

## **ANALYSIS OF THE INFLUENCE OF NON-PERFORMING CREDIT POLICIES ON CONVENTIONAL BANK FINANCIAL STABILITY IN INDONESIA**

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### **ABSTRACT**

Credit risk is the risk that occurs when customers fail to fulfill their obligations to the bank, both principal and interest. The non-performing loan policy is a step taken by a bank to overcome credit risks arising from bad or uncollectible loans. Financial stability is an important indicator in determining the financial soundness and continuity of a bank's operations. The purpose of this research is to examine and find out the influence of non-performing credit policy arrangements on financial stability, identify the factors that can influence non-performing credit policy arrangements on financial stability, and analyze how the strategy of the Financial Services Authority (OJK) increases the effectiveness of non-performing credit policies on financial stability in Commercial Banks in Indonesia. The results of this study indicate that non-performing credit arrangements have a significant influence on financial stability in conventional commercial banks in Indonesia, by implementing effective non-performing credit policies, banks can reduce the risk of non-performing loans, strengthen financial position and at the same time increase overall financial stability. . Several factors that are significant in setting non-performing loan policies include the quality of the bank's financial condition, the quality of a bank's risk management, and the development of the banking industry. As well as the research results show that OJK implements several strategies in its efforts to increase the effectiveness of a non-performing loan policy regulation. by implementing an effective non-performing credit policy, banks can reduce the risk of non-performing loans, strengthen their financial position and at the same time increase overall financial stability. Several factors that are significant in setting non-performing loan policies include the quality of the bank's financial condition, the quality of a bank's risk management, and the

development of the banking industry. As well as the research results show that OJK implements several strategies in its efforts to increase the effectiveness of a non-performing loan policy regulation. by implementing an effective non-performing credit policy, banks can reduce the risk of non-performing loans, strengthen their financial position and at the same time increase overall financial stability. Several factors that are significant in setting non-performing loan policies include the quality of the bank's financial condition, the quality of a bank's risk management, and the development of the banking industry. As well as the research results show that OJK implements several strategies in its efforts to increase the effectiveness of a non-performing loan policy regulation. the quality of a bank's risk management, and the development of the banking industry. As well as the research results show that OJK implements several strategies in its efforts to increase the effectiveness of a non-performing loan policy regulation. the quality of a bank's risk management, and the development of the banking industry. As well as the research results show that OJK implements several strategies in its efforts to increase the effectiveness of a non-performing loan policy regulation.

**Keywords:** Non-Performing Loans, Bank Financial Stability, Conventional Banks

## INTRODUCTION

Bank is a business entity that collects funds from the public in the form of savings and distributes them back to the community in the form of credit and/or other forms in order to improve the standard of living of the people at large. Banks as profit maximizers are financial mediators between savers and investors who are an important source for most businesses and provide other important financial services that contribute to economic development. It is from these two activities that the bank obtains a profit. As with companies in general, the main focus of the bank is to obtain and generate profits for the growth of the bank itself. It is not an easy thing to collect large profits, because in every activity a bank undertakes there are various kinds of risks that must be faced later.

At the beginning of the development of credit serves to stimulate for both parties to help each other for the purpose of meeting needs both in the field of business and daily needs. (Ramayanti M.y., 2019)According to PJOK

No. 18 concerning Risk Management, credit risk is the risk of failure of other parties to fulfill obligations to the bank including credit risk due to debtor failure, credit concentration risk, counterparty credit risk, and settlement risk. Whether these conditions exist or not describes a credit quality from a bank.

Problem loans are not a new thing for the banking world. Various responses and comments about bad loans both through electronic media and mass media. (Ramayanti, 2019 )The occurrence of non-performing loans has been experienced by almost all banks in providing credit and this often causes problems. Non-performing loans are generally when the debtor breaks his promise to pay the principal, interest and/or principal credit that is due, resulting in late payments, payments but not appropriate or even circumstances beyond the ability of the debtor (force majeure) thus not being fulfilled achievement/credit.

In writing this time, the author found an interesting subject to discuss and describe in detail one by one, therefore the author will present the formulation of the problem, namely:

1. What is the Effect of Non-Performing Credit Policy Arrangements on Financial Stability in Conventional Commercial Banks in Indonesia?
2. What are the factors that can influence the Non-Performing Credit Policy Arrangements on Financial Stability in Conventional Commercial Banks in Indonesia?
3. What is the Financial Services Authority's Strategy in Improving the Effectiveness of Setting the Non-Performing Credit Policy on Financial Stability in Conventional Commercial Banks in Indonesia?

## **RESEARCH METHOD**

This study used the method of literature review and concluding findings, this was done because literature sources were obtained from online media information, accredited journals and authentic sources.

## **RESULTS AND DISCUSSION**

### **1. Impact Non-Performing Credit Policy Arrangements on Financial Stability in Conventional Commercial Banks in Indonesia**

The regulation of non-performing loans can have a significant effect on financial stability in conventional commercial banks. The non-performing

credit policy refers to the steps taken by commercial banks to manage credit risk and handle non-performing loans. Following are some of the main effects of non-performing credit policy arrangements on financial stability in conventional commercial banks.

**Better risk management:** setting effective non-performing credit policies helps banks manage credit risk better. Banks must have clear and well-defined processes in evaluating creditworthiness, monitoring loan portfolios, and identifying potentially problematic loans. With good policies, banks can reduce uncontrolled credit risk, avoid channeling credit to debtors who are unable to pay, and strengthen the quality of their overall credit portfolio.

**Reducing losses and increasing profits:** by having good non-performing credit policies, banks can reduce the risk of default and losses associated with bad loans. Banks can take initial action to resolve credit problems, such as restructuring or transferring problem loans to a special credit handling unit. In addition, banks can also avoid extending credit to debtors that have the potential to harm the bank's financial health. By reducing risks and losses, banks can increase their profits and financial stability. (Buchanan, 2020)

**Improving asset quality:** setting good non-performing loan policies assists banks in maintaining higher asset quality. Conventional commercial banks rely heavily on income from interest on loans. If the asset quality is poor, the bank may face increased default risk and reduced revenue. With effective policies, banks can maintain the quality of their loan portfolios, minimize the risk of non-performing loans, and ensure stable cash flows.

**Increase customer and investor trust:** by having a transparent and consistent non-performing loan policy, banks can build customer and investor trust. Customers will feel confident that the bank pays attention to the sustainability of the credit provided and tries to protect their interests. Investors will also tend to be more interested in injecting capital into banks that have good non-performing loan policies, as this indicates strong risk management and high financial stability.

## **2. The Factors that Can Influence the Non-Performing Credit Policy Arrangements for Financial Stability in Conventional Commercial Banks in Indonesia**

Credit distribution does not only provide benefits for internal banks but also to support the economic development of a country. Like most developing countries, sources of financing for the business world in Indonesia are still dominated by bank lending which is expected to boost economic growth. So

that it can be said that lending plays an important role for the country's economic growth. However, this credit distribution can also have a negative impact on a country's growth if it is not managed properly.(Amalia Eka Purnamasari, 2016)

Therefore, it is important to conduct research on the factors that influence bank lending to become problematic. According to Popita (2013), the factors that cause problem loans can be caused by three elements, namely:

- 1) The bank itself (creditor)
- 2) From the debtor as well
- 3) Outside the creditors and debtors, namely macroeconomics.

The creditor factors are bank internal factors, while debtor and macroeconomic factors are bank external factors.(Fauzi A., 2020)Factors causing problematic financing from the external side of the bank can be represented by the growth of the Gross Domestic Product (GDP). Another cause that affects the NPF from the external side is inflation. The increase in inflation will be followed by an increase in non-performing financing at banks.

Meanwhile, the causes of problematic financing from internal banks are related to the characteristics of the bank, which can be represented by the size of the bank (bank size). According to Astrini et al. (2014), that bank size has a unidirectional effect on NPL, if the number of bank sizes is greater, the level of NPL that occurs will also be greater. However, Popita (2013), explains that bank size is significantly negatively related to credit risk. The bigger the size of the bank, the lower the risk of non-performing loans. Meanwhile, Firmansyah (2014), found that bank size had no effect on problem financing. This provides statistical evidence that the size of total assets has no effect on bank non-performing loans.

The ratio of ROA (Return On Assets) is also a determining factor for the risk condition of bank financing. Setiawan and Putri (2013), indicated that ROA has a negative and significant effect on NPF. However, Jusmansyah and Sriyanto (2013), said that ROA has a positive and significant influence on NPL. Meanwhile, Havidz and Setiawan (2015), concluded that ROA has no effect on financing risk (NPF).(Rahmadani, 2010-2014)

According to Jusmansyah and Sriyanto (2013) the BOPO ratio has a negative and significant effect on NPLs at banks. However, Alissanda (2015)

shows that BOPO has a significantly positive effect on financing risk (NPF). Meanwhile, Firmansyah (2014), states that BOPO has no effect on NPF. BOPO, which is an indicator of bank efficiency, does not necessarily reduce the ratio of bad financing, this is because bad financing is an external matter for banks that deal directly with the public in paying their obligations, not depending on the operational efficiency of the bank.(banks, 2018)So that bank efficiency is not a benchmark for management in making policies regarding the management of troubled financing.

### **3. The Strategy of the Financial Services Authority in Improving the Effectiveness of Setting the Non-Performing Credit Policy on Financial Stability in Conventional Commercial Banks in Indonesia**

The condition of the financial system in Indonesia is reflected in the performance of the banking industry, which dominates nearly 70% of total financial system assets. Strengthening capital levels, improvement in the banking industry's intermediary function, although still limited, and adequate banking liquidity were factors that strengthened the foundation of the financial system during the reporting semester. The continuation of these conditions has contributed to stability on the domestic financial market in line with maintained macroeconomic conditions in Indonesia and improving global economy. Meanwhile, the achievement of other financial system performance was also supported by the positive performance of IKNB, especially as seen from the expansion in the performance of finance companies, although there was an increase in risk in the first semester of 2017, the level of profitability and efficiency was relatively maintained.(Khoirunnisa, 2019)The maintained condition of the financial system is inseparable from the support of the payment system organized by Bank Indonesia and the industry to run safely, smoothly, efficiently and reliably as well as increasing public access to financial services.(Indonesian, 2017)

To respond to financial system conditions and risks that arose during the reporting period, Bank Indonesia and the Financial Services Authority (OJK) evaluated several macroprudential policies in synergy with monetary policy and the rupiah payment-money management system policy. Evaluations carried out include monitoring housing loans with Loan to Value

(LTV)/Financing to Value (FTV) provisions, monitoring related to the implementation of the Minimum Statutory Reserves (GWM) based on the Loan to Funding Ratio (LFR), monitoring the achievement of MSME credit ratios, and evaluation of the amount of Countercyclical Buffer (CCB). Policy synergy is also carried out at Bank Indonesia's external stages by coordinating and cooperating with the Ministry of Finance, the Financial Services Authority, and Deposit Insurance Corporation bilaterally with reference to the cooperation agreement between the respective authorities. In a broader scope, Bank Indonesia is also cooperating with other authorities in the Financial System Stability Committee (KSSK) forum to strengthen crisis management protocols nationally.

Going forward, facing risks and challenges that have the potential for financial system instability, Bank Indonesia and the Financial Services Authority (OJK) will continue to strive to innovate the policy mix according to the duties and authorities of Bank Indonesia and regularly coordinate and cooperate with other authorities to achieve stability. financial system. As the authority in the macroprudential sector, Bank Indonesia will continue to strengthen macroprudential policies in order to increase the resilience of the financial system to potential systemic risks amidst the challenges and complexity of the existing financial system dynamics. Strengthening macroprudential policy will focus on strengthening liquidity, strengthening the intermediary function and increasing instrument effectiveness.(Kurniawati, 2018)

Monetary stability and financial stability are like two sides of a coin that cannot be separated from one another. Monetary policy has an important impact on financial stability and vice versa financial stability is a pillar of monetary policy effectiveness. The financial system is one of the monetary policy transmission channels, so if the financial system is unstable, monetary policy transmission cannot run normally. On the other hand, monetary instability significantly affects financial system stability because the financial system does not work efficiently.(Djojohadikusumo, 2017)

Bank Indonesia has five main tasks in maintaining financial system stability. The five main roles of policies and instruments in maintaining financial system stability are:

1. Bank Indonesia is tasked with maintaining monetary policy stability, for

example by using interest rate instruments in open market operations. Bank Indonesia must be able to set monetary policy in an appropriate and balanced manner. This is because disturbances to monetary economic stability have a direct impact on various economic sectors. By applying interest rates that are too tight, monetary policy kills economic activity. On the other hand, therefore, Bank Indonesia implements a policy called the Inflation Targeting Framework to create monetary policy stability.

2. Bank Indonesia has an important role in creating good financial institution performance, especially banking. Determination of the performance of banking institutions is carried out through monitoring and regulatory mechanisms. As in other countries, the banking sector plays a dominant role in the financial system. Therefore, failure in this area can lead to financial instability and disrupt the economy. To avoid such failures, an effective system of banking supervision and policies must be maintained. In addition, market discipline must be exercised through inspection and decision-making as well as law enforcement actions. Available evidence suggests that financial system stability is strong in countries that practice market discipline. At the same time, enforcement measures aim to protect banks and stakeholders while increasing confidence in the financial system. To create sustainable stability in the banking sector, Bank Indonesia prepared the Indonesian Banking Architecture and Basel II Implementation Plan.
3. Bank Indonesia has the right to regulate and maintain the smooth operation of the payment system. If there is a failure in one of the payment system participants, there is a significant potential risk that could disrupt the smooth operation of the payment system. Such a failure may pose a risk of infection and thereby lead to systemic disturbances. Bank Indonesia is developing mechanisms and arrangements to reduce payment system risk in line with the growth of the payment system. Among others, is the introduction of the RTGS (Real Time Gross Settlement) system, which can further improve the security and speed of the payment system. As a payment system authority, Bank Indonesia has the knowledge and expertise to identify potential.
4. Through its investigative and supervisory functions, Bank Indonesia can receive information deemed to threaten financial stability.

Macroprudential supervision enables Bank Indonesia to monitor financial sector vulnerabilities and detect possible shocks affecting financial system stability. Through research, Bank Indonesia can develop tools and macro stability indicators to identify financial sector vulnerabilities. The results of this study and monitoring then become recommendations to the relevant authorities to take appropriate steps to reduce disruption in the financial sector.

5. Bank Indonesia acts as a financial system safety net as the central bank's Lender of Last Resort (LoLR). The LoLR function is Bank Indonesia's traditional role as the central bank in crisis management to prevent financial system instability. The LoLR function includes providing liquidity in normal and emergency situations. This feature is only for banks experiencing liquidity difficulties which could trigger a systemic crisis. Under normal circumstances, the LoLR feature can be applied to banks that experience temporary liquidity problems but are still able to pay off. In carrying out its role as LoLR, Bank Indonesia must avoid disgraceful behavior. Therefore, aspects of systemic risk and stringent requirements must be implemented in ensuring liquidity.

## CONCLUSION

The regulation of non-performing loans can have a significant effect on financial stability in conventional commercial banks. The non-performing credit policy refers to the steps taken by commercial banks to manage credit risk and handle non-performing loans. Furthermore, it is important to conduct research on the factors that influence bank lending to become problematic. According to Popita (2013), the factors that cause problem loans can be caused by three elements, namely: (1) The bank itself (creditor); (2) From the debtor as well; (3) Outside the creditors and debtors, namely macroeconomics because lending does not only provide benefits to internal banks but also to support the economic development of a country. Like most developing countries, sources of financing for the business world in Indonesia are still dominated by bank lending which is expected to boost economic growth. So that it can be said that lending plays an important role for the country's economic growth. However, this credit distribution can also have a negative impact on a country's growth if it is not managed properly.

Bank Indonesia and the Financial Services Authority (OJK) evaluated a number of macroprudential policies in synergy with monetary policy and rupiah currency management-payment system policies. Evaluations carried out include monitoring housing loans with Loan to Value (LTV)/Financing to Value (FTV) provisions, monitoring related to the implementation of the Minimum Statutory Reserves (GWM) based on the Loan to Funding Ratio (LFR), monitoring the achievement of MSME credit ratios, and evaluation of the amount of Countercyclical Buffer (CCB). Policy synergy is also carried out at Bank Indonesia's external stage by coordinating and cooperating with the Ministry of Finance, the Financial Services Authority, and the Deposit Insurance Corporation on a bilateral basis with reference to the cooperation agreement between the respective authorities.

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