RISK COMMITTEE CHARACTERISTICS AND BANK RISK-TAKING

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Abstract. This study aims to empirically prove the characteristics of risk committees on bank risk taking. The research hypothesis is based on agency theory and resource dependence theory. The sampling technique of this study used a purposive sampling method with a total data of 11 banks during the period 2017-2022 and a total of 66 observations. The results of this study indicate that the variables of risk committee size, risk committee independence, and risk committee with expertise in economics have a negative effect on bank risk taking, while the variables of risk committee meetings and risk committees from abroad have a positive effect on bank risk-taking. However, the variables of gender diversity in risk committees and risk committees with doctoral degrees do not affect bank risk taking.

Keywords: Risk committee, bank risk-taking, committee composition, Islamic bank

1 INTRODUCTION

Profit maximization is the main goal of most companies. To achieve optimal profits, management often seeks and implements various strategies, for example by taking on high-risk projects that have the potential to provide higher returns. The concept of high-risk high-return often underlies this decision-making; the higher the risk of a project, the greater the potential profit. The same thing also happens in the banking industry, where each bank tries to find the best strategy, one of which is aggressive credit expansion, to achieve greater profits [1].

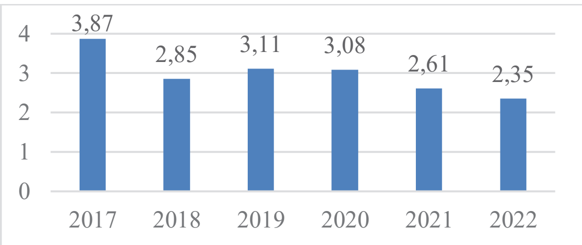

Fig. 1. NPF Development of Islamic Banks in Indonesia

Source: Indonesian Financial Service Authority 2022

The data indicates fluctuations in the quality of financing in Islamic banking in Indonesia during the period 2017 to 2022, as indicated by the rise and fall of NPF (Non-Performing Financing). NPF is used as an indicator to measure credit risk related to late credit payments [2]. This fluctuation in NPF suggests the occurrence of business dynamics in terms of financing quality in the Indonesian Islamic banking sector. but remains stable below 5%. This is included in the healthy category, meaning that the policies and procedures for providing financing and managing the risks of financing have been implemented properly and by the scale of the bank's business, as well as supporting safe and healthy operational activities and are well documented and administered. Bank Indonesia defines a maximum NPF rate of 5% as a threshold to indicate the health of Islamic finance [3].

Risk-taking by banks is the behavior of bank management in taking risks to increase company profits [4]. Banking activities in channeling funds to the public have a relationship with the risks taken by banks. The more banks disburse their funds to the public, the greater the risk borne by banks. Too high risk-taking will have an impact on increasing the chances of failure that the bank will face [5]. The risk-taking ability of a financial institution is strongly influenced by the composition of its risk management committee. In this context, shareholders may encourage management to take aggressive risks to maximize the value of their equity [6]. These high-risk actions need to be supervised by the board of directors to comply with the principles of good corporate governance. Therefore, the board needs to pay increased attention to the risk oversight aspect and ensure that the company's risk management capabilities are effective.

In the context of corporate governance, the supervisory role is held by the company's board as a representative of shareholders. Furthermore, the board will oversee the effectiveness of risk management either directly or by forming a risk committee [7]. In Islamic banking in Indonesia, the formation of a risk committee has been required through the Indonesian Financial Services Authority Regulation Number 65/POJK.03/2016 concerning "Implementation of Governance for Sharia Commercial Banks and Sharia Business Units" [8]. The role of risk committees in risk oversight evolved after the failure of audit committees to fulfill this responsibility.

This evolution was largely triggered by the 2007-2009 global financial crisis, which revealed the inability of audit committees to adequately assess risk-taking as banks' operations became more complex [9]. This is because risk monitoring now requires a more comprehensive approach, not only relying on non-accounting-based risk measures [10].Therefore, risk committees have been identified as an important and integral component of enterprise risk management, especially in banks. Risk committees help improve the culture of risk monitoring and reporting and serve as a resource base for board-level enterprise risk management responsibilities [11]. Risk committees are better able to pay attention to risk measurement and monitoring than boards because they have more specialized knowledge [10]. Several studies have examined the effect of board or committee characteristics on firm performance. Kalbuana et al. (2022) examined the effect of board size, gender diversity, and political connections on financial distress in Indonesia [12]. On the other hand, Debrah et al. (2022) examined the effect of board size on credit risk in banks in Ghana [13]. Several studies have also analyzed the effect of risk committees on firm performance. For example, Kallamu (2015) examined how risk management committee attributes of independence and experience affect the performance of listed financial companies in Malaysia [14].

Yusuf et al. (2022) examined the effect of compensation and CEO power on risk-taking in commercial banks in Nigeria [15]. Meirene and Karyani (2017) examined the effect of risk committee size and meetings on performance in Indonesia and Malaysia [16]. Similarly, Elamer and Benyazid (2018) investigate the effect of risk committee existence, size, independence, and frequency of meetings on financial performance in the UK [17]. Similarly, several studies have also examined the relationship between risk committee composition and bank risk-taking behavior. For example, Galletta et al. (2021) examined the effect of risk committee size on liquidity risk [18], while Natasya Irfani Ampri and Anitawati Hermawan (2018) examined the effect of experience, age and gender diversity of risk committee members on bank risk-taking behavior [19].

The lack of studies on the effect of risk committee attributes on banking risk may be because in several countries, therefore, this study aims to fill the literature gap by analyzing whether the composition of the risk committee in terms of the characteristics of its members can have an impact on the risk-taking behavior of banks in Indonesia proxied by NPF. The author also wants to examine whether the characteristics of the risk committee can affect risk-taking. The remaining part of the paper is divided into four main sections: sections two, three, four, and five. Section two reviews the conceptual literature and develops the hypotheses for the study. Section three presents the research methodology, while section four presents the data and discusses the findings. Conclusions, research implications, and recommendations are presented in section five.

2 LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1 Bank risk-taking

The choices made by banks have the potential to increase fluctuations or variability in future profit levels, referring to the concept of risk-taking in banking. In other words, risk-taking reflects the extent of risk assumed by bank management in operational activities to increase potential future profits, although there is also a risk of decreasing profits if those risks materialize [20]. Banks undertake risk-taking through lending activities and other transactions with borrowers, then charge compensation in the form of interest or profit sharing while risking that funds may not be withdrawn. Thus, bank risk-taking refers to bank actions that expose them to various risks, where conventional banks bear the full risks while Islamic banks implement the concept of sharing risks with their customers.

A bank's risk-taking behavior reflects the management of its assets and liabilities, generally based on the proportion of each item in the statement of financial position. Banks that have a larger portion of financing are considered to have riskier behavior than banks that invest more in lower-risk government instruments. Banks with a higher proportion of deposits are also considered less risky than demand and savings deposits [9]. Banks that allocate assets to obtain optimal returns while considering risk and compensating customers appropriately are considered to be risk-averse. Meanwhile, banks that only transfer risk to customers without compensating them properly due to information imbalance are considered to have engaged in dangerous and speculative risk-taking behavior [21].

2.2 Risk committee attributes

Risk Committee refers to a function in a company that is specifically tasked with assessing the business risks to be taken, monitoring and evaluating the risks associated with the implemented business strategies, and controlling adjustments in the process of implementing risky strategies so that the company can mitigate the costs arising from uncertainties [22]. A Risk Committee is essential for financial institutions to effectively manage various risks. Monitoring from within the organization itself is necessary to ensure effective risk management.

In the context of corporate governance, the oversight role is held by the company's board of directors as representatives of the shareholders. Furthermore, the board will oversee the effectiveness of risk management either directly or by establishing a risk committee. In Islamic banking in Indonesia, the establishment of a risk committee has been made mandatory through the Financial Services Authority Regulation Number 65/POJK.03/2016 concerning "Implementation of Governance for Sharia Commercial Banks and Sharia Business Units" [7].

The Risk Committee previously received little attention from practitioners and academics, but its significance has now increased. Risk management was traditionally seen as part of the core responsibilities of the audit committee. Nevertheless, the high frequency of corporate failures has seriously questioned the ability of audit committees to oversee and carry out risk management duties effectively. The composition of risk committee members has the potential to influence organizational performance. A well-composed risk committee can carry out monitoring functions to reduce moral hazard risk due to information asymmetry and avoid adverse selection conditions in management decision-making. Thus, the risk committee is expected to improve the quality of corporate business decisions [11].

The ability of risk committee members to provide recommendations and oversee risk management depends on the attributes of the risk committee. Risk committee attributes can be defined as signs of completeness and inherent characteristics attached to the risk committee. However, the risk committee's ability to monitor the risk behavior of the board and management can be constrained if they are not independent. An independent risk committee consists of more outside directors than inside directors. It is said that outside directors tend to be more efficient in decision-making than inside directors because outside directors are not influenced by inside directors as their career developments are not affected [17]. The diversity of the risk committee also draws attention. Diversity has been reviewed from the perspectives of size, independence, meeting activity, gender diversity, risk committees with doctoral degrees, economic expertise, and the presence of foreign members.

2.3 Theoretical framework and hypotheses development

Agency Theory indicates the potential conflict between agents and principals in their contractual relationship. This theory results in policies that are usually mechanisms to align the interests of agents who tend to act for their benefit with the interests of the principal [23]. According to this theory, there are two methods to align these interests, namely monitoring agent behavior to prevent opportunistic behavior and providing incentives and rewards for agents to act in line with the interests of the principal [24]. The conflict of interest caused by this incentive scheme often triggers agency risk. As a result of agency risk, management tends to be more concerned with the stability of the company to maintain their position and continuity of income in the future, so they are reluctant to take high-risk investment decisions even though the potential returns are attractive. In contrast, shareholders want management to take risks to maximize investment returns [9].

Resource dependence theory explains that the sustainability and success of firms are highly dependent on their ability to acquire and manage valuable resources, especially resources that are rare and difficult to replicate. Such resources are necessary for firms to be able to adapt and face challenges arising from their external environment. So in essence, the availability and access to strategic resources is a key factor for the survival of the firm [25]. The risk committee is a strategic human resource for banks in terms of risk management. The existence of a quality risk committee can help the practice of voluntary and proactive disclosure of bank risk management [26]. Resource dependence theory states that risk committees can play more of an advisory role to companies rather than as supervisors [27].

2.3.1 Risk committee size and bank risk-taking

The size of the risk committee reflects the extent to which the board invests its resources in the risk oversight function. Based on agency theory, a risk committee with too many members can lead to internal conflicts and the emergence of passive members who ride on the reputation of other active members [28]. This can result in weak information communication between risk committee members, decreased quality of information generated, less integrated decision-making, and suboptimal final decisions to mitigate the risks of Islamic banks. In contrast to agency theory, resource dependency theory states that a large risk committee size can increase the effectiveness of its supervisory function. This is because a committee with more members reflects a diversity of viewpoints, expertise, and a more mature and rational decision-making process to mitigate the risks of Islamic banks [29].

Previous studies have found that large board and committee sizes are correlated with increased financial statement transparency, financial statement reliability, and reduced debt financing costs[30]. Similarly, large risk committees exhibit strong risk governance, improve risk communication, and reduce risk-related information imbalances[29]. Thus, we expect risk committee size to be negatively associated with bank risk-taking and propose the following hypothesis:

Hypothesis 1: Risk committee size has a significant negative effect on bank risk-taking

2.3.2 Risk committee independence and bank risk-taking

Agency theory focuses on the contractual relationship between a company's shareholders and managers, depicting this relationship as one between principals and agents [12]. This theory emphasizes the separation between business organization owners and their managers. Agency theory argues that separating ownership and control can lead to conflicts of interest between owners and managers. Therefore, it is necessary to align the interests of owners and shareholders through adequate monitoring and compensation [31]. This is because the board acts as a representative of shareholders and is believed to have the capacity to monitor and limit managerial power, thereby reducing agency-related problems [32], [33]. Jensen & Meckling (1976) argue that a more independent board is likely to experience fewer agency-related conflicts and thus can monitor more effectively [34].

Adams & Ferreira (2009) caution that having more non-executive or independent directors can be detrimental, as it can lead to more members without adequate experience [35]. Kallamu (2015), in a study of listed financial companies in Malaysia, found that risk committee independence has a positive effect on market valuation but a negative effect on accounting returns [14]. Another study Elamer & Benyazid (2018) shows a negative influence of risk committee independence on the profitability of financial institutions [17]. The study used a sample of financial companies listed on the English stock exchange to test its research hypotheses. On the other hand, Jia et al. (2019) did not find a significant relationship between risk committee independence and risk disclosure quality [36]. However, in a study conducted by Yusuf et al (2023) revealed that risk committee independence plays an important role in risk reduction. The more independent the risk committee, the more objective they are in monitoring and providing recommendations related to the bank's risk management policies and activities [9]. Based on this, this study hypothesizes as follows:

Hypothesis 2: Risk committee independence has a significant negative effect on bank risk-taking.

2.3.3 Risk committee meetings and bank risk-taking

The frequency of board meetings indicates the board's active involvement in strategic decision-making. Hussain et al. (2018) argue that board meetings are an important channel through which directors obtain firm-specific information and perform their oversight role. In line with this view, more frequent meetings may provide risk committee members with the opportunity to discuss and deliberate ideas on managerial monitoring, risk mitigation strategies, and ERM policies [37]. Thus, the number of risk committee meetings can be considered as a proxy for risk committee responsiveness and vigilance. This is supported by the Battaglia & Gallo (2015) study, which found a positive correlation between risk committee meetings and bank performance, indicating that more frequent risk committee meetings represent an effective risk communication mechanism, stringent oversight, thorough consideration, and robust risk management monitoring [38]. However, other studies show that more frequent meetings indicate worse bank functioning in previous years; as a result, those meetings are arranged to increase the company's value [39]. Therefore, the author proposes the following hypothesis:

Hypothesis 3: Risk committee meetings has a significant negative effect on bank risk-taking.

2.3.4 Risk committee gender diversity and bank risk-taking

Resource dependence theory explains how organizational behavior is influenced by the availability of resources. The application of this theory to the board of commissioners emphasizes the role of the board of commissioners in utilizing its resources to provide advice to the organization [40]. Gender diversity on boards and committees has recently received more attention than before, with some countries enacting regulations to include women on boards. It is believed that female board members serve as liaisons to underrepresented female stakeholders and influence corporate risk-taking direction, as women are commonly perceived to be more risk-averse [35], [41]–[43]. Women are believed to naturally have better monitoring abilities and are expected to bring these abilities to board or committee membership [44]. Kyei et al. (2022) argue that women's risk aversion will influence male board members in making appropriate risk-taking decisions [32].

Loukil & Yousfi (2016) found that although women are more risk-averse than men, gender-diverse boards with female members have a greater tendency to take risks [43]. However, Bhat et al. (2020) found that diversity characteristics, which include age and gender, have a significant negative relationship with risk-taking in both state-owned and private companies [45]. Similarly, the results of a study conducted by Jia et al. (2019) show that the presence of more women in the risk management committee can help monitor and reduce excessive risk-taking by companies [36]. Based on the findings of these previous studies, the researcher proposes a research hypothesis, namely:

Hypothesis 4: Risk committee gender diversity has a significant negative effect on bank risk-taking.

2.3.5 Risk committee with financial expertise and bank risk taking

To reduce agency costs arising from the separation between owners and managers, owners must incur monitoring costs to better observe agent actions and prevent conflicts of interest [46]. Thus, the existence of experienced board members is a reflection of monitoring costs in agency theory. The competence of board members greatly influences the company's decision-making. A competent board should have a majority of members with background experience in related industries, to direct the company appropriately [47]. Bank board member competence has been measured as having banking experience or having a bank or non-bank financial institution experience, including someone who has worked in a finance-related role at any institution [48]. The knowledge background of board members is expected to influence their behavior, making it difficult to homogenize their thinking, which is important for rational and multifaceted decision-making [49], [50].

In a cross-country study involving Islamic and conventional banks, Nguyen (2021) found that the financial expertise of risk committees has a negative influence on banks' risk-taking behavior [51]. Based on the findings of Harjoto et al. (2019), risk committee members' expertise in finance can improve the effectiveness of the risk oversight function, compared to relatively homogeneous committees in terms of their members' expertise [40].

Research from Younas et al. (2019) using data from the United States and Germany revealed the use of the financial expertise of audit committee members to measure committee effectiveness and found that effective audit committees reduce risk-taking [52]. Based on the description above, the proposed hypothesis is as follows:

Hypothesis 5: Risk committee with financial expertise has a significant negative effect on bank risk-taking.

2.3.6 Risk committee members with doctorate degree and bank risk taking

Researchers have recently become interested in studying directors with doctoral degrees. Nowadays, it is not uncommon for us to encounter doctorate holders with finance or non-finance backgrounds becoming board and committee members. In other words, doctorate holders in related fields such as accounting and finance as well as unrelated fields such as engineering and science are now commonly appointed as corporate board and committee members. It is interesting to examine whether the presence of directors and risk committee members with doctoral degrees influences corporate risk-taking [53].

From an empirical perspective, researchers have not found studies examining the relationship between the presence or proportion of doctorate holders in risk committees and risk-taking. Referring to several studies, such as Umar et al. (2023) in their research found that doctorally qualified committees did not significantly influence the risk-taking of Islamic banks [53]. However, Berger et al. (2014) show that as the number of CEOs with doctoral degrees increases, the risk of banks' portfolios in Germany will decrease [54]. Similarly, the results of a study conducted by Zigraiova (2016) showed that directors with doctoral degrees can improve the stability of Czech banks [55]. Bank stability is one of the indicators that can be used to measure bank risk-taking. Based on the findings of these previous studies, the researcher proposes a research hypothesis, namely:

Hypothesis 6: Risk committee members with doctorate degree has a significant negative effect on bank risk-taking.

2.3.7 Risk committee members from foreign countries and bank risk taking

Foreign directors have different values and perspectives compared to local members because they are influenced by different country backgrounds and cultures [56]. Umar et al. (2023) claim that foreign independent directors can provide important international expertise and guidance to businesses, especially those with branches or ambitions for international expansion [53]. Based on the empirical findings from Zigraiova's (2016) research, a higher percentage of foreign directors on a board tends to reduce bank risk-taking in the Czech Republic [55]. Chihi (2020) found that foreign directors have improved the stability of Islamic banks [57]. The research by Nainggolan et al. (2023) shows that foreign directors can reduce the risk-taking of Islamic banks in Indonesia and Malaysia [58]. Therefore, we develop the following hypothesis:

Hypothesis 7: Risk committee members from foreign countries has a significant negative effect on bank risk-taking.

3 RESEARCH METHODS

3.1 Data

This research is quantitative because this research will collect data in the form of numbers and statistics to test the hypothesis. The data for this study were obtained from a total of eleven (11) Islamic banks in Indonesia during the study period from 2017 to 2022. Thus, there are 66 observations. The data is collected directly from the bank's annual report for the period.

3.2 Empirical models

In this study, use panel data regression method. To test the panel data regression analysis model, the regression model used is as follows:

$$CR = \beta_0 + \beta_1 RCS + \beta_2 RCI + \beta_3 RCM + \beta_4 RCGD + \beta_5 RCEX + \beta_6 RCD + \beta_7 RCF + \beta_8 ROA + \beta_9 ROE + \beta_{10} LN\_Assets + \varepsilon (1$$

where:

CR = Credit risk

RCS = Risk committee size

RCI = Risk committee independence

RCM = Risk committee meetings

RCGD = Risk committee gender diversity

RCEX = Risk committee with financial expertise

RCD = Risk committee with doctor degree

RCF = Risk committee with foreign countries

ROA = Return on assets

ROE = Return on equity

LN Aseets = Natural logarithm of assets

The dependent variable of risk-taking is proxied by credit risk. Credit risk is measured as the ratio of loan loss reserves to total gross loans. This ratio indicates the amount of reserves maintained by the bank to absorb credit losses. The higher the ratio, the greater the credit risk, and vice versa [30].

This study adopts seven independent variables to proxy the attributes of the risk committee. Risk committee size (RCS), Risk committee independence (RCI), Risk committee meetings (RCM), Risk committee with gender diversity (RCGD), Risk committee with financial expertise (RCEX), Risk committee with doctor degree (RCD), and Risk committee with foreign countries (RCF). RCS is measured by the total number of directors in the risk committee [8], [9], [59]. RCI is measured by the proportion of independent directors in the risk committee [53], [59]. RCM is measured by the number of meetings held by the risk committee during the year [24], [30], [59]. RCGD is measured by the proportion of female directors on the risk committee. RCD is measured by the proportion of directors with a doctorate degree on the risk committee [53]. RCEX is measured by the proportion of directors with financial expertise on the risk committee [9]. RCF is measured by the proportion of foreign directors in the risk committee [53].

This study controls for several variables that influence risk-taking as has been established in prior literature. The control variables in this study are roa and bank size [59].

4 RESULTS AND DISCUSSION

4.1 Descriptive statistics

Based on the data that has been obtained and processed, the following are descriptive statistics for each variable.

Tabel 1. Descriptive statistics

Variable	Obs	Mean	Std. dev.	Min	Max
CR	66	3,081212	3,451903	0	22,04
RCS	66	3,909091	0,972345	3	6
RCI	66	83,33500	13,61008	66,67	100
RCM	66	10,07576	7,907758	3	46
RCGD	66	16,69182	21,06862	0	75
RCEX	66	87,02061	19,93005	40	100
RCD	66	22,32303	19,88855	0	66,67
RCF	66	2,348485	9,576401	0	50
ROA	66	1,293182	4,656531	-10,85	13,58
ROE	66	3,889191	18,65028	-94,01	36,5
LN_Assets	66	29,91348	1,175311	27,2184	32,98964

Source: data processed by researchers, 2023

Table 1 shows that bank risk-taking as measured by NPF in Islamic banks in Indonesia in the period 2017 to 2022 showed an average of 3,081. The lowest value for the NPF variable is of 0, while the highest value of variable is 22,04.

Risk committee size (RCS), Risk committee independence (RCI), Risk committee meetings (RCM), and Risk committee with financial expertise (RCEX) have minimum values of 2, 66.67%, 3, and 40%. While the maximum values are 6, 100%, 46 and 100%. While the Risk committee gender diversity (RCGD), Risk committee with a doctorate (RCD), and Risk committee with foreign countries (RCF) have the same minimum value of 0. While the maximum values are 75%, 66.67%, and 50%. This indicates that some bank risk committees do not have representation of women, members with doctoral degrees, and foreign members in the risk committee. Meanwhile, the average values of all variables are as follows RCS 3.9090, RCI 85.3350, RCM 10.0757, RCGD 16.6918, RCEX 87.0206, RCD 22.3230, and RCF 2.3484.

The control variables of ROA and LN_Assets show that on average the bank recorded a value of 1.2931 and 29.9134. Meanwhile, the min and max values are as follows -10.85, 27.2184 and 13.58, 32,9896.

4.2 Correlation analysis

The correlation matrix is used to identify the presence of multicollinearity between the independent variables in the regression model. Multicollinearity occurs when two or more independent variables in the model have a high correlation with each other, which can make interpretation of the regression results difficult. From this correlation matrix, there does not appear to be very strong signs of multicollinearity between the independent variables, as the correlations between them tend to be weak or moderate with correlation values below 0.8.

Tabel 3. Correlation

	CR	RCS	RCI	RCM	RCGD	RCEX	RCD	RCF	ROA	ROE	LN_ Assets
CR	1										
RCS	0,0323	1									
RCI	0,1123	0,1621	1								
RCM	-0,1719	-0,3440	-0,1972	1							
RCGD	-0,0533	0,3360	-0,2554	-0,1609	1						
RCEX	-0,0333	-0,2531	-0,1283	0,0609	-0,0180	1					
RCD	-0,0068	-0,3582	0,1554	0,3706	-0,4853	0,23700	1				
RCF	-0,1182	-0,0575	-0,0997	-0,3950	-0,0087	0,12866	-0,1267	1			
ROA	-0,3546	-0,3519	-0,0658	0,2143	-0,2150	-0,0054	0,2283	0,0706	1		
ROE	-0,6459	-0,2254	-0,0431	0,14929	-0,1557	0,1122	0,1161	0,2503	0,7622	1	
LN_Assets	-0,0306	0,0107	0,3619	-0,3567	-0,1857	-0,0016	0,0884	0,3742	0,0338	0,1086	1

4.3 Hypothesis proving

Tabel 4. Hypothesis testing result

Dependent Variable	**CR**	
Independent and Control Variables	**Coefficient**	**P-Values**
RCS	-0,63533	0
RCI	-0,03992	0,0011
RCM	0,025729	0,0129
RCGD	-0,01312	0,1874
RCEX	-0,01438	0,0482

RCD	-0,00087	0,8384
RCF	0,052399	0,003
ROA	0,211523	0,0004
ROE	-0,11703	0
LN_Assets	-0,17805	0,501
Adjusted R-squared	0,455815	
F-Value	6,444468	
Sig.	0,000002	
Jarque-Bera	25,77020	

Source: data processed by researchers, 2023

From the table above, the Prob F value (model test) is 0,000002 or smaller than α, which is 0.05, it means that the model used is good and fit so that further analysis can be done. The Adjusted R-Squared value of 0,455815 means that the independent variables used in this study, namely risk committee and control variables, can explain the dependent variable, namely bank risk-taking proxied into credit risk by 45.58% while the remaining 54.42% is explained by other variables not used in this research model. Where the significance of the risk committee characteristics variable still has a small effect in explaining the dependent variable, namely credit risk.

The table above shows that the jarque-bera value is 25.77020 which is greater than 0.05 (25.77020> 0.05), which indicates that the data has passed the normality test.

The selection of the estimation model is carried out with 3 tests, namely the Chow Test, Hausman Test, and Lagrange Multiplier (LM) Test. Based on these tests, the results show that the model that can be used in this study is the Common Effect Model.

4.4 Discussion of hypothesis proving

Risk committee size negatively affects bank risk-taking (hypothesis 1 accepted). This means that the larger the size of an Islamic bank's risk committee, the lower the level of risk taken by the bank. The main reason for the hypothesis is that larger risk committees have more adequate resources and competencies to supervise and mitigate risks. In addition, large risk committees also have better diversification, both in terms of the background expertise and experience of its members. This allows them to view risks from various perspectives and suggest comprehensive risk management policies. The results of this study are in line with the research of Abid et al. (2021), which concluded that the size of the risk committee can reduce credit risk [30]. The results of this study do not support agency theory, which emphasizes that the existence of a risk committee with too many members can lead to internal conflicts and the emergence of passive members who ride on the reputation of other active members [28]. However, the results of this study are in line with resource dependency theory, which states that a large risk committee size can increase the effectiveness of its supervisory function. This is because committees with more members reflect a diversity of viewpoints, expertise, and a more mature and rational decision-making process to mitigate the risks of Islamic banks [60].

The independent risk committee obtained a p-value of 0.0011, which is smaller than 0.05 (0.0011<0.05), with a coefficient of -0.03992. This means that an independent risk committee has a negative effect on bank risk-taking (hypothesis 2 is accepted). The results of this study are in line with the research of Yusuf et al. (2023), which found that the more independent the risk committee is, the more likely it is to reduce risk-taking [9]. The results of this study are by agency theory, which argues that more independent boards are likely to experience fewer agency-related conflicts and thus can monitor more effectively [34]. Thus, the more independent the risk committee of an Islamic bank, the lower the level of risk taken by the bank. This is because independent risk committee members have better objectivity and skepticism in carrying out the risk monitoring function. They are free from management pressure and have no personal interests that could interfere with their supervisory duties. Thus, independent risk committees are expected to be more effective in disciplining bank management from taking excessive and speculative risks to achieve short-term targets. They will urge management to implement adequate risk management policies and procedures to protect the interests of depositors and other Islamic stakeholders.

Risk committee meetings obtained a p-value of 0.0129, which is greater than the value of 0.05 (0.0129< 0.05), with a coefficient of 0.025729. This means that the frequency of meetings has a positive effect on bank risk-taking (hypothesis 3 is rejected). The results of this test are in line with research by Vafeas (1999), which shows that a greater number of meetings indicates poor bank functioning in previous years [39]. This means that the higher the frequency of risk committee meetings of an Islamic bank, the higher the level of risk taken by the bank. This is because risk committee meetings that are too intensive can disrupt the focus of bank management in carrying out its operational activities. Too many meetings overwhelm management to attend meetings, and they become less focused on managing bank risk prudently. In addition, too frequent meetings also have the potential to create an overly familiar relationship between the risk committee and bank management. As a result, the risk committee's supervisory function becomes less effective. This hypothesis is in line with the agency theory perspective, where agents are assumed to be motivated to look after their interests [23]. Thus, bank management is expected to take advantage of the lack of supervision due to too frequent meetings to expand risk for short-term gain.

Risk committee gender diversity obtained a p-value of 0.1874 greater than the value of 0.05 (0.4492> 0.05) with a coefficient of -0.01312. This means that risk committee gender diversity has no effect on bank risk-taking (hypothesis 4 is rejected). The results of this study are in line with the research of [9]. In other words, the gender composition of risk committee members between men and women does not affect the high and low risks taken by Islamic banks. The quality of risk supervision by the risk committee is more determined by the competence and experience of members rather than gender factors. Both men and women have equal abilities in understanding and managing the risks of Islamic banks. This hypothesis is in line with resource dependence theory which states that the resources owned by board/committee members (e.g. competence) are more important than demographic attributes such as gender [25].

A risk committee with financial expertise obtained a p-value of 0.0482 smaller than the value of 0.05 (0.0482 <0.05) with a coefficient of -0.01438. This means that the Risk committee with financial expertise has a negative effect on bank risk-taking (hypothesis 5 is accepted). The results of this study are in line with the research of Yusuf et al. (2023) [9]. In other words, the more the number of risk committee members who have financial backgrounds and qualifications, the lower the level of risk taken by Islamic banks. This is because financial expertise allows risk committee members to better understand and assess the bank's risk profile comprehensively. They can conduct a sharper analysis of the bank's financial statements, business plans, and risk management strategies. Thus, the presence of risk committee members with good financial literacy will increase the effectiveness of the supervisory function to discipline management not to take excessive risks. This hypothesis is in line with resource dependence theory, which emphasizes the role of capabilities and expertise of board/committee members in supporting the monitoring function of the organization [25].

The risk committee with a doctorate obtained a p-value of 0.8384 greater than the value of 0.05 (0.8384> 0.05) with a coefficient of -0.00087. This means that the Risk committee with a doctorate has no effect on bank risk-taking (hypothesis 6 is rejected). The results of this study are in line with the research of Umar et al. (2023) [53]. In other words, the percentage of risk committee members who have a Ph.D. does not affect the high and low risk taken by Islamic banks, this is because higher education qualifications such as a Ph.D. do not always correlate with a practical understanding of banking risk management. It is more important for risk committee members to have direct and relevant experience in the Islamic financial services industry. This hypothesis is in line with resource dependence theory, which emphasizes the practical experience and specific expertise of board/committee members over academic degrees alone [61].

The risk committee with foreign countries obtained a p-value of 0.003, which is smaller than the value of 0.05 (0.003 > 0.05), with a coefficient of 0.052399. This means that the risk committee with foreign countries has a positive effect on bank risk-taking (hypothesis 7 is rejected). The results of this study are in line with the research of Umar et al. (2023) [62]. This shows that the more the number of risk committee members who are foreign nationals, the higher the level of risk taken by Islamic banks. This is because foreign members are assumed to have less understanding of the regulatory context, culture, and business practices in Indonesia so their risk supervision becomes ineffective. They tend to apply a globally applicable risk management approach without considering the specific situation and conditions of the domestic Islamic banking industry. The results of testing this hypothesis are expected to contradict the resource dependence theory that emphasizes the positive contribution of the diversity of backgrounds of board/committee members [25].

5 CONCLUSIONS

Based on the test results, it is concluded that the variables of risk committee size, risk committee independence, and risk committee with expertise in economics have a negative effect on bank risk-taking, while the variables of risk committee meetings and risk committee with foreign countries have a positive effect on bank risk-taking. However, the variable gender diversity in the risk committee and risk committee with a doctorate does not affect bank risk taking. This is because the quality of risk oversight by the risk committee is more determined by the competence and experience of the members rather than gender factors. Both men and women have the same ability to understand and manage the risks of Islamic banks. As for risk committees with doctoral degrees, high educational qualifications such as a Ph.D. do not always correlate with a practical understanding of banking risk management. It is more important for risk committee members to have direct and relevant experience in the Islamic financial services industry.

Based on the findings of this study, future researchers are expected to provide results that add to broader knowledge in the development of economics. The results of this study are expected to be used as guidelines and benchmarks for further research that has a relationship with risk-taking in banking companies. to the management of Islamic banking and regulators. expected to help Islamic banking arrange an effective risk committee membership in carrying out the supervisory function. For example, by determining the ideal size and composition of the risk committee. The number of references in this study is still limited, so it has not been able to present a comprehensive literature review from various theoretical perspectives related to the topic studied.

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