

ANALYSIS OF RISK MANAGEMENT IMPLEMENTATION IN MINIMIZING CREDIT RISK AT LEMBAGA PERKREDITAN DESA OF GANGGANGAN CANGI BATUAN KALER SUKAWATI DISTRICT

N L P Chalena C^{1*}, I W Karmana², I K Suwintana³

¹ D4 Managerial Accounting, Accounting, Politeknik Negeri Bali

² Accounting, Politeknik Negeri Bali

³ Accounting, Politeknik Negeri Bali

*Corresponding Author: chalenacahyani22@gmail.com, karmana_wayan@pnb.ac.id, tutswint@pnb.ac.id

Abstract: LPD is a non-bank financial institution that operates in the Bali area and adheres to awig-awig both written and unwritten and based on the principle of kinship. However, LPD is not without risk. The presence of the Covid-19 virus in Indonesia increases credit risk. Therefore, efforts are needed to minimize credit risk through the implementation of risk management.

The type of research used in this study is a qualitative research with a descriptive approach. Analysis of the data used is an analysis of active supervision from the supervisory body, policies and adequacy of procedures, risk identification processes, monitoring, measurement and internal control. This research is sourced from primary data and secondary data.

The results of this study indicate that the LPD of the Ganggangan Cangi Traditional Village has not fully implemented risk management based on the analysis of the data used. This is because there is no written SOP that is used as a guide in the application of risk management and credit granting procedures. However, the supervisory body has carried out active supervision of the operational activities of the LPD with the aim of knowing the conditions and monitoring the performance of the LPD from time to time.

Keywords: LPD, credit, credit risk, risk management

Introduction

Financial institutions play a very important role, both banks and non-banks, with their capacity as financial intermediary institutions [1]. One of the non-bank financial institutions operating in the Bali area is the Village Credit Institution. Based on the Bali Provincial Regulation Number 02 of 1988 concerning Village Credit Institutions, LPDs have been established since 1988 [2]. The purpose of establishing LPD is to help the economy of traditional villages by increasing the tendency of saving from Pekraman village communities and providing credit administration to limited scope organizations for open the door for business activities at the village level [3]. Based on Regional Regulation Number 3 of [4] Bali Province regarding LPDs that the presence of LPDs is expected to ensure the formation of welfare which is the manners of the Pekraman village.

From the operational activities carried out by financial institutions as credit distribution institutions, LPD cannot be separated from the existence of a risk. The risk that occurs as a result of business activities carried out by financial institutions is known as credit risk [5]. Credit is a delivery in the form of cash, services and products provided with the approval of both parties on the basis of their level of trust and will be returned within a certain period of time with the agreement of both parties accompanied by interest [6]. Non-performing loans are high-risk loans that must be faced by financial institutions. The occurrence of non-performing loans can make financial institutions end up in bankruptcy. Therefore, in order to maintain public trust in financial institutions, financial institutions must be able to minimize non-performing loans [7]. Moreover, the presence of the Covid-19 virus in Indonesia has weakened economic activity in the community which has an impact on the level of community welfare and has an impact on people who have obligations in the form of loans to financial institutions. The following is the amount

of credit granted and non-performing loans (NPL) from LPD Ganggangan Cangi in 2017-2021 which are presented in the table below:

Tabel 1 Percentage of Non Performing Loans (NPL)
On the LPD Ganggangan Cangi
Year 2017 - 2021

Year	Total Non-performing Loans	Total Credits Granted	NPL
2017	612.680.950	0.624.752.950	5,8%
2018	500.957.400	2.642.773.450	4,0%
2019	771.372.950	15.212.371.000	5,1%
2020	2.477.580.000	13.677.821.750	18,1%
2021	6.326.139.100	2.549.448.300	50,4%

Based on Table 1, data on non-performing loans at the Ganggangan Cangi Customary LPD has increased. The increase in non-performing loans also coincided with the increase in the percentage of NPLs. The increase in non-performing loans at the Ganggangan Cangi Customary LPD which was classified as substandard credit, doubtful credit and bad credit was caused by economic changes that made it difficult for customers and unable to pay their debts to the LPD [8]. LPD financial institutions in providing loans or credit must determine in advance the prospective debtor and collect adequate information about the prospective debtor such as information about the financial condition of the prospective debtor so that the amount of the loan granted is appropriate and can minimize credit risk that will occur in the future [9]. So that in order to minimize credit risk from a business activity carried out, the LPD Desa Cangi financial institution is obliged to implement credit risk management which is intended so that the financial institution can operate more carefully in its business and operational activities and take steps in managing credit risk [10]. To avoid risk, credit applications from prospective debtors must be analyzed first, because in granting credit there is a level of risk such as substandard and uncollectible credit.

Method

This research uses qualitative research using descriptive analysis method. This research was conducted at the Ganggangan Cgi Customary LPD which is located on the Sakah Batuan Kaler highway, Sukawati, Gianyar. The data source of the research is primary data, which is important information which includes the application of credit risk management, credit granting procedures and the factors causing the occurrence of non-performing credit risk obtained from interviews and secondary data including non-performing credit data from 2017 to 2021.

The technique of collecting data is through structured and unstructured interviews, then observations with direct observations in the field and documentation for collecting information through the notes used. The data collection instrument in this study was an interview guide that had been compiled along with a voice recorder used to obtain information related to this research.

The data analysis carried out to answer the problems in this study is to analyze the application of risk management in managing non-performing loans at the Ganggangan Cangi Customary LPD including analyzing the active supervision of the board of commissioners and directors, analyzing the adequacy of policies and procedures in risk management and setting risk limits, analyzing adequacy in terms of the process of identifying, measuring and monitoring credit risk and risk management information and analyzing comprehensive internal control within the scope of risk management implementation.

Results and Discussion

1. Factors that cause non-performing loans

Non-performing loans can occur if the debtor is unable to pay the obligations he has to the LPD, either partially or completely. Non-performing loans can be caused by internal factors and external factors.

Internal factors are caused by the lack of firmness of the LPD in the field of credit administration, where the system of the LPD Traditional Village Ganggangan Cangi Batuan Kaler applies the principle of kinship. When there are debtors who have not paid their obligations to the LPD for a long time, the LPD will have difficulty in collecting them because if the LPD is firm, it will be blamed, and if it is not firm, it will also be blamed. Then it is less selective in conducting an initial analysis of lending to debtors which causes there are still debtors who do not have good faith in paying their obligations.

External factors are caused by the dominant debtors being the people of Ganggangan Cangi Village who have not been fully able to pay their obligations to the LPD because the average job of the local community is a farmer, a trader whose income is uncertain every day, this makes the debtors unable to pay its obligations to the LPD. And there are some debtors who deliberately do not pay because they do not have good faith to pay their debts to the LPD. In addition, during the Covid-19 pandemic, many debtors experienced economic problems because they lost their jobs and did not have the ability and income to pay their debts to the LPD, causing non-performing loans.

2. Application of Credit Risk Management at LPD Ganggangan Cangi Batu Kaler

2.1 Supervisory Board and LPD Management

The supervisory body has carried out active supervision on a regular basis on the operational activities of the LPD, both in the field of organization, credit administration and finance. This is evidenced by routine supervision, namely once a week and at least once every two weeks. This supervision is carried out with the aim of being able to find out early whether there are errors or problems in terms of credit at the Ganggangan Cangi LPD and the supervisor can provide advice or input to the LPD related to the implementation of risk management.

2.2 Risk Management Policies and Procedures and Determination of Risk Limits

Policies, procedures and the determination of appropriate risk limits can support the effectiveness of the implementation of risk management for the LPD. In implementing the adequacy of policies, risk management procedures and setting risk limits, LPD Ganggangan Cangi does not yet have written SOP guidelines. However, the first thing that has been carried out regarding risk management is to conduct an internal evaluation first between employees and superiors. Then after the next evaluation will be sorted which ones are included in the nominative category of substandard credit, doubtful credit and bad credit. The nominatives will be approached by the LPD in a persuasive, verbal and written manner. The LPD also continues to make visits and follow up on the debtor. If the data or evaluation results are requested by the supervisor, the LPD will hold an internal meeting to coordinate the next steps, whether the debtor concerned should be included in the adat law or an approach is taken to withdraw the guarantee.

Credit risk management procedures refer to procedures for granting credit to be channeled to prospective debtors. The first thing that the credit staff does in the procedure for granting credit to LPD Ganggangan Cangi is to ask the amount desired by the prospective debtor and the type of guarantee that will be given to the LPD. Furthermore, the LPD will inform the maximum period or interest that will be the burden of the prospective debtor. Then the credit staff will carry out an analysis process on the prospective debtor and will inform the supervisor first and then submit it. If the credit is accepted by the supervisor, then the credit staff will again inform the prospective debtor regarding other requirements such as an ID card, family card, party in charge or companion.

The determination of the Risk Limit in business activities carried out by the LPD has taken into account the loan limit by considering the value of the guarantee and the amount of the loan proposed. The determination of the risk limit on the Ganggangan Cangi LPD is called the maximum credit limit.

2.3 Risk Identification, Measurement, Control, and Monitoring Process and Risk Management Information System

The risk identification process carried out by the Ganggangan Cangi Batuan Kaler Customary LPD is by applying the 5C analysis in granting credit. 5C analysis consists of character, capacity,

capital, collateral, condition of economic. The purpose of applying 5C analysis in lending is to obtain certainty and confidence whether the prospective debtor will be able to pay its obligations to the LPD when it has obtained a loan.

Credit risk measurement in LPD is carried out by taking into account the percentage of each credit collectibility which includes substandard loans, doubtful loans and bad loans as well as paying attention to the level of non-performing loans. Risk measurement can also include several things including the results of debtor analysis based on the principle of prudence in providing 5C credit (character, capacity, capital, collateral, condition of economic).

As a non-bank financial institution based on the principle of kinship, the LPD Desa Adat Ganggangan Cangi in controlling the risk of non-performing loans is carried out with an effort to approach the debtors in a family manner first, if there is good faith from the debtors in paying off their debts, the LPD will always provide guidance or always follow up debtors in order to pay off their obligations to the LPD to resolve non-performing loans according to mutual agreement. If the debtor does not have good faith and does not pay the debt within the agreed period, then the LPD submits it to the supervisory body and then a meeting is held to reach a mutual agreement.

The monitoring process carried out by the Ganggangan Cangi Customary LPD is by looking at the credit payment process from the debtor whether it is based on a predetermined time or experiencing delays. The LPD routinely monitors by making direct visits to the debtor, this aims to determine the extent to which the credit provided by the LPD can be realized in accordance with the initial purpose of credit application.

2.4 Comprehensive Internal Control System

LPD Ganggangan Cangi has implemented a comprehensive internal control system and LPD also has an organizational structure that has duties and responsibilities according to its field. However, the LPD system is very simple and based on kinship. This makes credit collection made by the LPD to the debtor difficult when the debtor does not have good faith in paying his obligations and causes non-performing loans.

Conclusion

Implementation of risk management in minimizing the risk of non-performing loans at LPD Ganggangan Cangi, which has been carried out routinely by the LPD Supervisory Board to reduce the risk of non-performing loans.

In implementing the adequacy of policies, risk management procedures and setting risk limits, LPD Ganggangan Cangi does not yet have written SOP guidelines, so that it can increase non-performing loans. Moreover, LPD Ganggangan Cangi applies the principle of kinship which causes LPD to have difficulty in collecting credit.

The adequacy of the identification, measurement and monitoring of credit risk and risk management information has been implemented properly. However, in the identification process by seeking 5C analysis, the LPD Ganggangan Cangi prioritizes the ability and character of the prospective debtor only so that this can result in weaknesses in the initial analysis process in providing credit.

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