ASSESSMENT OF CHARACTER AS A MAIN ASPECT IN THE IMPLEMENTATION OF PRUDENTIAL PRINCIPLES IN BRI'S MICRO BUSINESS CREDIT

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ABSTRACT

In carrying out its function as an intermediary institution, banks are required to apply the precautionary principle, in particular channeling funds through the provision of credit. In Article 29 Paragraph (2) of the banking law, Banks are required to maintain the Soundness level of the bank in accordance with the provisions on aspects of capital adequacy, asset quality, liquidity management, earnings, solvency and other aspects related to bank activities in accordance with the principle of prudence . The most important aspect in extending credit is the existence of a guarantee, especially material guarantees, it is urgent to apply the precautionary principle regulated in POJK NO 42/PJOK 03/2017 which requires banks to own and implement bank credit/financing policies.

Keywords: Banking, Bank Prudential Principles, Credit

INTRODUCTION

Bank is a fiduciary financial institution, which has a very good mission and vision, namely as an institution that is tasked with carrying out the mandate of nation-building in order to achieve an increase in the people's standard of living. Article 2 of the Banking Law emphasizes that Indonesian banking in conducting its business is based on economic democracy by using the precautionary principle. This is related to the bank's obligation not to harm the interests of customers who entrust their funds to the bank, even though the money saved by the customer has become the property of the bank since it was deposited and while it is in bank storage, but the bank cannot use it freely without any signs that ensure the security of these funds.

In applying the character principle to Bank Rakyat Indonesia (BRI) micro business loans in the precautionary principle, there are several things that need attention. The precautionary principle is one of the principles in banking that aims to reduce risks that may arise in banking activities. The application of the character principle to BRI's micro business loans in the precautionary principle aims to reduce credit risk and ensure smooth banking activities. With character evaluation, financial analysis, risk management, fairness principles, and good supervision, Bank BRI can provide micro business loans to borrowers who meet the requirements more wisely.

According to Halle, when a banker gives a loan to an individual or company, the banker needs an evaluation in the form of a credit rating, which helps determine the existing or potential risks of the loan given, because the credit rating is very high. important because it is useful: (Halle, 1983)

1) Determine the risks faced by banks when extending credit to individuals or companies.
2) Anticipate loan repayment because the bank already knows the readiness of the borrower's business cash flow analysis;
3) Knowledge of the type of credit, the number of credits and the credit period required for the borrower's business;
4) Knowledge of the debtor's ability and willingness to pay.

Because the credibility analysis is very important, the principle of credit worthiness analysis is applied, namely the precautionary principle. The precautionary principle is one of the basic principles in the banking industry which aims to maintain the stability and security of banking institutions and protect the interests of customers. This principle has several main components that must be considered by the bank in carrying out its activities. Following are some bank prudential principles that are generally applied:

1) Prudent Credit Policy: Banks must conduct a careful evaluation of the quality of the credit being proposed. Credit risk analysis must be carried out carefully to ensure the borrower's ability to repay the loan.
2) Risk Diversification: Banks must manage risk by adopting the principle of diversification. By spreading risk across different types of industrial sectors or financial instruments, banks can reduce the risk exposure

associated with defaulted loans or changes in market conditions.

3) Liquidity Management: Banks need to maintain an adequate level of liquidity to meet customer needs. Banks must ensure that they have sufficient funds to meet customer withdrawals or other obligations without disrupting their operations.
4) Continuous Monitoring of Risks: The Bank must continuously monitor the risks it faces and adopt appropriate measures to manage these risks. The use of an effective risk monitoring system and timely reporting is necessary to identify, measure and control existing risks.
5) Regulatory Compliance: Banks must comply with the rules and regulations set by the financial authorities. They must follow the requirements set regarding minimum capital, financial reports, consumer protection, and other applicable regulations.
6) Sound Capital Management: Banks need to maintain adequate levels of capital to protect them from financial risks. Adequate capital provides the necessary financial strength to withstand losses and promote sustainable growth.
7) Transparency and Accurate Reporting: Banks must provide honest, accurate and timely information to shareholders, customers and other related parties. Transparent financial reporting will increase public trust and enable more effective monitoring of bank activities. (Dr.A.Wangsawidjaja Z., 2020)

The precautionary principle of this bank is an important guideline for maintaining the stability and sustainability of the banking industry, as well as protecting the interests of customers and other related parties. The following is a more detailed explanation of the 5C principles in banks:

1. Character: This principle refers to the reputation and integrity of the borrower. Character reflects the history of the borrower in terms of paying financial obligations. The bank will evaluate the borrower's credit record, including whether the borrower has a good and timely payment record. If a borrower has a poor payment history or has experienced previous defaults, the bank may doubt the borrower's ability to meet future loan obligations. In addition, the bank will also pay attention to the integrity of the borrower, such as whether the borrower has been involved in illegal activities or financial fraud.

2. Capacity: This principle relates to the borrower's ability to repay the loan. The bank will evaluate the borrower's income and expenses to determine whether the borrower has sufficient financial ability to pay the credit installments on a regular basis. Factors such as job stability, source of income, and debt-to-income ratio will be looked at. The bank will also consider the borrower's cash flow, namely the extent to which the borrower can generate sufficient cash flow to meet loan repayment obligations.
3. Capital (Capital): This principle relates to the financial position of the borrower. The bank will evaluate the amount of capital or equity owned by the borrower. The greater the capital or equity the borrower has, the greater the ability of the borrower to support the loan. The bank will also consider the extent to which the borrower can provide collateral or security for the loan requested. If the borrower has sufficient capital and can provide valuable collateral, the bank will feel more secure because it has collateral that can be sold or used to settle obligations if the borrower defaults.
4. Collateral (Collateral): This principle relates to guarantees that can be provided by the borrower to support the loan. The bank will evaluate the type of collateral submitted by the borrower, such as property, vehicles or other valuable assets. The bank will assess the value and liquidity of the collateral, namely how easily the collateral can be sold or used as collateral in case the borrower defaults. The higher the value and liquidity of the collateral, the more likely the bank is to provide a loan.
5. Condition: This principle deals with external factors that may affect the borrower's ability to meet payment obligations. The bank will consider general economic conditions, the conditions of the industry in which the borrower operates, and other risk factors that may affect the borrower's business or finances. For example, if the industry in which the borrower operates is experiencing a downturn or if the borrower is in poor financial condition, the bank may be more cautious in making loans. (KPRACADEMY, 2019)

By considering these five 5C principles, banks can conduct a thorough evaluation of potential borrowers. These principles help banks make more informed and objective decisions in extending credit to individuals or companies, and reduce the credit risk associated with lending.

In this research, we found a problem that is suitable to be broken down one by one which we found as a problem formulation as follows:

1. How is the application of the Bank's Prudential Principles for BRI's Micro Business Loans?
2. What are the Bank's Efforts to Know the Characteristics of Bank BRI's Debtors?

RESEARCH METHOD

In this research, we conducted a literature study sourced from several journals, printed and online media, and other sources. And done with a qualitative descriptive approach. In this research, we are trying to find a solution to the problem of the principle of prudence in BRI's Micro Business Credit.

RESULTS AND DISCUSSION

1. Application of the Bank's Prudential Principles for BRI's Micro Business Loans

In the context of extending credit to the public for financing purposes, each bank is required to implement the prudential banking principles in distributing its credits. This is based on the very high risk in extending credit as the main business of the bank. In addition, credit failure can affect the health and continuity of the bank's business itself. The principle of prudence (Prudential Banking Principle) is a principle or principle which states that a bank in carrying out its functions and business activities must be prudent in order to protect public funds entrusted to it (Rachmadi.usman, 2001). The term prudent is closely related to the supervision and management of the Bank. The word prudent itself literally in Indonesian means wisdom, but in the banking world the term is used for the principle of prudence. (Gandapradja, 2004)

One of the important factors in the credit agreement, among others, are Default and Collateral factors in bank credit agreements. The definition of 'default' or “failure or negligence” is: “Failure to fulfill an obligation as stated in a contract, securities, deed or other transaction”. (Ibrahim, 2004)In the sense of "default", the perpetrators of failure are called 'defaulters', namely people who fail or neglect to fulfill their obligations, people who misuse the money entrusted to them for safekeeping.

The People's Business Credit Program (KUR) is one of the government's programs to increase access to finance for micro, small and medium enterprises (MSMEs) which are channeled through financial institutions with a guarantee model. The aim of the KUR program is to strengthen the capital capacity of business actors in accelerating the development of the real sector and strengthening SMEs. (Mikro, 2022)The following is some general information about BRI Bank Micro Business Loans:

1) Purpose: Bank BRI's Micro Business Loans aim to help micro entrepreneurs improve their businesses, obtain working capital, develop businesses, and increase income.
2) Amount of Credit: Bank BRI's Micro Business Loans generally have a relatively low credit ceiling, adjusted to the needs and capacities of customers. The amount of credit can vary depending on the type of business and working capital or investment needs.
3) Customer Requirements: Customers who wish to apply for Bank BRI Micro Business Loans usually must meet certain requirements, such as having a micro business that operates legally, has adequate business age, has proof of business success, and can provide guarantees or collateral in accordance with bank policies.
4) Submission Process: Interested customers can apply for Bank BRI Micro Business Credit by filling out the credit application form and completing the supporting documents requested by the bank. After that, the process of evaluation and feasibility assessment will be carried out by the bank to determine credit approval.
5) Term and Interest Rate: Bank BRI's Micro Business Loans usually have a relatively short term, generally between 6 to 24 months, depending on the type of credit and customer needs. The interest rate applied is also adjusted to the bank's policies and applicable regulations.
6) Monitoring and Credit Payment: After credit has been approved and disbursed, customers are expected to pay credit installments according to a predetermined schedule. Bank BRI will monitor credit repayments and provide guidance to customers in managing their credit. (Jusuf, 1995)

The application of the bank's prudential principle to micro business loans by Bank BRI involves several important steps to minimize credit risk and maintain financial stability. The following are several precautionary principles that are generally applied by banks in providing micro business loans:

1) Feasibility Analysis: Bank BRI conducts an in-depth analysis of prospective micro business debtors to assess their feasibility in obtaining credit. This includes an assessment of the debtor's character, capacity, capital, collateral, and business conditions. This analysis assists the bank in determining whether the debtor has the potential to generate sufficient income to repay the loan.
2) Information Collection: Bank BRI collects the necessary information about prospective borrowers, including financial data, credit history and personal information. This information is used to identify risks and make better credit decisions.
3) Risk Diversification: Bank BRI seeks to diversify risks by providing micro business loans to a number of different debtors. In this way, if one debtor experiences a problem or default, the impact on the overall credit portfolio can be reduced.
4) Determination of Reasonable Credit Limits: Bank BRI determines reasonable credit limits for each micro business debtor based on the risk analysis conducted. This credit limit reflects the debtor's ability to repay credit and minimize the risk of failed payments.
5) Supervision and Monitoring: Bank BRI continuously monitors micro business debtors to ensure that credit is managed properly. This includes monitoring the debtor's financial performance, credit payments, and the use of credit funds in accordance with the stated objectives.
6) Allowance for Bad Loans: If the debtor is unable to repay his loan, Bank BRI has a policy to provide for bad debts (deletion from productive asset records) in accordance with applicable regulations. This is done to maintain the cleanliness of the credit portfolio and anticipate potential further losses. (Artanto, 2016)

The application of the precautionary principle is important for Bank BRI in providing micro business loans. By paying attention to risk factors and involving a careful analysis process, banks can reduce the possibility of default on credit payments and minimize overall credit risk.

Requirements for Prospective DebtorsBRI BANK Micro KUR:

1) Individuals (individuals) who carry out productive and feasible business
2) Have been doing business actively for at least 6 months
3) Not currently receiving credit from banks except consumer loans such as mortgages, KKB, and credit cards
4) Administrative requirements: Identity in the form of KTP, Family Card (KK), and business license

ConditionBRI Bank Micro KUR:

1) The maximum loan is IDR 50 million per debtor
2) Loan Type
   - Working Capital Loans (KMK) with a maximum loan term of 3 (three) years
   - Investment Credit (KI) with a maximum loan term of 5 (five) years
3) Interest rate of 6% effective per year
4) free of administration and provision fees (BRI, 2023)

2. The Bank's Efforts to Know the Characteristics of Bank BRI's Debtors / Customers

In banking law, several banking principles are known, namely;

1) Principle of Trust (Fiduciary Relations Principle)
2) Prudential Principle
3) The Principle of Confidentiality (Secrecy Principle)
4) Know How Customer Principle (Know How Customer Principle) (Putra, 2016)

One of the principles associated with the writing of this research is the Know How Customer Principle. The principle of knowing your customer is a principle applied by banks to know and know the identity of customers, monitor customer transaction activities, including reporting any suspicious customer transactions. The Banking Law does not regulate the principle of knowing your customer (know your customer principle). The Banking Law only recognizes the principle of prudence. In the context of extending credit to companies and the public for financing purposes, each bank is required to implement the prudential banking principles in extending its loans. (Hermansyah, 2006)

The application of the precautionary banking principle to all banking activities is one of the ways to create a sound banking system, which in turn has a positive impact on the macro economy. In addition, the application of the soundness principle of a bank must be applied in its entirety so that it does not only concern credit issues, but also determines the suitability and harmony of the management since the founding of the bank, either through relevant audits or not ceremonial ones. (Husein, 2001)

Bank Indonesia issued Bank Indonesia Regulation (PBI) No. 3/10/2001 concerning Application of Know Your Customer Principles and PBI No.5/21/PBI/2003 concerning the Second Amendment to Bank Indonesia Decree No. 3/10/PBI/2001 concerning Application of Know Your Customer Principles. various business risks. To reduce these business risks, banks must follow the precautionary principle, and one of the implementations of the precautionary principle is the application of the Know Your Customer principle. (Djumhana, 2001)

By considering the factors above, Bank BRI can carefully evaluate the risks and potential benefits in providing micro business loans to customers. The aim is to ensure that credit is granted with prudence and to minimize credit risk that may arise.

Bank BRI makes various efforts to determine the character of the debtor or customer in order to assess the feasibility of extending credit. The following are some of the efforts that are usually carried out by Bank BRI:

1. Interviews and Direct Assessments: Bank BRI conducts interviews with prospective debtors to gain a deeper understanding of their character and motivation in running a business. During the interview, the bank may ask relevant questions to measure the commitment, ability, integrity and goodwill of the prospective debtor.
2. Verification and Assessment of References: Bank BRI can contact references provided by prospective debtors, such as business partners, work partners or suppliers, to obtain additional information about their character and reputation. This reference verification and assessment assists the bank in obtaining views from other parties who have interacted with prospective debtors.
3. Assessment of Credit History: Bank BRI evaluates the credit history of prospective borrowers by looking at their credit history at other financial

institutions. This information helps banks see how potential borrowers have managed their previous financial obligations, including quality of payments, amount owed, and poor credit history.

4. Financial Analysis: Bank BRI conducts an analysis of the financial statements of prospective borrowers to understand their financial condition. This includes a review of relevant revenues, profits, cash flows and financial ratios. This analysis assists the bank in evaluating the debtor's ability to repay the proposed loan.
5. Use of Technology: Bank BRI can also use technology and information systems to obtain additional information about prospective debtors. This can include assessments based on historical data on banking transactions, use of electronic banking services, and other financial activities. (Shomad, 2013)

Through these series of efforts, Bank BRI seeks to gain a comprehensive understanding of the character of its debtors or customers. The information obtained from this process assists banks in assessing credit risk and making better decisions regarding extending credit to debtors or customers who have a solid and reliable character.

CONCLUSION

In the context of extending credit to the public for financing purposes, each bank is required to implement the prudential banking principles in distributing its credits. The principle of prudence (Prudential Banking Principle) is a principle or principle which states that a bank in carrying out its functions and business activities must be prudent in order to protect public funds entrusted to it. One of the important factors in credit agreements, including Default and Collateral factors in bank credit agreements. The application of bank prudential principles to micro business loans by Bank BRI involves several important steps to minimize credit risk and maintain financial stability, namely: Feasibility Analysis; Information Collection Risk Diversification; Determination of Reasonable Credit Limits; Supervision and Monitoring; Allowance for Bad Loans.

Bank Indonesia issued Bank Indonesia Regulation (PBI) No. 3/10/2001 concerning Application of Know Your Customer Principles and PBI No.5/21/PBI/2003 concerning the Second Amendment to Bank Indonesia Decree No. 3/10/PBI/2001 concerning Application of Know Your Customer Principles. various business risks. To reduce these business risks, banks must follow the precautionary principle, and one of the implementations of the precautionary principle is the application of the Know Your Customer principle. The following are some of the efforts that are usually carried out by Bank BRI: Interviews and In-person Assessments; Reference Verification and Assessment; Credit History Assessment; Financial Analysis; Use of Technology

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