

Analysis of the Application of 5C Principles in Credit Decision-Making Against Non-Performing Loans During the COVID-19 Pandemic (Study at PT BRI Unit X Malang Indonesia)



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ABSTRACT: At BRI Unit X in Malang Indonesia, the increase in NPL in 2022 tends to increase significantly compared to before. This study aims to analyze how the application of the 5C principle in making credit decisions during the COVID-19 pandemic at BRI Unit X, Malang City. In addition, writing this topic also aims to analyse the impact of credit decision-making on the level of Non-Performing Loans from BRI Unit X Malang during the COVID-19 pandemic and after the COVID-19 pandemic. This study uses an interpretive qualitative research method with a case study method. Sources of data from this study are: 1) Primary data, namely data obtained directly from researchers from sources. Primary data is obtained by conducting in-depth interviews with key informants, secondary data is data that is already available and collected by other parties such as tables, notes, photos, etc. The secondary data in this study was obtained from the BRI Unit X Non-Performing Loan (NPL) table from 2020-2022. The results of this study in giving credit decisions at BRI Unit X Malang must pass the stages by the applicable standard operating procedures (SOP). The 5C principles in providing credit decisions are character, capacity, capital, collateral, and condition. There is no difference in the procedure for applying the 5C principle in making decisions during the Covid-19 pandemic and before the Covid-19 pandemic. However, according to the informant, after the Covid-19 pandemic, the credit analysis process for customers based on the 5C principle was further tightened. Thus, at BRI Unit X Malang, several efforts were made to overcome problems such as: billing regularly and effectively. So the billing process has been well planned and scheduled until the credit granting period. In addition, the Account Officer (Mantri) supervises the business and intensively handles debtors who have credit problems.

KEYWORDS: NPL, Bank, Debtor, Credit, Loans

I. INTRODUCTION

Presidential Decree No. 12 of 2020 related to the determination of the COVID-19 pandemic as a national disaster resulting in a decline in all sectors, including the economy and banking (BPK Regulation, 2020). The COVID-19 pandemic has had a direct impact on the MSME sector, namely the decline in people's purchasing power for the businesses they run so that turnover also decreases (Zunić et al., 2021). MSMEs are the most important part of the economic sector so COVID-19 has resulted in many MSMEs going out of business (Arianto, 2020; Amri, 2020). The impact that occurs greatly facilitates MSME actors so that they take advantage of the capital obtained from applying for credit at the bank (Colak & ztekin, 2021). This is done to survive and develop businesses during the pandemic (Firmansyah & Fernos, 2019).

Banks are financial institutions that have activities to collect funds from the public in the form of deposits and redistribute credit to improve people's lives (Musta'da & Pramono, 2022; Shapiro & Wilson, 2022). Bank credit is the provision of money based on a loan agreement between the bank and other parties and the obligation to pay interest within a certain period by the borrower (Loppies et al., 2021). The proportion of bank operating income determines the amount of credit that can be disbursed by the bank (Nisa & Hasibuan, 2022). This is intended to avoid losses. Therefore, credit disbursement must be carried out strictly to prevent soaring levels of Non-Performing Loans (Firmansyah & Fernos, 2019).

After the credit is realized, banks cannot refuse to face the risk of the emergence of non-performing loans (Musta'da & Pramono, 2022; Rafaella, 2021). Non-performing loans (Non-Performing Loans) are loans that have difficulty maturing due to various factors, both internal and external beyond the control of the debtor (Firmansyah & Fernos, 2019; Widarti et al, 2022). This certainly has an impact on bank liquidity (Phung et al, 2021). This risk can be emphasized with a comprehensive and in-

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depth credit analysis procedure (Basori & Wahyuningsih, 2018). In-depth credit analysis is useful to support credit distribution and can reduce the degree of credit risk.

Credit analysis aims to assess the ability and availability of prospective debtors to repay debt and interest by the agreed credit agreement (Ari et al., 2020; Yuldashevna; 2022). The application of credit analysis by Bank Indonesia regulations allows banks to project the degree of risk that will be borne if the credit is approved (Khairani & Diyanty, 2022). Based on Bank Indonesia regulations, credit activities must be based on the principle of prudence. The principle of prudence in lending is based on the 5C principle (character, capacity, capital, collateral, and condition) (Loppies et al., 2021; Bakker et al., 2022; Laksmiarti & Inayah, 2022).

Research conducted by Rahayu et al (2021) found that the application of the 5C principle in Swamitra Pekanbaru was considered effective in determining whether or not the credit given to debtors was worthy. The factors that cause problems are debtors who experience a decrease in business sales turnover, and debtors who experience disasters, and are laid off (Fejza et al, 2022). The main cause of the failure of Swamitra Pekanbaru to increase profitability due to an increase in non-performing loans (NPL) (Rahayu et al, 2021). Then, research by Basori & Wahyuningsih (2018) found that PT. BPR Harta Swadiri Pandaan in 2015-2017 experienced an increase in non-performing loans due to a lack of thoroughness and choice of officers (AO) in the credit analysis process and making decisions on credit realization to prospective debtors. In addition, internal control also needs to be considered by establishing an internal control time for the credit department to carefully analyze whether or not credit is given (Rafaella, 2021; Zhang et al, 2021).

Credit problems occur in all banks in Indonesia, such as PT Bank Rakyat Indonesia Unit X, which experienced an increase in the ratio of non-performing loans during the COVID- 19 pandemic. The following is a breakdown of NPLs from 2020 to the second quarter of 2022 at BRI Unit X, Malang City (see Table 1).

Table 1. Data on Non-Performing Loans (NPL) for 2020-2022 BRI Unit X

Year	2020	2021	2022
Month			
January	0.55%	0.49%	0.81%
February	0.49%	0.56%	0.88%
March	0.59%	0.59%	0.83%
April	0.46%	0.59%	1.01%
May	0.45%	0.65%	1.00%
June	0.43%	0.63%	1.06%
July	0.37%	0.62%	-
August	0.36%	0.59%	-
September	0.34%	0.61%	-
October	0.32%	0.69%	-
November	0.22%	0.69%	-
December	0.21%	0.63%	-

Table 1 shows that the increase in NPL experienced by BRI Unit X is quite subtle every month. Based on the problems in the background above, the authors are interested in conducting research aimed at analyzing how the application of the 5C principle in credit decision-making during the COVID-19 pandemic at BRI Unit X, Malang City. In addition, writing this topic also aims to analyze the impact of credit decision-making on the level of Non Performing Loans from BRI Unit X Malang during the COVID-19 pandemic and after the COVID-19 pandemic.

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II. LITERATURE REVIEW

A. BANK

A Bank according to Law No. 10 of 1998 is a business entity that collects funds from the public in the form of savings and also flows it to the public in the form of credit and other forms to improve the standard of living of the people (BPK Regulation, 1998). Based on the law, the types of banks in Indonesia are divided into three categories, central banks, conventional banks, and people's credit banks (Richard, 2020). The central bank is at the top of the banking hierarchy in each country and works to issue and regulate banknotes, unifying bank operations and credit policy (Shah, 2022). Therefore, the central bank is considered one of the most important players in the financial market.

Credit banks are banks that carry out activities based on sharia principles and do not provide services in payment traffic (Choudhary & Jain, 2022). Conventional banks are banks that function to collect and channel funds, provide credit, and charge imbalances in the form of interest from funds for a certain period (Junaidi, 2022). Thus, the public can carry out financial transactions or other transactions provided by the bank.

One of the services provided by conventional banks to the public is providing credit. In this case, banks must have confidence that credit and profit-sharing schemes can be purchased (Kabir et al, 2022). Therefore, each bank is required to analyze prospective debtors to assess eligibility.

B. 5C Principles in Banking

The 5C principle can be used by banks to analyze potential debtors. This principle is also known as the precautionary principle. 5C consists of character, capacity, collateral, and condition. Character means the nature and character of the prospective debtor. Indications that are considered are the reputation of the debtor, its relationship with the community, and whether or not the supplier of the debtor changes frequently (Sembirin & Jannah, 2022). Capacity is the ability of prospective debtors to repay loans with the ability to manage a business and earn profits (Mubin, 2022).

Capital is the adequacy of capital owned by debtors in running their businesses (Sembirin & Jannah, 2022; Mubin, 2022). In this case, the bank can study the net worth of the prospective debtor. Condition is the financial stability of prospective debtors so that predictions of future business prospects and the financial capacity of information can be known (Loppies et al., 2021). The last principle is collateral, in the form of physical and non-physical guarantees provided by prospective debtors as protection from financial risks (Lakshmi Aarti & Inayah, 2022).

The 5C principle is very useful in making credit decisions for banks. The credit decision is the determination of credit application is accepted or not. This is shown to avoid non-performing loans (Kabir et al, 2022; Liu, 2022). Therefore, the bank must be able to assess the feasibility and feasibility of the debtor who will apply for credit. An in-depth analysis of credit decisions is carried out using various aspects, such as marketing, economic, technical, juridical, financial, and management aspects (Liu, 2022).

The marketing aspect is the amount of demand for products produced at this time and in the future so that the marketing prospects of these products can be known. The economic aspect analyzes the impact of the project on the economy of the community and society. Aspects that deal with problems related to production, location, and layout, such as the capacity of the machines used are called engineering aspects.

The juridical aspect is related to the issue of the legality of business entities and permits owned by companies applying for credit (Pinkovsky et al, 2021). The financial aspect is the source of funds owned by the debtor to finance and how the funds are used (Liu, 2022). Finally, the management aspect is used to assess the company's organizational structure, its human resources, as well as the educational background and experience of its human resources (Pinkovsky et al, 2021). The company's experience in managing various existing projects is also another consideration

The results of the research Ashraf et al. (2022) show that the procedures for financial analysis and analysis of the 5C principles of prospective debtors need to be carried out by banks. This is intended as effective credit supervision and prevention of bad loans that are detrimental to banks. Rahayu et al. (2021) found that the application of the 5C concept at Swamitra Pekanbaru was efficient in determining whether or not the credit offered to debtors was eligible. Non-performing loans were caused by debtors who experienced a decrease in company sales turnover, debtors who were not healthy, and debtors who were laid off (Fejza et al, 2022).

The results of the research by Khairani & Diyanty (2022) show that the application of credit risk (principle of 5C) has not been implemented optimally so many MSMEs do not obtain credit from the bank. Even the bank will also experience problems if it does not implement the 5C principles properly. For example, in the research of Basori and Wahyuningsih (2018), PT. BPR Harta

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Swadiri Pandaan experienced an increase in non-performing loans from 2015 to 2017 because officers (AO) were less thorough and selective in the credit analysis process and making decisions on credit realization to prospective debtors.

C. 5C Principles and Non-Performing Loans

Banks that do not apply the 5C principle in selecting prospective debtors will experience credit problems. This is because not all prospective debtors or prospective customers are diligent in paying their credit, but some customers are late. Bad loans experienced by banks will make the proportion of the NPL ratio increase dramatically (Khairi et al, 2021). NPL is a non-performing loan when the customer does not make payments according to the agreed period (Žunić et al, 2021). Therefore, NPL is also known as a non-performing loan.

NPL is divided into five categories, namely, current in special attention, substandard, doubtful, and jammed (Khairi et al, 2021). Current NPL means that there are no arrears in principal or interest payments by customers. NPL Under Special Mention indicates arrears in principal or interest payments of up to 90 days. Arrears in principal and interest payments for 120 days are classified as doubtful NPLs. Meanwhile, a bad NPL means that the debtor is unable to pay the loan principal or interest and in this case, the bank will appeal to the customer.

One of the problems caused by high NPL is liquidity (Singh et al, 2021). This means that the bank is unable to pay third parties (employees and employees). In addition, the problem is profitability, where debts issued to customers cannot be collected back. Another problem is solvency (Žunić et al, 2021). This means that the existing capital in the bank is reduced and of course, the bank will have difficulty in carrying out its functionality. In addition, the profits obtained by banks also decreased due to non-performing loans.

III. RESEARCH METHOD

This study uses an interpretive qualitative research method with a case study method. qualitative research is quality research (Rahayu & Hinggo, 2021). A qualitative research method with an interpretation approach was chosen to obtain complete, in-depth information, and explain what it is by conducting interviews with parties involved in providing credit decisions with case studies at BRI Unit X Malang City. Sources of data from this study are: 1) Primary data, namely data obtained directly from researchers from sources. Primary data was obtained by conducting in-depth interviews with key informants, namely unit heads, account officers, and "frontliners" (tellers and customer service). 2) Secondary data is data that is already available and collected by other parties such as tables, notes, photos, etc. The secondary data in this study was obtained from the BRI Unit X Non-Performing Loan (NPL) table from 2020-2022.

In this study, the authors used data collection techniques in the form of interviews, observations, and documentation studies. Informants in this study are individuals who really understand the topic and are directly involved in the research topic. Informants were selected using a purposive sampling technique, namely the selection of samples based on certain criteria by the research objectives. The criteria for informants are 1) directly involved, 2) having sufficient and competent experience, and 3) taking the time to be asked for information. The study also triangulates sources to ensure that the answers from the sources are valid.

IV. RESEARCH RESULTS

A. Credit Decisions

The results of the interview show that in giving credit decisions at BRI Unit X Malang, they must pass the stages according to the applicable standard operating procedures (SOP). If the standard operating procedure (SOP) is carried out according to the rules, the credit-granting process will run smoothly. The SOP is the basis for the assessment to determine whether a person's credit is accepted or not. The process granting credit at BRI Unit X, Malang City has implemented standard operating procedures (SOP) in the process of granting credit to prospective customers.

The operational standards that apply at BRI Unit X are similar to the general standards of other banks. There are many lending programs to prospective debtors, and based on their designation, BRI credit types are divided into three categories, namely BRI credit types for individuals, MSMEs, and corporations. Various types of credit from BRI include Bank BRI KPR, BRI KPRS, Used and New Car KKB, BRI Refinancing KKB, Premium Motorcycle KKB, Briguna Karya, Retirement Brigadier, General Brigadier, Education Brigadier, KUR, Kupedes, Working Capital Loans, Credit Investments, Food Loans, Warehouse Receipts, Partnership Loans, and BRI Ceria online loans. Thus each program has different requirements. Although different, several requirements must be met by the general public.

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Several stages must be met in granting credit to prospective debtors. At the initial stage, it begins by completing every document needed to see the identity and business run by the prospective debtor, which is the reason the debtor applies for credit. Documents that need to be fulfilled in each document scheme are different, thus all must be met first for the basic requirements in applying for credit.

The next stage is carried out in the field. This stage is carried out after obtaining satisfaction with the validity of the documents from the results of the investigation. When doing work in the field, there is no prior notification before the prospective debtor so what is seen in the field is by the actual conditions. The purpose of going to the field is to ensure that the object being financed exists and is by the documents that have been completed at the beginning.

The next procedure, when you have passed in the field, applies to the head of the unit in the credit process. This activity is a continuation of his credit decision. Before the credit is disbursed, the prospective debtor first has a credit agreement/credit agreement, then binds the credit guarantee with Mortgage or Fiduciary rights depending on the type of guarantee guaranteed. Or other agreements deemed necessary. The signing of the credit agreement is carried out between the Bank and the debtor directly or through a Notary. With the head of the unit, the approval will be carried out, and all the procedures that have been passed can be realized or disbursed credit.

B. Application of 5C Principles in Credit Decision Making

The following is the application of the 5C principles in making credit decisions:

1. CHARACTER

Credit analysis based on character aspects is used to determine the extent to which prospective customers are willing to fulfill their obligations. Thus at this stage, an interview process is carried out with prospective customers and the surrounding community. This stage is important in making credit decisions because based on the results of interviews, the Account Officer conducts credit analysis based on character aspects to find out the background of the prospective customer. The character of the customer is important because if the prospective debtor has a bad character, BRI will not be given credit.

The mechanism is carried out by asking directly local people who are familiar with the customer, primarily by asking the head of the RT/RW. In addition, AO also analyzes by asking the neighboring prospective debtors. After obtaining some information, AO can cross-check the information by interviewing the parties concerned or potential customers directly. If the customer has a good character, then it can be continued by analyzing other aspects.

2. CAPACITY

Capacity is an assessment of the ability of prospective debtors to run a business. Based on the interview, the Account Officer will assess the extent of the potential debtor's ability to manage the business, and how the business prospects are, especially during the Covid-19 pandemic, with economic conditions that are still not optimal. This assessment is carried out carefully because it will affect the amount of credit that can be given by the bank to prospective customers, according to the ability of the customer.

3. CAPITAL

Capital is the amount of capital owned by the prospective debtor. The greater the capital owned, the Account Officer will assume that the prospective customer has a strong intention in managing and maintaining sustainable development. Based on interviews, AO can perform credit analysis by looking at the financial statements of the customer's business. This is done to find out how much assets are reduced by liabilities owned by the prospective debtor, and the rest is considered as the ability of the debtor to pay the credit to be given.

4. GUARANTEE

Collateral is goods owned by prospective debtors and used as collateral for loans received. Results Based on interviews, AO analyzes whether the collateral has a value above or below the amount of credit requested. Collateral should exceed the amount of credit given. In addition, AO also examines the validity of the guarantee, whether it has the prospective customer and is not in a state of dispute. This is done so that when the prospective customer is unable to pay the debt, the bank has the right to auction the guarantee.

5. CONDITION

This condition is seen in various fields ranging from economic, political, social, and cultural conditions that can affect economic conditions directly or indirectly within a certain period and can interfere with the ability of prospective debtors to fulfill their obligations. Based on interviews, with survivors of the COVID-19 pandemic, many businesses have experienced a decline in turnover. This decline in turnover has a direct impact on the ability of debtors to pay their installments. Therefore, since the

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COVID-19 pandemic, BRI has provided relief to customers who have difficulty paying installments because they can reschedule the credit period. This is done by submitting a request for restructuring to BRI. That way, customers whose requests are approved will pay less for a longer period.

C. Impact of applying 5C Principles and actions on Non-Performing Loans

Based on the author's interview with the Account Officer (AO), information was obtained that the application of the 5C principle affects Non-Performing Loans (NPL). Giving credit decisions based on a strict 5C principle analysis, of course, causes non-performing loans (NPLs). Meanwhile, credit analysis that does not include the 5C principle has a high risk of experiencing non-performing loans (NPL).

Based on the results of interviews between researchers and informants, there is no difference in the procedure for applying the 5C principles in making decisions during the Covid-19 pandemic or before the Covid-19 pandemic occurred. However, according to the informant, after the Covid-19 pandemic, the credit analysis process for customers based on the 5C principle was further tightened. This is done to prevent errors in granting credit decisions. If an error occurs in the provision of credit decisions, it will have a fatal impact on the credit given. the achievement of the customer default is quite large. If the customer fails to pay, of course, this has an impact on the level of non-performing loans at the bank. It can be seen in table 2 regarding the NPL data in the last several periods.

Table 2. Data on Non-Performing Loans (NPL) for 2020-2022 BRI Unit X

Year	2020	2021	2022
Month			
January	0.55%	0.49%	0.81%
February	0.49%	0.56%	0.88%
March	0.59%	0.59%	0.83%
April	0.46%	0.59%	1.01%
May	0.45%	0.65%	1.00%
June	0.43%	0.63%	1.06%
July	0.37%	0.62%	-
August	0.36%	0.59%	-
September	0.34%	0.61%	-
October	0.32%	0.69%	-
November	0.22%	0.69%	-
December	0.21%	0.63%	-

In the table above, it can be seen that there is a tendency to increase NPL in each period, and even in 2022 it experienced a significant increase, never reaching 0.80% in the beginning, in 2022 exceeding that, even in the last few months exceeding 1%. Whereas in 2022 economic conditions have improved because the pandemic has begun to be controlled. Thus, at BRI Unit X Malang, several efforts were made to overcome problems such as: billing regularly and effectively. So the billing process has been well planned and scheduled until the credit granting period. In addition, the Account Officer (Mantri) supervises the business and intensively handles debtors who have credit problems.

The following are some of the efforts made by BRI Unit X to overcome the problem of non-performing loans (NPLs) during the Covid-19 pandemic:

1. Perform routine billing to debtors either via WhatsApp or directly.
2. conduct deliberation or a family approach so that the funds lent by the bank can be returned without violating the agreement previously agreed in the debt acknowledgment letter (SPH).
3. Collectibility is monitoring or visiting the field where the customer has set up a business.
4. carry out credit restructuring, namely rescheduling the credit period for customers who are unable to pay installments. This is done by adjusting the income from the business run by the customer and in difficult conditions.
5. carry out a Temporary Claim (GS) to the court if the debtor does not have good faith to pay his debts after taking the above efforts.

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CONCLUSIONS

In giving credit decisions at BRI Unit X Malang, they must pass the stages according to the applicable standard operating procedures (SOP). Several stages must be met in providing credit to prospective debtors, in the field, submitting to the head of the unit in the credit process, and realizing or disbursing credit. The 5C principles in providing credit decisions are character, capacity, capital, collateral, and condition. There is no difference in the procedure for applying the 5C principle in making decisions during the Covid-19 pandemic and before the Covid-19 pandemic. However, according to the informant, after the Covid-19 pandemic, the credit analysis process for customers based on the 5C principle was further tightened. This is done to prevent errors in granting credit decisions. This is done because there is a tendency to increase NPL in each period. Thus, at BRI Unit X Malang, several efforts were made to overcome problems such as: billing regularly and effectively. So the billing process has been well planned and scheduled until the credit granting period. In addition, the Account Officer (Mantri) supervises the business and intensively handles debtors who have credit problems.

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