful consideration of regulatory frameworks and contractual relationships because legal weaknesses may create broader financial consequences. This perspective demonstrates that liquidity management requires interdisciplinary governance involving financial, legal, and Sharia dimensions.

The analytical interpretation of this section confirms that liquidity risk management governance in Islamic banks is constructed through a combination of institutional supervision, regulatory compliance, internal control, and strategic asset-liability coordination. The literature findings demonstrate that effective mitigation strategies depend on the ability of Islamic banks to integrate operational procedures with broader governance frameworks. Abdullah and Awaluddin (2022) emphasize that risk management in Islamic banking requires comprehensive approaches because financial institutions face interconnected risks that influence overall stability. The development of stronger liquidity governance frameworks therefore becomes a fundamental requirement for Islamic banks to maintain resilience, protect stakeholder confidence, and ensure sustainable institutional performance.

Strategic Implications of Liquidity Risk Management for Sustainability of Islamic Banks

The analysis of liquidity risk management literature demonstrates that effective liquidity governance has strategic implications for the long-term sustainability and competitiveness of Islamic banking institutions. Liquidity management is not limited to ensuring the availability of cash resources but represents a broader institutional capability that determines the resilience of banks in facing financial uncertainty, regulatory changes, and market fluctuations. The sustainability perspective emphasizes that Islamic banks must develop adaptive mechanisms capable of maintaining financial stability while continuing their intermediation function within the boundaries of Sharia principles. Bank Indonesia (2024) highlights that the development of Islamic banking requires stronger institutional capacity, risk resilience, and governance quality to support sustainable financial system growth.

The conceptual analysis indicates that liquidity resilience contributes directly to maintaining public confidence, which represents a fundamental asset for Islamic banking institutions. Customers entrust their funds to banks based on expectations regarding security, accessibility, and institutional reliability in fulfilling financial obligations. Failure to maintain adequate liquidity may negatively influence market perception and potentially reduce the willingness of customers to maintain their financial relationships with the institution. Winanti (2019) explains that liquidity management is closely related to banking credibility because the ability to fulfill obligations on time reflects the overall health condition of financial institutions.

The relationship between liquidity management and sustainability is also reflected in the ability of Islamic banks to maintain operational continuity during periods of economic pressure. Financial crises, monetary instability, and market disruptions may significantly affect funding availability and customer behavior, requiring banks to possess adequate liquidity protection mechanisms. Wati and Fasa (2024) emphasize that liquidity risk management serves as an essential foundation for strengthening the endurance of Islamic banks during crisis situations because liquidity weaknesses may rapidly develop into broader operational problems. This perspective demonstrates that liquidity management functions as a preventive strategy to minimize institutional vulnerability.

The strategic importance of liquidity management is further strengthened by the role of regulatory frameworks in directing Islamic banks toward more resilient operational structures. Regulatory institutions increasingly emphasize risk-based governance, transparency, and institutional preparedness as essential elements of sustainable banking development. The Roadmap Pengembangan dan Penguatan Perbankan Syariah Indonesia 2023–2027 issued by Otoritas Jasa Keuangan emphasizes the importance of strengthening governance, risk management capacity, and competitiveness within the Islamic banking sector (Otoritas Jasa Keuangan, 2024). Regulatory development indicates that liquidity management has evolved from an internal operational requirement into a strategic component of national financial stability.

The relationship between liquidity strategies and sustainability dimensions is summarized in Table 3, which presents the strategic contributions of effective liquidity risk management based on the literature analysis.

Table 3. Strategic Implications of Liquidity Risk Management for Islamic Banking Sustainability

No.	Strategic Dimension	Contribution of Liquidity Risk Management	Main Reference
1	Financial resilience	Maintains institutional capacity to meet obligations during uncertainty	Budiono (2024)
2	Customer confidence	Strengthens public trust through reliable financial services	Winanti (2019)
3	Operational continuity	Ensures uninterrupted banking activities during financial pressure	Wati & Fasa (2024)
4	Regulatory compliance	Supports alignment with banking governance standards	Otoritas Jasa Keuangan (2024)
5	Institutional competitiveness	Improves adaptive capability within Islamic financial markets	Bank Indonesia (2024)

Table 3 illustrates that liquidity risk management generates strategic benefits extending beyond short-term financial stability. The findings indicate that liquidity governance contributes simultaneously to resilience, reputation, compliance, and competitive positioning of Islamic banks. Budiono (2024) argues that liquidity management represents a determining factor for operational sustainability because insufficient liquidity may disrupt banking functions and weaken institutional performance. This interpretation confirms that liquidity management should be positioned as a strategic capability rather than merely an administrative requirement.

The sustainability of Islamic banks is also influenced by their ability to integrate liquidity management with Sharia governance principles. Islamic financial institutions must ensure that liquidity strategies remain consistent with Islamic legal requirements while achieving operational efficiency. Saputra (2023) explains that Sharia compliance risk mitigation requires banking institutions to establish mechanisms that protect conformity between operational activities and Islamic principles. This relationship indicates that liquidity sustainability in Islamic banking depends not only on financial adequacy but also on maintaining institutional legitimacy through compliance-oriented governance.

Another strategic implication identified from the literature is the necessity for Islamic banks to strengthen technological and analytical capabilities in managing liquidity conditions. The increasing complexity of financial transactions requires institutions to improve forecasting accuracy, monitoring systems, and decision-making processes related to liquidity allocation. Bank Indonesia (2023) emphasizes that transformation within the national payment system requires financial institutions to enhance digital capabilities and operational preparedness in responding to evolving transaction patterns.

These developments suggest that liquidity management strategies must adapt to technological transformation to remain effective in a dynamic financial environment.

The analysis further indicates that liquidity management contributes to strengthening the overall risk management architecture of Islamic banking institutions. Liquidity risk is interconnected with financing risk, compliance risk, legal risk, and operational risk, requiring integrated approaches rather than fragmented responses. Rolianah (2024) explains that the interaction between financing risk and liquidity risk influences the health condition of Islamic banks because weaknesses in one risk category may intensify vulnerabilities in other areas. This finding reinforces the importance of comprehensive risk management frameworks that evaluate multiple sources of institutional exposure.

The final interpretation of the literature analysis confirms that liquidity risk management represents a strategic pillar supporting the sustainability, stability, and future development of Islamic banking institutions. The reviewed studies demonstrate that effective liquidity governance requires a combination of financial planning, regulatory alignment, Sharia supervision, technological adaptation, and integrated risk management practices. Putra (2023) and Ramadhan et al. (2026) emphasize that strengthening liquidity management mechanisms enables Islamic banks to maintain balance between liquidity availability, financing expansion, and profitability objectives. The strategic orientation of liquidity management provides a foundation for Islamic banks to achieve sustainable growth while maintaining resilience within an increasingly complex financial environment.

CONCLUSION

Liquidity risk management in Islamic banks represents a fundamental strategic mechanism that determines institutional resilience, operational continuity, and financial sustainability within the Sharia-based banking framework. The analytical findings demonstrate that liquidity risk emerges from interconnected structural and external factors, including maturity mismatch between assets and liabilities, financing quality deterioration, customer withdrawal volatility, and macroeconomic uncertainty, requiring comprehensive governance mechanisms rather than isolated financial controls. Effective liquidity management is supported by active supervision, internal risk policies, regulatory compliance, Sharia governance, and strategic implementation of Asset Liability Management (ALMA) to maintain an optimal balance between liquidity availability and profitability objectives. The literature synthesis further confirms that liquidity resilience contributes significantly to strengthening customer confidence, institutional credibility, and long-term competitiveness of Islamic banks. The integration of financial planning, risk mitigation strategies, technological adaptation, and governance effectiveness provides a strategic foundation for Islamic banking institutions to navigate increasingly complex financial environments. This study contributes theoretically by reinforcing the understanding of liquidity risk management as an integrated governance capability and contributes methodologically through qualitative interpretative analysis of relevant academic and regulatory literature.

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