Risks In Provision Of Collateral Free Individual Loans: A Case Study Of Bank Rakyat Indonesia

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Abstract.

Collateral Free Loans is a bank loan product offered by banks as lenders with the advantage that customers as prospective borrowers are not asked to provide collateral or guarantees in the form of any assets as a condition for being able to borrow money. The advantage of this loan is that someone can apply for credit without guaranteeing their goods. However, the absence of collateral in granting credit sometimes creates problems for the parties, especially the bank as the lender. This study aims to answer the question of how the risk is in providing individual loan without collateral carried out by Bank BRI, and how the application of the prudential principle in managing the risk of individual loans without collateral at Bank Rakyat Indonesia (BRI). This is a qualitative research with a case study approach. Data collection is done by interviews, observation and documentation. The results of this study indicate that the risks faced by banks in efforts to provide individual loan without collateral are 3 factors. The first is non-compliance with the standard requirements for granting credit which includes data collection, data analysis and preparation of conclusions and recommendations. Second, the authenticity of important documents that must also be attached is sometimes doubted. Third, the occurrence of irregularities in paying debts by the payer/treasurer. To minimize the risk of lending, BRI applies the prudential principles in accordance with banking laws through credit analysis which consists of 5 (five) principles, namely character, capital, capacity, condition, and collateral, with an emphasis on 2 aspects, namely character and capacity. These two principles are in line with the fiduciary principle and prudential principle in banking law.

Keywords: *Collateral-free credit, prudential principles and 5C principles.*

I. INTRODUCTION

The banking industry has an important role in economic development. According to Law Number 10 of 1998 concerning Banking, the function of banking is to collect funds from the public and distribute them to the community in various forms. The banking industry also plays a role as a means of mobilizing public funds effectively and as a careful channel of productive funds, which in turn for activities that will encourage economic growth. This function is manifested in the distribution of public funds in the form of loans or what is commonly called credit. In order to maintain the right balance between the goal of making a profit and ensuring that all loans are paid off, banks are required to establish a policy. There are 3 important principles that must be considered in credit policy, namely the principle of *liquidity*, the principle of *solvency*, and the principle of *rentability* [1].The emergence of troubled banks and even liquidation was caused by an imbalance (mismatch) in banking management. The amount of funds saved is not commensurate with the extended credit either in terms of amount or term, not to mention the large number of loans given to affiliated parties without collateral. Banks that violate the LLL (maximum limit for lending) and CAR (capital adequacy ratio) or capital adequacy ratio can experience massive/rush withdrawals from depositors as a result of decreased credibility and a domino effect from other banks. In order to avoid conditions like the above, in extending credit, the banking industry must have confidence in the ability and ability of the debtor to pay off his debts in accordance with what was agreed, because credit provided by banks contains risks, so that in practice, banks must pay attention to credit principles [2].

This means that, in providing credit to its customers, the bank must conduct research on its prospective customers by taking into account the credit principles known as the "5C" principles, namely *character, capacity, capital, collateral* and *economic conditions* [1].In order to secure credit and expedite credit and minimize risk, the bank in the implementation of lending requires collateral. According to the provisions of the Banking Law, collateral is additional collateral provided by debtor customers to banks in the context of providing credit facilities or financing based on sharia principles. Thus, it can be concluded that collateral for banks serves to determine the repayment of the debtor's debt if the debtor defaults or goes bankrupt. Collateral in lending will guarantee legal certainty to the bank that the credit will still return by executing the credit collateral [1]. If the credit received by the borrower is not repaid so that it is concluded as bad credit, the credit guarantee received by the bank will be disbursed to pay off the bad credit. Thus, credit guarantees have an important role in securing the return of bank funds that are channeled to borrowers through the provision of credit [3].Lately, banks have been increasingly aggressively pushing their lending to the retail sector.

They also offer various consumer credit products. One of them that has recently become increasingly popular is Collateral Free Loans. One of the government banks that also provides Collateral Free Loans facilities is Bank Rakyat Indonesia (BRI). However, many bad loans occur as a result of granting credit approval that is not so stringent. In Indonesia, the problem of bad loans, which in banking terms is called Non-Performing Loans (NPL), occupies the highest position, namely 55%. This percentage is a comparison between bad or non-performing loans with total bank lending. The ratio of NPL to total loans in South Korea is 16%, Malaysia is 24% and Thailand is 52% [4]. The high NPLs in Indonesia are inseparable from the lack of compliance by Indonesian banks with the principles of prudence in lending.The problem that arises is how to apply the principle of providing commercial bank credit in managing individual credit risk without collateral in accordance with the Banking Law and what obstacles are faced by banks in efforts to provide individual credit without collateral and how is the application of risk management carried out by commercial banks to minimize the risks associated with lending individuals without collateral.This study aims to answer the question of how the risk is in providing individual loans without collateral carried out by BRI Bank, and how the application of the prudential principles in managing the risk of Collateral free Individual Loan at Bank Rakyat Indonesia (BRI).

II. LITERATURE REVIEW

Definition of Collateral

The word 'guarantee' actually comes from the Dutch language known as *zekerheid* or *cautie*. This term is translated as ways for creditors to guarantee the fulfillment of their bills, in addition to the debtor's general responsibility for his goods. There is still another term known in banking, namely 'collateral'. The term collateral is found in an explanation in Article 1 number 23 of Law Number 10 of 1998 concerning Amendments to Law Number 7 of 1992 concerning Banking [5].To obtain bank facilities, collateral is required, which will be submitted by the debtor to the bank. The elements of collateral, namely: 1) Additional collateral 2) Submitted by the debtor to the Bank 3) To obtain a credit or financing facility. According to Article 1 paragraph 26 of Law Number 21 of 2008 concerning Sharia Banking, it states the meaning of collateral: "*Collateral is additional collateral, either in the form of movable or immovable objects that are submitted by the owner of the collateral to the Sharia Bank and/or UUS, in order to guarantee repayment obligations of the customer receiving the facility*."

Collateral submitted by the debtor must be assessed in advance and must meet the elements of eligibility. This assessment is carried out by the bank as a financial institution that will provide credit. There are many items that can be used as collateral, including: Motor vehicles, machinery, land and buildings, motor boats, machinery, stocks, deposits, accounts receivable or credibility for guarantees that are individual in nature [6].[7] states that collateral/guarantee for financing in banking can be distinguished: 1) Individual guarantee, consisting of: (a). Personal guarantee. Personal guarantee is an individual guarantee given by someone as a person. (b). Corporate guarantee. Corporate guarantee is an individual guarantee given daily by a company. In daily practice, company guarantees can be found: a) General in nature, which only states the provision of guarantees by the company concerned for customer loans to financial institutions, b) Specific in nature, which expressly states everything regarding the provision of guarantees to customers in connection with related customer loans to financial institutions.

Definition of Collateral Free Loan

If we want to apply for credit but don't have items to collateralize, we can make an Collateral Free Loan application. It is very important for everyone who wants to take a KTA (Kredit Tanpa Agunan in

Bahasa Indonesia) to consider their financial condition. Every employee, entrepreneur or professional can apply for a loan without collateral, but KTA is usually limited in terms of nominal value. This is because the credit application is not accompanied by collateral, so the bank's risk is higher. The average KTA value is limited to between Rp. 5 million to Rp. 50 million. Judging from the credit period, it is not long, which is between 1 to 3 years [8].People tend to use KTA for things that are consumptive in nature, such as wedding expenses, educational expenses, or renovating a house. However, KTA can actually also be used for productive purposes such as for business capital, buying machinery, office equipment, or other working capital needs. When compared to other types of credit, the risk of this KTA will be greater than collateralized credit. This risk will occur from the time the KTA is disbursed until the credit repayment period. To minimize risk, banks as lenders emphasize 2 important elements in sound credit, namely: (a) Character and (b) Capacity (ability assessment).

Prudential Principles in Loan

The prudential principle in extending credit to customers must be applied by every bank. Credit analysis must be carried out carefully and in depth to prospective credit recipients. The application of this in-depth analysis is one of the principles of prudence that guides the bank, namely: 5C principles [9]:

1. *Character*. What must be assessed is the character of the prospective debtor. Because it is a very important element for the bank before making a decision whether to give credit or reject it. Banks must be sure that the prospective credit recipients are of good behavior and can fulfill their promises.
2. *Capital*. Before giving credit, the bank must first examine the capital owned by the prospective debtor. This is a very important aspect to assess and measure the level of liquidity ratio and solvency, because it is related to the credit period that will be given.
3. *Capacity*. Banks must also conduct periodic analysis. For example, by evaluating the debtor's business condition. It is hoped that ever-increasing income will be able to repay the credit in the future. Meanwhile, if it is estimated that he is unable, the bank can reject the application from the prospective debtor.
4. *Conditions of Economy*. Banks must also analyze the economic condition of their prospective borrowers because this will affect their ability to fulfill their obligations as KTA recipients.
5. *Collaterals*. The guarantee given by the prospective debtor will be bound by a right to collateral according to the type of guarantee submitted. In banking practice, collateral is the last step if the debtor is no longer able to carry out his obligations.

III. METHODS

This research is a qualitative research using case studies. [10] Yin (1981a) argues that a case study is an empirical research that investigates contemporary phenomena in a real-life context. Case studies are the right method to use if the researcher aims to answer 'how' and 'why' questions [11] (Yin, 2009). In this study, researchers used data collection techniques with interview instruments, observation and documentation. [12] argue that what is meant by interviews is a strategy to obtain information obtained directly from the source through a question and answer process. The interview technique chosen by the researchers was in-depth interviews, which were aimed at obtaining data from research subjects through an open question and answer process [13]. In this study, researchers conducted interviews with BRI staff credit, with the intention of obtaining detailed information regarding the procedures and policies applied at BRI.In addition to interviews, researchers also used observation techniques in collecting data. Observation is a data collection method in which researchers make direct observations of the object of research. In this study, the researcher chose the type of non-participant observation, because the researcher was not involved in the activities of the informants being studied [14]. Meanwhile, the next method is documentation. This is important for researchers to do in order to obtain data that is not obtained from interviews and observations.

[15] suggests that documentation in research is a technique of collecting data and analyzing data through written documents, images and electronics. To obtain data, researchers can look for them from magazines, the internet, journals and others related to the research focus.In this study, researchers used data analysis techniques from [16], the process of which begins with (a) data collection, (b) data refinement, (c)

data processing, (d) conclusions from research results. Data analysis must be carried out carefully starting from from setting data sequences, data organization, and categorization [17]. According to Bogdan and Biklen in [18] data analysis is an effort made by working with data, organizing data, sorting it into manageable units, synthesize them, seek and find patterns, discover what is important and what is learned, and decide what to tell others.

IV. RESULTS AND DISCUSSION

Analysis of the application of risk management carried out by Bank BRI to minimize risks related to lending without collateral is basically classified into 2 (two) stages, namely the stage before credit disbursement and the stage after credit disbursement.

1. The stage before KRETAP disbursement

BRI uses terminology of KRETAP for Collateral Free Loan. KRETAP is a collateral-free loan that is specifically given to permanent employees. In this stage, to reduce the risk of providing KRETAP, the bank, in this case the BRI bank, must apply the precautionary principle in accordance with sound credit principles. Before entering into a business relationship with a customer, the bank is required to request information regarding the customer's identity. The identity of the prospective customer must be proven by the existence of supporting documents and the bank is obliged to examine the validity of these supporting documents, and if necessary, the bank can conduct interviews with the prospective customer to examine and ensure the legitimacy and correctness of these documents.For banks that have used electronic media in banking services, they are required to hold meetings with prospective customers at least at the time of opening an account. As for what is meant by these supporting documents include the customer's identity, information regarding employment (in the event that the customer does not have a job, the data required is a source of income), signature specimens, information regarding sources of funds and purpose of using funds. For the next stage in its efforts to minimize the occurrence of bad loans, Bank BRI applies strict requirements to be able to disburse KRETAP funds, which in this case are without collateral. One of them is by specializing the KRETAP applicants from the government/BUMN/BUMD/TNI-POLRI and private agency employees who have been appointed as permanent employees in the agencies where they work.

Meanwhile, those who are contract/non-permanent employees are not justified in obtaining KRETAP facilities.Apart from that, the agency where they work must have a cooperation agreement with Bank BRI so that for agencies/companies that do not yet have a cooperation agreement, their employees cannot also obtain KRETAP facilities. This is reasonable because as a loan product without collateral, BRI's consideration for providing KRETAP facilities is the feasibility/prospects of the institution where the person concerned works, the employment status of the person concerned as a permanent employee; and the amount of income concerned as an employee. Because if the things above are not met first, Bank BRI will experience difficulties if they want to make bills in the event that the customer does not pay off the installments and in the event that the credit provided is bad because the customer does not want to fulfill his obligations.Apart from the main requirements above, in order to ensure the disbursement of KRETAP and strengthen the legal position of Bank BRI in billing, it is also required for prospective KRETAP customers to attach (a) a detailed list of salaries approved by an authorized official/leader, (b) SK First appointment as a permanent employee and the last (original) promotion, (c) a sufficiently stamped statement from the treasurer/paymaster/official who has the authority to cut salaries and is known by his superior stating the willingness to cut salaries every month,

(d) a statement from an authorized official stating that the person concerned is actually an employee of the institution/company concerned with the rank and class at which the person concerned applies for the loan, (e) a power of attorney for deduction of salary on sufficient stamp duty signed by the debtor/indebted person and known to the treasurer/ payer/officer authorized to pay salary.All of the above requirements are very important to avoid the possibility that the KRETAP provided will become bad credit because the installments from KRETAP are deducted directly from the debtor's salary paid through BRI and if the salary payment is not through BRI, then the installments are billed monthly through a payer/payer. treasurer of the agency/company by sending a list of requests for salary deductions. With evaluation techniques in credit analysis that are carried out carefully, thoroughly and accurately and are based on actual and accurate data as described above, it is hoped that banks will not be mistaken in making decisions and avoid a default situation, which is a condition resulting from failure or the customer's inability to fulfill the credit agreement agreed upon by both parties.

2. The stage after individual loan disbursement without collateral

In the event that after the disbursement of the KRETAP, the efforts that can be made by bank BRI are to minimize risks, which in this case is to maintain the smooth payment of credit installments, the creditor, in this case Bank BRI, takes the initiative to officials/officers related to the smooth delegation or deduction and payment of credit installments, in this case the treasurer/payer/other authorized official is given an incentive of a maximum of 1% of the total principal and interest installments deposited to bank BRI in the month concerned without being subject to incentive penalties.In giving these incentives, it can be arranged that not all of them are given to the treasurer/paymaster, but can also be given to the head of the agency concerned, where the policy in regulating the distribution of these incentives is the authority of the BRI branch manager and if desired, to provide additional incentives so that it is greater than 1%, then it can be compensated by increasing the lending rate which is also under the authority of the branch manager, where what should be a reference for the branch head to provide incentives are (a) The level of competition to get good customers, and (b) The credit performance of good institutions concerned.With this effort, it is hoped that it will spur treasurers to be able to carry out their obligations to pay KRETAP installments to Bank BRI on time. In addition to maintaining the smooth payment of credit installments, Bank BRI has also anticipated the risk of credit default borne by Bank BRI as a result of the death of the debtor, whereby each KRETAP debtor must be insured with a credit life insurance facility to the insurance company (guarantor) which in this case is PT Bringin Jiwa Sejahtera.

Life insurance is life insurance by the insurer for the life risk of the insured debtor, in this case a KRETAP customer from a BRI branch office, if the insured debtor dies during the credit term where the sum insured is the amount of the loan principal stated in the credit agreement.In order to prevent non-performing loans from occurring, every bank, including BRI, needs to manage and foster credit in accordance with applicable laws and regulations. This is because if the bank's risk management or credit management is not good, it will make the level of non-performing loans high. Therefore the principle or principle of prudence (prudential banking) is important, as a principle which states that a bank in carrying out its functions and business activities must take ways that do not harm the bank and its customers.The purpose of applying the principle of prudence (prudential banking) is so that the bank is always in good health. In the previous analysis, researchers have explained that many bad loans can be caused by several things, for example layoffs, early retirement, and so on. Meanwhile, if there are workers who are bound by a debt contract with the bank, and are unable to pay for one reason or another, then the company must settle with the bank in a prudent manner, for example by deducting the severance pay that will be received by workers if dismissed by the company, because the credit includes the responsibility of workers who must be resolved if there are objections in repayment or installments, the company is obliged to help find a middle ground.

V. CONCLUSION

The results of this study indicate that the risks faced by banks in efforts to provide individual credit without collateral are 3 factors. The first is non-compliance with the standard requirements for granting credit which includes data collection, data analysis and preparation of conclusions and recommendations. Second, the authenticity of important documents that must also be attached is sometimes doubted. Third, the occurrence of irregularities in paying debts by the payer/treasurer.The results of this study indicate that the risks faced by banks in efforts to provide individual credit without collateral are 3 factors. The first is non-compliance with the standard requirements for granting credit which includes data collection, data analysis and preparation of conclusions and recommendations. Second, the authenticity of important documents that must also be attached is sometimes doubted. Third, the occurrence of irregularities in paying debts by the payer/treasurer.Meanwhile, to minimize the risk of lending to individuals without collateral, BRI implements risk management which is classified into 2 (two) stages.

First, the pre-disbursement stage, to reduce the risk of extending credit, Bank BRI is required to apply the precautionary principle in accordance with sound credit principles. Second, the stage after KRETAP disbursement. Attempts that can be made by BRI Bank to minimize risk, the creditor, in this case BRI bank, takes the initiative to the officers/officers related to the smooth delegation or deduction and payment of credit installments, in this case the treasurer/payer/other official who authorized to be given a maximum incentive of 1% of the total principal and interest installments deposited at BRI bank in the month concerned without being subject to an incentive penalty.In granting unsecured loans, the application of the principle of prudence by banks, especially in managing individual credit risk without collateral, is in accordance with banking laws, namely through credit analysis which places more emphasis on 2 (two) principles of 5C, namely *character* (assessment of character) and *capacity* (ability assessment). These two principles are in line with the fiduciary principle and prudential principle in banking law. This fiduciary principle and prudential principle are then set forth in article 29 paragraphs 2 and 3 of the Banking Law, whereby banks are required to maintain bank soundness in accordance with the provisions of capital adequacy, asset quality, management quality, liquidity, solvency and other aspects related to bank business and must carry out business activities in accordance with the principle of prudence.

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