

Analysis of the Implementation of *Prudential Banking Principle* in Overcoming Problematic Financing Management in Muamalat Indonesia Banks in 2013-2017

Syahid Suhandi Aziz
University of Jayabaya Jakarta Indonesia

Bambang Utoyo
University of Jayabaya Jakarta Indonesia

ABSTRACT:- Sharia Financial Institutions both banks and non-banks are currently developing very rapidly, especially Islamic Financial Institutions. This increasingly rapid development must be balanced with a good risk management system, especially in the provision of financing. One of them at PT. Bank Muamalat Indonesia Tbk. bank soundness level can be seen from the level of problematic financing or NPL in a given year. In order to implement a good risk management system, the method used in this research is descriptive qualitative method, namely describing, deciphering, and explaining all data obtained from related research objects with the problems and then the data developed by the results of the study show that the Muamalat Indonesia bank must be more careful in providing financing to prospective customers considering that the NPL in the past five years has increased from 2013 to 2015 while 2016 has decreased but 2017 has increased again the stage that must be implemented is to apply the precautionary principle of assessment analysis with the character approach, character (capacity), capital (capital), collateral, and condition (business prospects)

Keywords:- Precautionary Principle, Problematic Financing

I. INTRODUCTION

The world of banking today is one of the important and strategic sectors in the development of the national economy. One type of banking that is developing in Indonesia today is the banking sharia. In Indonesia, the development of Islamic banks is currently increasing. The

economic crisis that occurred has brought wisdom to the development of the Islamic banking sector in Indonesia (Abdul Ghofur Anshori, 2009). In the development of the bank has a strategic role in encouraging economic growth and growth in a country. Almost all sectors both trade, agriculture, plantations, services and other businesses really need the role of banks in managing their businesses. Seeing this condition, this is where the role of Islamic banking is because in principle Islamic banking is a business entity that collects funds from the community in the form of deposits and distributes them to the community in the form of financing in order to meet the living standards of a better society.

Based on the central functions of the banking system, it can be understood that banks as financial institutions have a variety of risks that will be caused. Therefore because of such bank functions, the implementation of prudential principles in banking must be implemented. The role of Islamic banks in an effort to improve economic growth is inseparable from financing, because the provision of financing is the main pillar. The size of the financing channeled determines the amount of profit or profit of the bank itself.

PT Bank Muamalat Indonesia is the bank that first implemented its implementation in accordance with sharia principles. Financing products are one of the superior products at bank muamalat Indonesia. Although the financing provided by PT Bank Muamalat Indonesia will not be depreciated from the risk of bad financing, this can eventually affect performance at Bank Muamalat itself. In the last five years the development of problematic financing can be seen in the table below.

Number	Explanation	Year				
		2013	2014	2015	2016	2017
1	Smooth	37,430	33,430	32,769	34,441	35,551
2	In Special Attention	2,231	6,627	5,041	4,043	3,312
3	Doubtful	889	779	268	142	843
4	Less Smooth	88	434	325	240	341
5	Stuck	975	1,595	2,303	1,145	1,854
Total		41,801	42,865	40,706	40,010	41,901

Table 1:-Level of Problem Financing At Pt. Bank Muamalat Indonesia Year 2013-2017 (In Billion Rupiah)

Source: Annual Report of Pt Bank Muamalat 2013-2017

From the table above, it can be explained that in the five-year period of the year from 2013 to 2017, problem financing both in the category of special attention, doubtful, less smooth and stuck experiencing fluctuations. In 2014 the number of problematic financing in the special attention category increased by 197.09% compared to 2013 and in 2015 the number of problematic financing in special attention categories decreased by 23.90% compared to 2014 and 55.74% compared to 2013. Then in 2016 has decreased compared to 2015, while in 2017 it increased by 3.12% compared to 2016. (Annual Report of PT. Bank Muamalat Indonesia, 2017).

Problematic financing in the doubtful category from 2013 to 2016 also fluctuated, in 2014 it decreased by 12.36% compared to 2013 and in 2015 experienced a decline of 38.29% compared to 2014. In 2016 the financing problematic doubtful has decreased by 88.73% compared to 2015, while 2017 has increased by 83.15% compared to 2016.

Problematic financing in the less smooth category from 2013 to 2016 also fluctuated. In 2014, it increased by 79.72% compared to 2013, then in 2015 it decreased by 33.35% compared to 2014. 2016 experienced a decrease of 35.41% compared to 2015, while 2017 increased by 29.61% compared to 2016.

Problematic financing in the stuck category from 2013 to 2016 also fluctuated. In 2014, it increased by 38.87% compared to 2013. In 2015, it increased by 34.87% compared to 2014. The year 2016 experienced a growth of 101, 13% compared to 2015, while 2017 experienced an increase of 38.24% compared to 2016. Departing from the background above, the authors are interested in examining how the application of the prudential banking principle and the strategies that must be done by PT. Bank Muamalat Indonesia in anticipation of problematic financing.

II. LITERATURE REVIEW

A. *The Precautionary Principle in Sharia Banking*

The prudential banking principle of prudence (prudential banking) is a principle that states that the bank in carrying out its functions and business activities must be prudent in order to protect the public funds entrusted to it. (Usman, Rachmadi, 2018). The principle of prudence in banking applications is used as a protection by financial institutions in this case the bank against the interests of customers who are listening and saving in the bank. This principle is used as an effort to prevent the risk of loss from a policy and activities carried out by the bank. This principle is emphasized in regulation No 10 of 1998 about banking which confirms that banks are required to maintain the soundness of the bank in accordance with the provisions of capital adequacy, asset quality, management quality, liquidity, profitability and solvency and other aspects

related to the bank's business. Each bank must implement the principle of prudence in carrying out its business activities so that the bank's soundness is always maintained and stable. (Veithzal Rival & Arviyan Arifin, 2010)

Banks as intermediary institutions for channeling funds to the public must act by applying the precautionary principle because funds originating in the form of financing have risks that need supervision so that non-performing financing does not occur which will ultimately have an impact on the performance of the bank itself.

Guidelines as in the management of funding distribution must pay attention to several important aspects including the following: (Eti Mulyati, 2018)

➤ *Personality Assessment*

Personality assessment is based on the relationship that has been established between the bank and the customer concerned or information obtained from other parties that can be trusted so that the information is obtained, the customer is honest, has good intentions and does not complicate the bank. (Dadan Muttaqin, 2008).

➤ *Capacity Assessment*

This assessment includes examining the expertise of recipient financing customers in their business fields and the potential management capabilities of the bank so that the bank feels confident that the business will be financed and managed with the right people. (Rosita Ayu Saraswati, 2012).

➤ *Capital Assessment*

Capital valuation in this case is the need for an analysis of the overall financial position, both for the past and forecasts for the future so that the capital capacity of prospective recipient customers can be identified in the project financing or the prospective customer's business.

➤ *Collateral Assessment*

In assessing collateral, what needs to be analyzed is the value of goods, projects or claim rights financed by the financing facilities in question and other goods, securities or risk guarantees that are added as additional collateral. Is it sufficient that if the financing recipient customer later there will be a problem in paying off the obligation, then the collateral can be used as a disruption of the repayment of financing from the Bank itself.

➤ *Assessment of Business Prospects (Condition of Economic)*

The evaluation of the business project of the prospective recipient of financing, of course, must conduct an analysis of the business condition of the customer, both for the past or future so that the marketing prospects can be identified from the results of the business conducted by the recipient of the financing facility. (Nur Hidayatai Setiyani, 2012).

III. FINANCING

According to the banking law Number 10 of 1998 what is meant by financing is the provision of money or bills that can be equated with it, based on an agreement or agreement between the bank and another party that requires the financed party to return the money or bill after a certain period in return for profit sharing. (Kasmir, 2008).

According to Muhammad, financing or financing is funding provided by a party to another party to support the investment that has been planned, both by itself and by the institution. In other words, financing is funding that is issued to support planned investments, the function of financing is to increase the usability, circulation and traffic of money, increase investment activities and even distribution of income which ultimately becomes the largest asset that becomes the bank's biggest source of income. (Toto Octaviano Dendhana, 2013).

❖ *Problematic Financing*

Problematic financing is financing that has been channeled by the bank, and customers can make payments or make installments in accordance with the agreement agreed upon and signed by the bank and the customer. The assessment of the classification of financing both non-problematic and problematic is carried out quantitatively and qualitatively. Quantitative assessment is seen in terms of the ability of the denominator to pay installments on financing, both installments of the principal and *ujrah* for the bank itself. There is a qualitative assessment of financing can be seen from the business prospects and financial conditions of the debtor.

Problematic financing will result in bank losses, namely losses due to non-receipt of funds that have already been channeled, or obtaining unacceptable results. Meaning that the bank loses profit sharing which results in a total decrease in income. (Kartono, 2015).

Bank Indonesia Regulation Number 5/7 / PBI / 2003 stipulates the quality of financing for Islamic banks to be five categories, namely: 1) smooth, 2). less smooth, 3). in special attention, 4). doubtful, and 5). Stuck. Financing which includes groups 2, 3, 4, and 5 is called gross NPL, while net NPL is financing entered in groups 3, 4, and 5. A credit is said to be problematic or congested based on credit collectability. Collectability is the state of payment of principal or installments and interest on loans by the debtor as well as the level of possibility of receiving the funds back. (Firdaus Furywardhana, 2006)

Indicators of problem financing can be seen from the NPL or NPF of the company. NPL is the ratio between financing problems and total financing channeled by Islamic banks. (Rizalnur Firdaus, 2015)

➤ *Causes of Problematic Financing*

A. *Internal Factor (Derived from the Bank)*

- Analysis is incorrect, so it cannot predict what will happen in a certain period of time during the term of financing
- There is collusion between bank officials who handle financing and customers, so the bank decides that financing should not be given.
- Limited knowledge of bank officials on the business of the debtor, so that officers cannot carry out the analysis accurately
- Interference is too large from the parties concerned
- The weakness in conducting monitoring and financing development
- Assurance aspects that are not accurately calculated (Irman Firmansyah, 2014).

B. *External Factor*

- The customer intentionally does not pay installments to the bank, because the customer does not have the will to fulfill his debt.
- Debtors carry out business expansion too large, so the funds needed are too large
- The fraud committed by the customer
- The company cannot compete in the market
- The changes in government policies and regulations that affect the customer's business
- Natural disasters (Husnul Khotimah, 2009).

IV. METHODS

The type of research used is descriptive qualitative research, which is based on notes and other supporting data to get a comprehensive picture relating to the topic of research. The data source used is secondary data which is derived from the annual report of PT. Bank Muamalat Indonesia from 2013-2017.

The analysis technique used is the collected data will be analyzed using the deskriptif qualitative method, which is describing, deciphering, and explaining all data obtained from the object of research relating to the problem and then the data is developed, then deductively deduced, namely drawing conclusions obtained from cases into a conclusion whose scope is more specific.

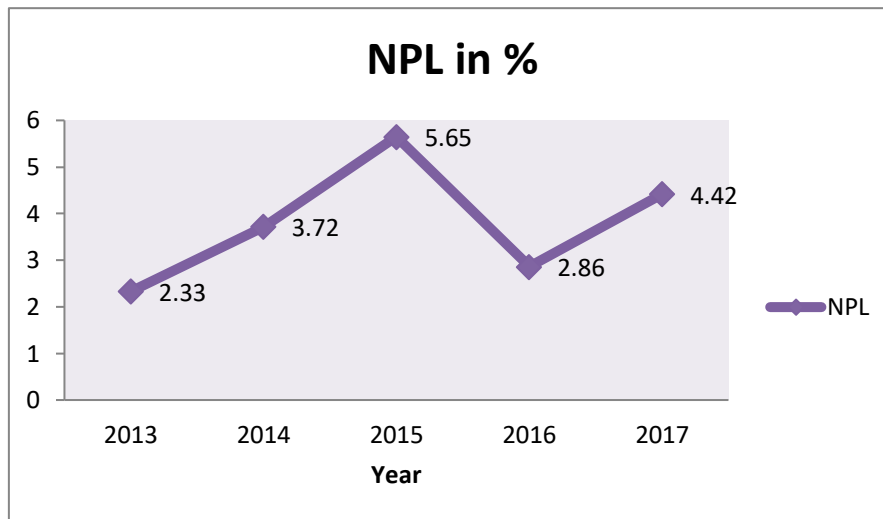
V. RESULT AND DISCUSSION

Calculation of the percentage of financing arrears can be determined using the Non Performing Loan (NPL) formula. Indonesian Bank sets a maximum NPL limit of 5%. The calculation of Non Performing Loans (NPL) is formulated as follows.

$$NPL : \frac{\text{Stuck Financing}}{\text{Total Financing}} \times 100\%$$

Year	Amount of Financing	Stuck Financing	NPL
2013	41,801	975	2,33%
2014	42,865	1,595	3,72%
2015	40,706	2,303	5,65%
2016	40,010	1,145	2,86%
2017	41,901	1,854	4,42%

Table 2 :-Non Performing Loan (Npl) Of Pt. Bank Muamalat Indonesia 2013-2017 (In Billion Idr)
 Source: Data Processed From the Annual Financial Statements of Pt. Bank Muamalat Indonesia in 2013-2017



Graph 1 :-Non Performing Loan (NPL) Of PT. Bank Muamalat Indonesia 2013-2017 in the Graph (%)

The chart above shows Non Performing Loans (NPL) from 2013 to 2015 tends to increase while 2016 to 2017 experience decline. NPLs in 2013 amounted to 2.33%, increased in 2014 by 3.72%, in 2015 NPL increases dramatically to 5.65%, in 2016 decreased to 2.86% and in 2017 increased to 4.42%. This situation illustrates that the increasing number of financing realization given to debtors, the higher the risk of non-performing financing, the Non Performing Loans (NPL) from 2013 to 2015 shows the company's performance decreases but in 2016 tends to improve the company's financial performance later in 2017 the company's performance deteriorated again, because of the possibility of lack of discipline in the application of prudential banking, especially in the financing analysis process.

In principle, the higher the NPL, the greater the problematic financing in other words, the worse the quality of the bank as well as vice versa. From these data shows that the supervision carried out by PT. Bank Muamalat Indonesia Tbk. in implementing procedures for granting credit is not good. With applying the precautionary principle (prudential banking) it will minimize the risk of financing problems, so that the NPL will decline.

The stages in overcoming problematic financing carried out by banks include the following:

- The bank recapitulates customer data whose loan installments have problems.
- Submitting a warning letter or notification letter for the arrears of Financing

- Perform routine billing directly by visiting the customer's home
- Make efforts to save 3R (Rescheduling, Restructuring, Resettlement) by assessing the customer's business prospects that can still be improved.
- Conducting an auction of company collateral and Write off.

Some of the steps above show the actions that must be taken by PT. Bank Muamalat Indonesia Tbk. other than that the bank must evaluate and improve supervision in the distribution of funds because in the process of financing analysis it must often be done until the financing is paid off. This is done so that the implementation of financing runs smoothly in accordance with the provisions.

In addition to the stages above, PT. Bank Muamalat must also strictly implement the financing strategies provided through several approaches including:

➤ *Character Approach*

This character approach must be emphasized more on the reputation of the customer's business. This approach is the purest approach because it is based on the trustworthiness of the prospective customer. Claiming this approach is difficult because it involves an abstract moral judgment and goodwill so that with the analysis of the bank's character approach, it will be more careful to channel the financing that will subsequently affect the performance of the bank itself.

➤ *Approach of the Ability to Payback*

This approach must be emphasized on the ability of the prospective customer to repay the guarantee provided; the sources returned include the business itself; and the guarantee given for the installment payment.

➤ *Guarantee Approach*

The approach that must be emphasized by PT. Bank Muamalat is the ability of customers to provide adequate guarantees in terms of their legal and economic value, so as to minimize the problematic financing that will occur. The aim is to obtain security for the financing provided to customers.

➤ *Approach to Customer Business Feasibility*

In this case, PT. Bank Muamalat must analyze which is more emphasized on the feasibility of prospective customers or projects to be carried out, whereas if already given the bank must conduct intense supervision of the customer's business so that there is no fraud or fraud committed by the customer, so that this method can minimize the problematic financing that will occur.

VI. CONCLUSION

- Prudential banking is a principle which states that in carrying out its functions and business activities, it is obligatory to apply the principle of prudence in order to protect the public funds entrusted to it.
- Bank Indonesia sets a maximum Non Performing Loan (NPL) limit of 5%, but from the analysis data shows Non Performing Loans (NPL) at PT. Bank Muamalat Indonesia Tbk experienced a very significant increase, from 2013 to 2015 tended to increase while 2016 to 2017 experienced a decline. NPLs in 2013 amounted to 2.33%, increased in 2011 by 3.72%, in 2015 NPL increases increased dramatically to 5.65%, in 2016 decreased to 2.86% and in 2017 increased to 4.42%. Moreover, from the analysis the company should take quick action to cope with the occurrence of larger non-performing loans later.
- The actions taken by the bank in overcoming problem financing are by sending a warning letter to the home of the customer (debtor) and making billing regularly and making efforts to rescue 3R (rescheduling, restructuring, resettlement) and the final step by conducting an auction of customer collateral (debtor) to pay off financing installments that are problematic
- For PT. Bank Muamalat Indonesia Tbk. in providing financing the amount of collateral or collateral held by a customer (debtor) needs to be carefully analyzed, because the latter guarantee is used by the bank to cover and cover all installments that are not paid if there is a problematic financing which results in a default of the customer's installments and ultimately on the performance of the bank itself

SUGGESTION

- Limitations in this study have less complete data resulting in this study being less detailed in analyzing because the data used are general data sourced from annual reports. Suggestions for further research are expected to collect data such as the number of customers, the number of stuck financing, causes of stuck financing, and the amount of financing so that the results of a thorough analysis will be obtained.
- For PT. Bank Muamalat Indonesia Tbk. all company staff, especially those dealing with financing must pay more attention to the implementation of prudential banking in carrying out all bank business activities, especially in channeling financing, so as to avoid problem loans.
- For PT. Bank Muamalat Indonesia Tbk., it is expected that in monitoring or supervising and analyzing the business prospects of the debtor to be further improved, especially for customers (debtors) who experience problem financing

REFERENCES

- [1]. Abdul Ghofur Anshori, 2009. *Sharia Charges in Indonesia*, Yogyakarta: Gadjah Mada University Press, 2nd print 2009
- [2]. Annual Report of PT. Bank Muamalat Indonesia is Downloaded Through http://www.bankmuamalat.co.id/uploads/hubungan_investor/2_annual-report-20170120112507.pdf
- [3]. Cashmere, 2008. *Other Banks and Financial Institutions*, Jakarta: PT. Rajagrafindo Persada.
- [4]. Dadan Muttaqin, *Legal Aspects of Islamic Financial Institutions*, Yogyakarta: Safitria InsaniPerss, 2008
- [5]. Eti Mulyati, 2018. *The Implementation of the Prudential Banking Principles for Prevent Debtor Eith Bad Faith*, Padjajaran Journal Of Law Volume 5 Number 1 Years 2018
- [6]. Firdaus Furywardhana, *Evaluation of Non-Performing Loans (NPL) for Qardhul Hasan Loans (Case Study in Bni Syariah Branch Yogyakarta)*, JAAI Volume 10 No. 2, December 2006
- [7]. Husnul Khotimah, *Fator Factor Analysis Affecting Sharia Banking Funds Distribution in Indonesia Before and After Sharia Banking Acceleration Policy in 2007/2008*, Optimal Volume 3 Journal Number 1 of 2009
- [8]. Irman Firmansyah, *Determinant Of Non Performing Loans: The Case Of Islamic Bank In Indonesia*, Journal of Monetary and Banking Economics Bank Indonesia, Volume 17, Number 2, October 2014
- [9]. Kartono, *Application of Prudential Principles to Musyarakah Working Capital Financing at Samarinda's Bank Kaltim Syariah Branch*, Niti Beraja Journal, Volume 3 Number 8 of 2015
- [10]. Nur Hidayatai Setiyani, *Implementation of the Principles of Good Corporate Governance in Syari'ah Banking in Indonesia*, *Economica*, Volume II November 2, 2012 Edition

- [11]. Reny Supriyanti, *Responsibility of Islamic Banks in Implementing the Principle of Prudence and Good Corporate Governance*, Ahkam, Volume XII number 1
- [12]. Rizalnur Firdaus, *Influence of Internal and External Factors Affecting Problematic Financing at Sharia Commercial Banks in Indonesia*, El-Dinar, Vol. 3, No 1, January 2015
- [13]. Rosita Ayu Saraswati, *Role of Financial Report Analysis, Principle Assessment of 5c Prospective Debtors and Supervision of Credit on the Effectiveness of Lending at Pd BPR Bank Pasar Temanggung Regency*, Nominal Journal / Volume I Number I / Year 2012
- [14]. Tan Sau Eng, *The Effect of NIM, Operational Efficiency Ratio (BOPO), LDR, NPL & CAR Towards ROA Of International And National Public Listed Banks For The Period Of 2007 - 2011*, Journal of Dynamics Management Vol. 1 No.3 July - September 2013
- [15]. Toto Octaviano Dendhana, *Implementation of the Prudential Banking Principle in Efforts to Legal Protection for Fund Depositors*, Lex Et Societatis, Vol.I / No.1 / Jan-Mrt / 2013
- [16]. Usman, Rachmadi, 2018. *Aspects of Banking Law in Indonesia*. (Jakarta: PT Gramedia Main Library
- [17]. Veithzal Rival and Arviyan Arifin, 2010. *Islamic Banking A Concept Theory and Application*, Jakarta: Bumi Aksara, 2010