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Analysis Of 5C Principles in Bank to Minimize the Occurrence of Credit Contracts

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ABSTRACT

This research discusses the importance of analyzing the 5C principles in managing bank credit to minimize the risk of non-performing loans. The research method used is a qualitative approach with descriptive analysis and a library research approach. The research results show that banks need to consider the character, capacity, capital, collateral and condition of prospective debtors before providing credit to minimize the risk of credit congestion. These factors, known as the 5C principles, help banks assess credit provision and minimize the risk of non-performing loans. Research also highlights the role of character, capacity, collateral, capital and economic conditions in assessing credit provision. The 5C principles are used as a guide for credit analysts in banking institutions to ensure credit is provided with minimal risk. Thus, this research provides comprehensive insight into the importance of the 5C principles in bank credit management to minimize the risk of non-performing loans.

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1. INTRODUCTION

In this era of ever-advancing development, the increasing needs of society are often disproportionate to the available sources of income. This situation makes credit from banks one of the main alternatives that people are interested in meeting their needs for capital and other needs. This is in line with Law of the Republic of Indonesia Number 10 of 1998 concerning Banking, which states that banks are defined as business entities that collect funds from the public in the form of savings and distribute them to the public in the form of credit and/or other forms in order to improve the standard of living of many people. The definition of credit is a form of loan provision provided by creditors, with certain conditions that must be fulfilled by the debtor based on an agreement made by both parties as stated in Article 1 point 11 of the Banking Law. Basically, credit comes from people saving money in banks and then lending it to other parties or those who are looking for loans (debtors) by making agreements such as the interest rate on debt.

Credit activities from banks will make it easier for people to access business capital or other needs, thereby making credit activities from banks continue to increase. If credit activities carried out by banks are managed well, they will gain large profits and improve the economy in society. However, in reality, not all debtors are able to repay their debts in accordance with the agreements that have been made, thus creating problems for the operational health of the bank itself. The debtor's inability to make repayments will create risks such as bad credit for the bank and losses in operational activities. With increasing credit activity, it will be accompanied by problematic credit or what is called bad credit due to the inability to pay the entire loan (Ayu Irma Fakhrini, 2020). This risk certainly requires good credit management, for example, analysis actions before approving a receivable application by a prospective debtor. Banks really need to first assess prospective debtors who apply for credit regarding their ability to repay the loan so that the bank can develop further. Apart from that, people who also keep their money in the bank in the form of savings are increasingly confident that the money is managed well by the bank and can be withdrawn according to the agreement.

The importance of credit analysis is to minimize the risk of credit congestion and confidence in potential debtors which will affect bank performance. This is in line with the research results of Tantowi Akbar (2021), that all credit applications approved by banks will contain risks so that before the bank provides a loan it is necessary to carry out a correct and in-depth analysis of each potential debtor. The assessment analysis can be carried out on prospective debtors using the 5C principles in banking, namely Character, Capacity, Capital, Collateral and Condition. Based on this discussion, it is necessary to carry out special research on how the 5C principles of banking can minimize credit bottlenecks so that banks can obtain profitable debtors. The importance of 5C principle analysis in bank credit management cannot be ignored. By understanding the 5C principles comprehensively, it is hoped that readers can gain in-depth insight into these principles. Based on this, the author is interested in conducting a more comprehensive discussion about how the 5C principle in banks can minimize credit congestion.

2. RESEARCH METHOD

The research method used in this article carries a qualitative approach with descriptive analysis and a library research approach. This choice is based on its high relevance in exploring the 5C principles in banking to reduce the risk of credit congestion. Then, the research methodology steps begin with selecting related topics, followed by exploring initial information to understand the context of the 5C principles in the banking industry. The next process includes determining the research focus by detailing the specific aspects of the 5C principles that will be investigated.

In the data source collection stage, researchers use a library research approach to access various library sources such as books, journals and official research reports. The goal is to get in-depth information about the 5C principles. Descriptive analysis is applied to analyze the information collected, providing a holistic understanding of the 5C principles in banking. A qualitative approach is used to approach this phenomenon holistically, understanding the context and meaning contained.

Furthermore, the data presentation is carefully prepared, including direct quotations from literature sources that support the research findings. Research reports are prepared with a clear structure, including all important elements such as introduction, literature review, methodology, research results, discussion, conclusions and bibliography.

The involvement of literature from various types of sources provides a comprehensive description of the 5C principles in banking. In addition, data verification and validation is carried out to ensure the accuracy of the information presented. In this way, this research method provides a clear and in-depth framework for investigating the 5C principles in banking through a qualitative approach and descriptive analysis using library research.

3. RESULTS AND DISCUSSIONS

Understanding Banks

Banks have an important role as financial intermediaries between parties who have excess funds and parties who lack funds. In the financial intermediation function, banks connect both parties to meet their financial needs. Banks not only collect funds from the community but also reallocate these funds to the community through various financial services.

According to Andi Eka Erawati (2019), banks are defined as financial institutions that are really needed by the community in carrying out various financial transactions and economic activities. As financial service providers, banks provide a variety of products and services, including checking accounts, deposits, savings, and credit services. Banks function to facilitate various community financial needs so that they can support various economic activities.

Understanding Credit

According to Ismail (2013:93), credit can be thought of as giving funds from someone who has money to someone who needs money, because there is mutual trust. In accordance with Banking Law No. 10 of 1998, credit occurs when a bank provides money or bills through an agreement with another party, and that party has an obligation to pay off the debt after a certain period of time, including paying interest. In simple terms, credit is a money transfer process that involves trust and a formal agreement, where the party receiving the credit must pay it back with additional interest.

Understanding Problematic Credit

According to Mahmoedin (2002:3) states that credit conditions are considered problematic if they do not comply with the plan or agreement that has been agreed between the lender and the lender. Credit problems arise when borrowers do not comply with pre-agreed terms. This can include violations of various rules, such as paying interest, returning loan money, making purchases, increasing the loan amount, and so on.

Analysis of the 5C Principles to Minimize the Occurrence of Credit Congestion.

In imagining whether a loan is worth giving or not (Herli, 2013: 35), the initial stage is to understand the clear reasons behind the use of borrowed money, whether for daily needs or for business purposes. The next step is to find out where the payment source will come from and whether the borrower has the capacity to pay or not. The use of loans for purposes that are contrary to law or religious and moral values is not permitted. Although it is possible that some individuals provide incorrect information about their intentions to use a loan, parties offering loans must continue to ask questions and carry out checks to ensure the correctness of the data provided. In assessing eligibility, the assessment criteria and factors remain consistent, and the assessment standards applied are usually the policy of each bank. The bank uses assessment criteria involving 5C analysis. The goal is to get customers who are truly responsible (Kasmir).

Character

According to Fahmi (2014: 92), character is our view of the nature or personality of someone who wants to borrow money. It involves personal aspects such as work, lifestyle, family circumstances, hobbies, and social status, all of which reflect how serious and capable the person is about repaying the loan. Understanding this character is important to assess how honest a person is in paying off debt or readiness to pay. To assess the character of a potential customer (Asiyah, 2015: 80-81), you can look at his or her life history, reputation, ask about other banks, contact related business associations, look for information about gambling habits, and find out whether he or she has hobbies that require large expenditures.

Based on previous research by Anggraeni Purwatiningsih and Adi Suprayitno regarding "Effectiveness of Providing Credit to Minimize Problematic Credit at Bank Mandiri Malang Branch", Bank Mandiri uses 5C as a basis for assessing prospective debtors' credit applications. In terms of character, Bank Mandiri expects honest and responsible debtors. Mr Yusron added another important character, namely bankability. In the character assessment, Bank Mandiri Wahid Hasyim achieved its goals, as evidenced by the two debtors who received criticism because they had jobs that were equally respected and responsible so that they were not in arrears and ran smoothly so that if they applied again, there would be no problems.

Similar research was conducted by Sabri Nurdin with the title "Application of the 5C Principles to Minimize the Risk of Bad Credit in Credit Distribution at PT Bankaltimtara Unit Samarinda". At PT. Bankaltimtara Samarinda Unit Office, character is very important because it helps determine the extent of the debtor's intention/willingness to fulfill his obligations (willingness to pay) in accordance with the agreement that has been determined. This character is a key factor even though the prospective debtor is able to settle his debt.

Character assessment in granting credit relates to aspects of the prospective debtor personally, such as work, lifestyle, family situation, hobbies and social status, to assess the seriousness and ability to repay the loan. Research at Bank Mandiri and Bankaltimtara shows that character, measured by the 5C principles, is a key factor in credit assessment. Debtors are expected to have an honest, responsible and "bankable" character. Overall, this research provides an in-depth understanding of the central role of character in assessing credit provision to help financial institutions make wise decisions and minimize the risk of non-performing loans.

Capacity

Capacity Refers to a person's ability to manage their business to gain profits, which can later be used to pay loans or financing. Capacity assessment is important to determine the extent to which someone who will borrow is able to pay their debts on time, based on the business results they obtain. This assessment can be done by reviewing the history of the previous business, looking at the financial condition, considering legal aspects, assessing business management, and looking at technical aspects.

The results of previous research by Nabila regarding "Application of the 5C Principles in Providing Retail Credit to Avoid Bad Credit at Bank BRI Gorontalo Branch" showed that Bank BRI Gorontalo Branch carried out capacity assessments by visiting prospective customers' business premises. They assess inventory through a balance sheet on inventory activities and the sales process. Apart from that, they also look for information about bills from customers. The focus of the assessment is on the business owned by the customer, looking at profits in the customer's prospective financial report with requirements >75% of inventory, capital increase, and the customer's ability to pay.

Similar research conducted by Diksi Laksmiarti and Nurul Inayah regarding "Analysis of 5C Principles in Multipurpose Financing of PT Bank Sumut KCP Syariah Multatuli" shows that PT. Bank Sumut KCP Syariah Multatuli emphasizes that customers must have the capacity or ability to pay, measured by the remaining salary of the employee in accordance with the 80% installment ratio.

Therefore, Capacity is an assessment of potential debtors regarding their ability to pay off obligations from their business activities which will be financed with credit from the bank. in accordance with previous research at Bank BRI Gorontalo Branch and PT. Bank Sumut KCP Syariah Multatuli. Capacity assessment is important to determine the extent to which someone who will borrow is able to pay their debts on time, so as to minimize the risk of failure to repay the debtor's obligations.

Capital

Capital is explained by Ismail (2010: 114) in the context of credit objects. The capital includes the amount of money or assets owned by the individual who wants to borrow or that will be used in a project that will be accepted by the lender. To assess the effectiveness of capital use, it is necessary to examine financial reports such as balance sheets and profit and loss statements, by uncovering aspects such as liquidity, solvency, profitability and other measures.

In accordance with Umam's definition (2013: 236), capital can be interpreted as the amount of capital required by a loan, including capital structure, company performance if the loan is a company, and income if the loan is an individual. Therefore, further analysis regarding this capital needs to be carried out to ensure that its use can provide optimal benefits.

In research conducted by Anggraeni Purwatiningsih and Adi Suprayitno regarding "Effectiveness of Providing Credit to Minimize Problematic Credit at Bank Mandiri Malang Branch". Bank Mandiri focuses on checking the stock held by its borrowers. Evaluation of capital is very important because providing credit to loans with poor capital structures, inefficient capital management, and inappropriate capital placement can pose significant risks.

However, in research conducted by Sabri Nurdin regarding "Application of the 5C Principles in Efforts to Minimize the Risk of Bad Credit in Credit Distribution at PT Bankaltimtara Unit Samarinda". It was explained that PT. profit and loss report), capital structure, profit ratios obtained such as return on equity, return on investment. Measurements can also be seen from solvency and profitability. Capital analysis is also needed to find out where the capital has come from so far. Is it effective or not using capital. The percentage of capital used also requires how much own capital and how much loan capital. From the conditions above, it can be assessed whether it is appropriate for prospective customers to be provided with financing, and how large the financing ceiling is appropriate to be provided.

Therefore, assessing capital is very important because providing credit to borrowers with poor capital structures, inefficient capital management, and inappropriate capital placement can pose significant risks. This is due to the basic nature of capital which includes the amount of money or assets owned by individuals who wish to borrow or will be used in projects that will be accepted by the lender. To assess the extent to which capital is used effectively, it is necessary to examine financial reports such as balance sheets and profit and loss statements, taking into account aspects such as liquidity, solvency, profitability and other measures.

Collateral

In general (Jamilah: 179-180) the emphasis is that the role of collateral is very crucial in strengthening trust when someone leaves debt. If the lender is unable to pay, the collateral can be sold, but the sale must be done fairly and requires permission from the collateral owner. The type of collateral can be goods or documents, ideally yielding higher than the amount of money lent. The reliability of the guarantee can be ensured by carefully checking its validity.

Collateral, as collateral for borrowing from a bank, can be in the form of goods or documents depending on the type. Collateral evaluation involves consideration of its type, location, proof of ownership, and legal status. Collateral is not only limited to goods, but can include personal guarantees, letters of guarantee, letters of recommendation, and availability. The assessment of collateral is carried out by considering economic and legal aspects. Therefore, laws related to guarantees aim to provide certainty and justice in handling debts by considering these aspects.

Previous research by Anggraeni Purwatiningsih and Adi Suprayitno regarding "Effectiveness of Providing Credit to Minimize Problematic Credit at Bank Mandiri Malang Branch" shows that collateral at Bank Mandiri is divided into bound collateral and unbound collateral. Binding guarantees have a value above IDR 25,000,000.00 and are bound by a notary, while unbound guarantees have a value under IDR 25,000,000.00 and do not need to be bound by a notary.

Similar research by Nabila regarding "Application of the 5C Principles in Providing Retail Credit to Avoid Bad Credit at BRI Bank Gorontalo Branch" shows that Bank BRI Gorontalo Branch is very careful in assessing collateral principles, because collateral has an important role in minimizing the risk of bank losses. Collateral accepted by the Bank covers vehicles, land and buildings, equipment and machinery. Evaluation of this guarantee is an important component in assessing customers, becoming a second means of payment if a bad situation occurs for the customer so that he cannot pay any more installments.

In situations of lending to banks, the role of collateral has great significance as a protection and guarantee measure that takes place throughout the payment process. Its function is as a guarantee that the lender will fulfill its responsibilities. If the lender cannot pay off the debt, the collateral can be taken over by the lender. However, the process of taking collateral must meet certain requirements, including fair treatment and obtaining approval from the collateral owner. Therefore, the RM can improve its performance, and be more thorough in obtaining valid data regarding collateral items submitted by customers to the bank, so that the collateral provided can be a replacement if financing is hampered.

e) Conditions

Darmawi (2012:114) states that economic conditions have an impact on the ability of someone who borrows money to fulfill their financial responsibilities. Economic conditions create the environment in which companies and commerce operate. Even if the prospective lender has good character, sufficient income, and capable assets, uncontrolled economic conditions can affect the granting of credit. Therefore, credit officers need to have the ability to forecast the economy to manage risk, especially on long-term loans.

Yulianto emphasized the importance of paying attention to general economic conditions and the situation in the prospective borrower's business sector when providing financing. This evaluation considers whether the prospective borrower's business can adapt to economic changes. Therefore, the assessment is carried out to understand the direct impact of general economic trends on the company, as well as specific developments in a particular economic condition that may affect the lender's ability to repay its debt.

In research by Sabri Nurdin on "Application of the 5C Principles to Minimize the Risk of Bad Credit in Credit Distribution at PT Bankaltimtara Unit Samarinda". In providing credit at PT. Bankaltimtara Samarinda Unit Office also considers economic, social and political conditions. The assessment of conditions or prospects in the funded business sector is given great attention to minimize the risk of problematic credit. Economic conditions that are closely related to political factors, state laws and regulations, and other circumstances that can affect marketing are also taken into consideration.

Previous research by Nabila on "Application of the 5C Principles in Providing Retail Credit to Avoid Bad Credit at Bank BRI Gorontalo Branch" The results of this research strengthen previous research, stating that Bank BRI Gorontalo Branch has implemented the Conditions principle well. This bank tries to make it easy for customers who want to apply for KUR financing to support the capital of Retail KUR business actors who have quite large businesses. Condition assessment is carried out by adapting the environment to the type of business being run.

The economic conditions or circumstances of prospective debtors have a very important role in determining their ability to pay debts. This assessment includes the extent to which the prospective borrower's business can adapt to changes in economic conditions that may occur. In this context, evaluation of the condition or prospects of the business being guaranteed will be the main factor in efforts to reduce credit risks that may arise. A careful assessment of the prospects of the business to be financed is a proactive step to ensure that credit is provided by minimizing risks and taking into account potential economic dynamics.

The 5C principles are basically used as a guide for credit analysts in banking institutions, providing a basis for the decision-making process regarding granting credit. This is very important because banks must consider it seriously before providing credit to customers. For financial institutions, customers who meet the 5C criteria are considered excellent loan candidates and are worthy of receiving financing from the bank.

The five main aspects in the 5C principles, namely character, capacity, collateral, capital and economic conditions, are the focus of assessment for banks. Strong character reflects integrity and trustworthiness, the capacity to repay money reflects adequate finances, the existence of collateral provides security for the lender, strong capital indicates the availability of financial resources, and good economic conditions provide a positive external context.

Debtors or customers who meet these criteria are considered as potential partners to collaborate with banks or as individuals who deserve credit distribution. The 5C principles as a whole help banks identify potential lenders who are reliable and have the potential to successfully fulfill their financial obligations.

4. CONCLUSION

The 5C principles, which involve character, capacity, collateral, capital and economic conditions, have a crucial role in assessing credit provision. Strong character reflects integrity and trustworthiness, capacity to repay money reflects adequate finances, collateral provides security, capital indicates the availability of financial resources, and economic conditions provide a positive external context.

Research at Bank Mandiri, Bankaltimtara, and Bank BRI shows that character is a key factor in credit assessment. Debtors are expected to have an honest, responsible and "bankable" character. Capacity assessment involves evaluating a prospective borrower's business and ability to repay debts on time. Collateral, both bonded and untied, has an important role in minimizing the risk of non-performing loans. Apart from that, assessing economic conditions is also a major factor, considering its impact on the debtor's ability to pay debts.

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