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Effectiveness of Manage Low-Quality Credit (Loan at Risk) for Improvement of Loan Portfolio Quality in Bank BNI

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Abstract

Loan at Risk (LaR) is a problem faced by all banks where later if not managed properly and correctly it will become non-performing loans or reduce credit quality through increasing non-performing loans (NPL). The main purpose of this paper is to provide an evaluation of the effective LaR management strategy at Bank BNI for improving credit quality by improving the portfolio of LaR debtors in the period March 2020 to December 2021. For this purpose, we use primary data in the form of interviews with the parties involved and secondary data is the rules that serve as guidelines in managing LaR debtors. The results of the evaluation of the LaR management strategy are considered capable of improving credit quality through a decrease in the LaR portfolio.

Keywords
loan at risk; risk management; covid19

I. Introduction

Based on the provisions in the circular letter of the Financial Services Authority (OJK) SEOJK NO. 14/SEOJK.03/2017 concerning the Soundness of Commercial Banks (2017), banks are required to conduct their assessment of the soundness of banks, where compliance must be reported every semester or in the period between June and December. The assessment of the soundness of the bank is in the form of applying an adequate risk profile calculation, implementing good governance, sustainable profitability, and fulfilling bank capital according to regulations.

Risk is very identical to the banking business so it needs to be managed (governance) properly so that it does not have an impact that is not following organizational goals. Organization must have a goal to be achieved by the organizational members (Niati et al., 2021). Risk is a variable that results in incompatibility with the desired goals or not following business targets and overall organizational performance. Besides that, the general public is familiar with the term Enterprise Risk Management (ERM), this term is the management of financial, strategic, compliance, operational, and reputation risks in an organization so that it can eliminate unexpected events including governance and policy processes (risk appetite), risk analytics, risk management, monitoring, and reporting) (Lam, 2017). Banking activities or activities are closely related to how to manage risk to generate trust, where customers feel comfortable and safe placing their money in a bank and the customer's money is used by the bank as an intermediary function to be distributed to parties in need with adequate compensation or known as credit.

Good credit quality is one of the supporting factors for the level of asset quality (non-performing loan level is below 5%) of a bank under POJK No. 40 concerning Asset Quality Assessment for Commercial Banks (2019), where the better the credit quality, the better. also, the quality of banking assets will have an impact on the soundness of the bank. Improvement of credit quality is described by a good risk profile, one of which is by managing debtors who fall into the LaR category to remain able to survive and or even

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experience improvements so that they do not enter or fall into NPL which will have an impact on increasing the Allowance for Impairment Losses (CKPN) so that the bank's profits will be reduced.

One way to reduce the impact of improving credit quality conditions which are marked by improving the quality of the risk profile is by taking special steps/strategies for debtors who fall into the Loan at Risk (LaR) criteria, namely debtors collectibility 1 restructuring, Collectibility 1 restructuring Covid, watchlist, Early Warning System and Pre-NPL so that management through good follow-up and adequate supervision of LaR debtors is expected to improve credit quality in each bank.

Specific steps for debtor management are carried out through overall risk management initiatives in the form of improving credit quality by making improvements to processes, products and people in addition to strategic initiatives carried out by the LaR management team, namely mapping debtor risk profiles, optimization team handling of LaR, Implementation of Joint Effort, Improvement of end to end process, Implementation of Early Warning System and improvement of risk culture.

The high increase in LaR has forced banks to make allowances for fees or CKPN. This reserve will reduce banking profits. Therefore, banks must monitor LaR loan portfolios. Monitoring can be done through internal and external approaches. One approach is to make an early warning of the actual movement of credit from current quality to quality with the classification of the loan at risk (LaR) and even bad loans (Noveryanto, Berry, and Yorinda, 2022). Credit Mapping by giving ratings to all debtors is considered to be able to help mitigate the potential for bad loans in the future and usually, each bank has its model for conducting assessments with certain criteria. An increase in LaR on loans in banks can have an impact on a crisis in the Bank, due to the continuous increase in CKPN. The banking crisis in the last few decades has required banks to design an early warning system which is a mechanism to analyze and change the information held by the financial indicators when a banking crisis is likely to occur based on the loan at risk (LaR) classification.

Starting from 2020 to June 2021, almost all business fields experienced problems and obstacles in increasing the LaR portfolio due to the Covid-19 Pandemic to the occurrence of a wave of employee layoffs and or an increase in NPL in the average bank. To anticipate this and avoid a systemic impact on the national economy, the government issued a policy in the form of a COVID-19 stimulus for banks or business players.

Practically the handling/management of the LaR portfolio will be different in each bank, this is because the characteristics and main business focus of each bank are different so the management of the LaR portfolio will also be different.

This study aims to provide an evaluation of risk management through LaR debtor management initiatives and whether it can improve credit quality through a decrease in the LaR debtor portfolio.

The method we will use in this research is to use a qualitative method by using primary data/information in the form of interviews with parties involved in managing the LaR portfolio and secondary data in the form of (1) data on debtors LaR from March 2020 to December 2021. (2) risk management strategy in managing LaR debtors (3) data on debtors that received the covid 19 stimulus.

II. Review of Literature

Risk management is also defined as a logical and systematic method of identifying, quantifying, determining attitudes, determining solutions, and monitoring and reporting risks that take place in each activity or process (F.N, 2008). Risk management can also be defined as a scientific approach to dealing with pure risk by anticipating potential unintentional losses and designing and implementing procedures that will reduce the financial impact of losses to a minimum (Norman et al., 2010). Risk management can also be defined as a directed and coordinated organizational activity, which is related to risk (Susilo, L, 2019)

In implementing Enterprise Risk Management according to Lam (2017) there are 4 components of the framework that can be used in implementing good risk management in an organization, the components are as follows:

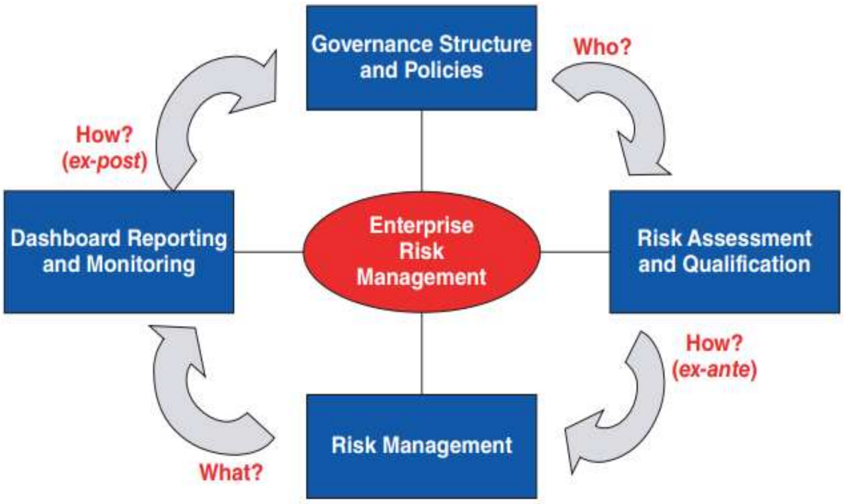

Figure 1. *Continuous ERM Model*

According to the picture above, it is known that the 4 parts used in terms of risk management in an organization consist of governance & policies, which are activities that provide direction on who has responsibility for monitoring risks and those who have the authority to make decisions on critical risks. the next part is risk assessment and quantification which is the ability of an organization to make risk management decisions at a certain period, the other part, namely risk management is what decisions are used in terms of optimizing profits and minimizing risk in an organization while the last part is the dashboard reporting and monitoring which is the action of an organization in conducting supervision related to risk and risk management.

In line with the implementation of a good bank soundness level, good governance management in banking is needed which consists of 5 principles, namely Transparency, Accountability, Responsibility, Independence, and Fairness, this is also in line with the implementation of GCG principles in banking as regulated in the Financial Services Authority Regulation which explains that banks must apply the principles of good governance in every business activity at all levels or levels of the organization, where these principles are following the principles of Transparency, Accountability, Responsibility, Independence and Fairness.

According to (Mosey et al., 2018) profitability is the ability of a company to generate net income in a period, where if a company generates high profits, the more capable it is to compete/survive in competitive conditions. Usually, the profitability ratio which is the measure of banking consists of Return on Assets (ROA), Return on Equity (ROE), and Net Interest Margin (NIM). Profitability is one level of assessment of the health of the bank where according to (Wardani & Ismunawan, 2021) a bank can be said to be healthy if it can produce profitability that continues to improve, the profit generated by a bank plays a very important role in determining bank capital which will support the bank's main activities and besides The bank's profit is also an illustration of whether it has obtained a good or optimal profit.

Under the Committee of Sponsoring Organization (2017) that 5 components form the basis for assisting an organization in managing risk management in terms of strategic actions or policies that will result in achieved goals, namely governance and culture, setting strategies and goals, performance, review and revision, and information.

According to the OJK Regulation, it is explained that risk management is a collection of methods and procedures used to identify, measure, monitor, and control risks arising from all Bank business activities consolidation. These risk management activities include active supervision of the Board of Directors and Commissioners, Adequacy of Risk Management Policies and Procedures and Determination of Risk Limits, Adequacy of Risk Identification, Measurement, Monitoring, and Control Processes as well as Risk Management Information System and Comprehensive Internal Control System.

Banking is inherently high risk due to its dependence on the funds of depositors who are considered legally borrowing funds from third parties. Banks need to be careful to maintain funds and ensure that these funds can provide income achievement for banks, on the other hand, it is also related to the provision of liquidity and security of these funds (Arena et al., 2011).

Credit quality can be categorized as good if in terms of credit quality assessment it has fulfilled 3 pillars, namely business prospects, debtor performance, and ability to pay so that based on this assessment a debtor can be classified as current, special mention, substandard, doubtful and/or bad. 40 Regarding Commercial Bank Asset Quality Assessment (2019).

Then as a response to abnormal conditions, namely during the covid-19 pandemic, the government issued regulations through OJK Regulation No. 48 (2020) as a countercyclical policy due to the impact of the spread of covid 19, this policy is an act of accelerating the handling of debtor problems, this is related to relief in payment of obligations which will also affect MSME entrepreneurs, non-permanent employees, and laid-off employees. This stimulus is given in the form of credit relaxation and this policy is also a good risk management responsibility in terms of handling the covid-19 pandemic so that credit quality is maintained in handling LaR debtors in banking and the level of bank profitability will continue to be well maintained.

III. Research Method

This research was conducted using a qualitative method by evaluating case studies on the portfolio management of LaR debtors which can lead to improvement in credit quality with data collection techniques obtained in the following ways:

1. Primary data by conducting interviews
2. Secondary data by collecting information on documents/data on these literature sources, journals, books, and other related articles.

According to (Ellet, 2018) explaining that a case study evaluation describes a deeper understanding of an object in the form of people, policies, countries, strategies, and organizations to make a deeper understanding of the evaluation of performance, effectiveness, results, or a consequence resulting from a decision. taken. The evaluation of this case study begins with identifying a subject, selecting a criterion, determining the criteria to be analyzed, making an overall evaluation, identifying contingencies that can be done, and finally providing recommendations for improvement.

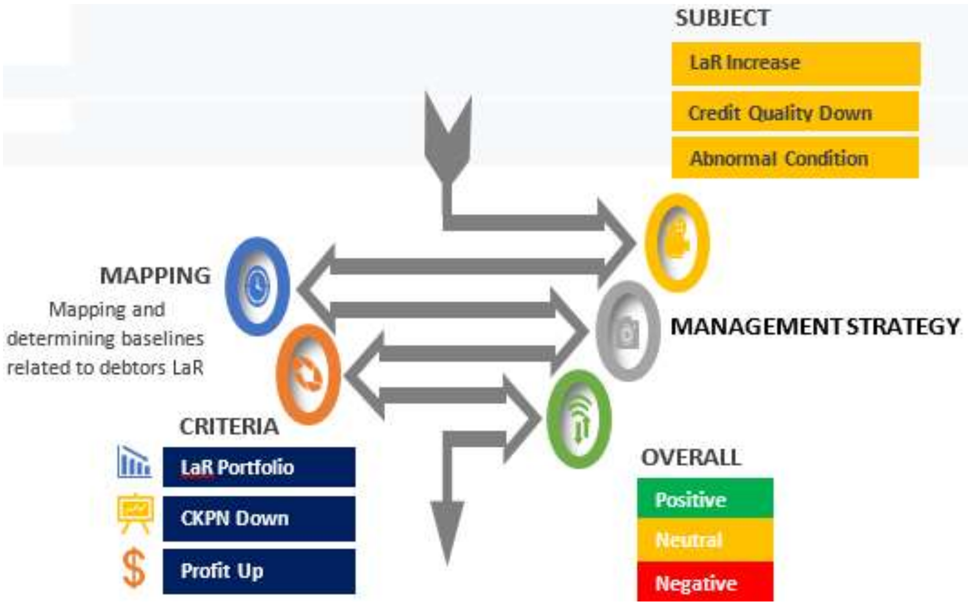

Figure 2. *Research Framework*

From the picture above, it can be seen that this research is based on conditions in the subject (increased LaR, decreased credit quality, and abnormal conditions) which cause a bank to experience declining health, especially an increase in the bank's credit risk profile, an increase in adequacy related to capital due to an increase in credit risk and finally there is a decrease in the level of bank profitability due to an increase in CKPN which has an impact on the decline in bank profits, therefore the subject will become an issue at bank BNI and good risk management is needed.

Then to analyze whether the risk management strategy has worked well to overcome the subject, it is necessary to do mapping and baseline first regarding the existing LaR portfolio at bank BNI as a measure of whether later after the risk management process is carried out, the LaR portfolio will also decrease. Abnormal conditions such as Covid-19 also led to an increase in the portfolio of LaR debtors so a good and correct risk management strategy was also needed.

On this subject, this research will evaluate the risk management strategy related to the management of LaR debtors at bank BNI in the hope that it will have a good impact on improving credit quality, capital, and credit risk profile due to the decline in the LaR debtor portfolio. The evaluation results from this research can be in the form of positive, neutral, and negative impacts which can be described in the table below:

Table 1. Research Criteria

Evaluation	Criteria		
	Portfolio LaR	**CKPN**	**Profit**
POSITIVE	⬇	⬇	⬆
NEUTRAL	=	=	=
NEGATIVE	⬆	⬆	⬇

IV. Results and Discussion

Table 2. Research Result

CRITERIA	VALUE REALIZATION	STANDARD SCORING VALUE	VALUE CONVERSION
PORTFOLIO LAR	-8,14%	⬇	POSITIVE
CKPN	-19,00%	⬇	POSITIVE
PROFIT			
ROA	180,00%	⬆	POSITIVE
ROE	258,62%	⬆	POSITIVE
NIM	4,44%	⬆	POSITIVE

From the figure above, it is known that all the criteria provide a positive value description, this concludes that risk management through effective management of LaR debtors in terms of maintaining the level of credit quality by being able to reduce the LaR portfolio so that the soundness of Bank BNI is maintained well.

The results of these criteria are also supported by the results of interviews, namely as primary data which explains that the LaR management strategy at Bank BNI is considered good in supporting the risk management strategy, all interview respondents have positive scores from each interview criteria in the form of understanding the rules and regulations, LaR management tools, Key Performance Indicators and Results of LaR Management Strategy.

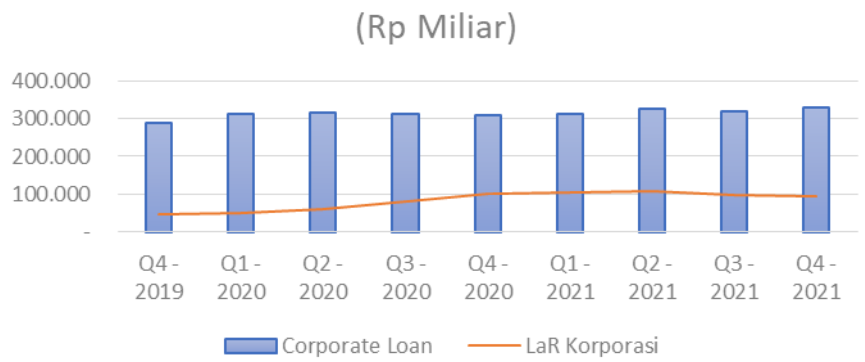

Figure 3. *Corporate Presentation Bank BNI (2021)*

If seen from the figure above, it is known that in the December 2021 LaR portfolio decreased compared to the June 2021 period which was the highest portfolio condition during 2020 - 2021.

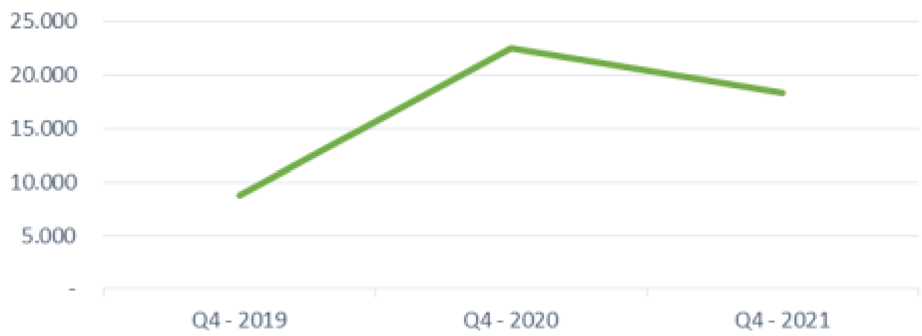

Figure 4. *CKPN Bank BNI Trend*

From the figure above, it is known that there was a significant increase in the 2020 period, this was due to abnormal conditions that occurred in 2020, namely the Covid-19 pandemic condition which required banks to make quite large reserves during that period. This was also due to a significant increase in the portfolio of LaR debtors during that period.

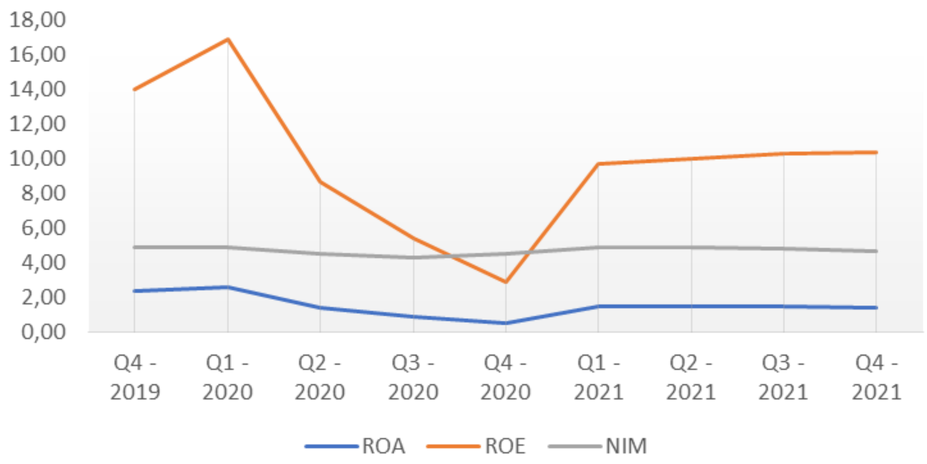

Figure 5. *Profitability Ratio Trend*

If seen from the picture above, it can be seen that the three profitability ratios have increased in 2021 when compared to the period in 2020 so based on these results Bank BNI has been able to improve the level of profitability through improving credit quality with good LaR portfolio management which has an impact on decreasing CKPN.

The COVID-19 stimulus policy provided banks by providing relief banks to restructure through debtors remaining in current collectibility so that there is no need for additional CKPN for the debtor it will help each bank to maintain the credit quality of each debtor. In addition, the COVID-19 stimulus provided can have an impact on maintaining business for affected debtors by obtaining relief in the form of restructuring.

From the results of interviews conducted with 5 respondents, it was found that each stimulus given to debtors can improve or maintain credit quality through adequate LaR portfolio management so that it can provide benefits both from the debtors and banking side.

Table 3. Sector & Debtor Stimulus Covid – 19 Trend

	Mar-20	Jun-20	Sep-20	Des 20	Mar-21	Jun-21	Sep-21	Des 21
Sector (Amount)	-	18	20	20	17	20	17	17
Debtor (Amount)	-	97	111	115	100	124	106	101

From the table above, it can be concluded that the COVID-19 stimulus began to be given in June 2020 to affected debtors and sectors, and then with adequate and good management of LaR debtors, in Dec 2021 it was seen that both sectors and debtors who received the stimulus experienced It can be concluded that the Covid stimulus provided was successful in improving and maintaining credit quality for affected debtors and besides that, it was also seen that with the decline in debtors receiving the Covid stimulus, they did not move to the NPL portfolio, as it was also seen that the NPL portfolio decreased in December. 2021.

V. Conclusion

LaR debtor management is a good risk management strategy in keeping the goals of an organization running according to the expected plan. The subject of this study is a strategy for managing LaR debtors, where it relates to how effective the strategy is in reducing the LaR portfolio which has an impact on financial or non-financial improvements at bank BNI where the LaR debtor management strategy with a focus is considered effective in maintaining as well as improving credit quality through adequate management of LaR debtors resulting in a decrease in CKPN and marked by improved ROA, ROE and NIM profitability ratios, then the Covid-19 stimulus provided by Bank BNI can be said to have a good impact in terms of retaining LaR debtors if it can be seen that the comparison of the number of debtors who received the COVID-19 stimulus in December 2021 decreased to 101 debtors from the previous 124 debtors and when compared to the level of LaR debtors and the decline in NPL, it was seen that the The content of the decline in debtors who received the COVID-19 stimulus was purely an improvement in the quality of the debtor or becoming a debtor with good collectibility.

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