

ANALYSIS OF RESTRUCTURING CREDIT FOR COMMERCIAL SEGMENT (CASE STUDY: COMMERCIAL RISK BANDUNG – BANK HORIZON)

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Abstract: *The purpose of this research is to analyze the performance of credit restructuring in the Commercial Segment of Bank Horizon in Commercial Risk Region Bandung. Region Bandung is included in the province of West Java with rank 4th of largest total Non-Performing Loan (NPL).¹ All over Indonesia. This study will examine the successes and failures in restructuring with different parameters to find out the success of restructuring by knowing which restructuring methods are most effective with the parameters of total outstanding, an average of Impairment Loss Reserves (CKPN)², Sustainability and Low Risk, while to examine failures in credit restructuring will be found out which factors are most influential with parameters Total Outstanding Non-Performing Loan (NPL), Sustainability or frequency occurred and High Risk. This research uses data analysis and qualitative methods, and for the objective result using Analytical Hierarchy Process (AHP) method with Super Decision Version 2.10 software. The results showed that the most effective restructuring method in the credit process is the rescheduling method, with an impact of 38.4%. At the same time, the results of research for the primary causal factor in the failure of restructuring is factored no willingness to pay with an impact of 41.6%.*

Keywords: *Restructuring, Credit, Non-Performing Loan (NPL), Banking, Analytical Hierarchy Process (AHP)*

¹ NPL (Non-Performing Loan) has arrears or late payment of principal and interest installments that have exceeded the payment limit for 90 days or more.

² CKPN (Impairment Loss Reserves) or The Allowance of Impairment Losses is Allowance for impairment of financial instruments by financial accounting standards (POJK Number 40 /POJK.03/2019)

Introduction

The development of lending credit for Sector Banking in Indonesia continues to grow in line with the increase of businesses. Credit needs in society continue to increase along with the increasing needs and desires of society itself; on that basis, why the Bank sector is critical in helping economic growth. Based on Statistik Perbankan Indonesia (Otoritas Jasa Keuangan, 2016-2019), Lending credit in Indonesia always increasing in the last 4 (four) years 2016-2019, the most significant growth in 2018 up to 12,5%. Not only credit growth but Non-Performing Loan (NPL) credit also increased.

According to Statistik Perbankan Indonesia (Otoritas Jasa Keuangan, 2016-2019), West Java is fourth place in Indonesia's biggest NPL. If the amount of NPL is compared with total portfolio credit in that region, the average value is around 3,33%, and it ranks 4th of 34 regions in Indonesia. The trend of NPL itself, almost every year, is increasing. It also explains that increasing a portfolio in a region can increase the amount of NPL. That is why restructuring is one of the critical jobs to rescue bad debt. Meanwhile, the Commercial segment in Bank Horizon has the third-largest portfolio credit with 19% of the total portfolio credit, but this segment also the largest percentage of NPL among all credit segmentation. See Figure 1.



Figure 1: Non-Performing Loan from each Segmentation Credit 2016 – Apr 2020

Source: Annual Report Bank Horizon (Data Process)

Based on Figure 1, it can be explained for the last four years; the commercial segment has the most significant contribution for NPL in Bank Horizon with an average of 9,95%. According to PBI NO.15/2/PBI/2013 The Bank is considered to have potential liquidation difficulties if the Bank has a net non-performing loans (NPL) ratio of more than 5% (five percent). According to Reinhart and Rogoff (2010) and Louzis et al (2012), non-performing loans can be used to be warning signal of banking crisis. Bank Horizon continues to consolidate improvements in credit quality to reduce NPL level and reduce the Cost of Credit. One of the efforts of the company is doing restructuring credit. The restructuring activity shows a wide disparity in borrowers' level of difficulties in paying loans (Negurita, 2017). Restructuring is not always successful. Some of the debtors have been restructuring but still downgrade collectability and turn to Non-Performing Loan (NPL).

Literature Review

Credit

Credit comes from "*Credere*" meaning trust, or in Latin is "*Creditum*" which means belief in the truth (Kasmir,2016). In this case, Trust is that the Bank believes what is given will be returned from another party by the agreement agreed upon by both parties. Meanwhile, according to POJK 40/2019, credit is the provision of money or bills that can be equal with it, based on the approval or borrowing agreement between the Bank and other parties that require the borrower to pay the debt after a certain period with interest.

According to Manurung and Raharja (2004) quoted from Setiyaningsih & Fariyanti (2015) based on empirical experience, under normal conditions bank credit covers approximately 70% of a bank's total assets. The greater the amount of credit given, the greater the risk that must be borne by the bank concerned. The assessment of a credit worthy or not to be given can be done by assessing all aspects that exist. Assessment with all aspects known as business feasibility study (Tavitri,2018).

Problematic Loans

Problematic loans are Having difficulties in settlement of obligations, both in the form of credit repayment and interest payments, a penalty of delay, and banks' costs that are the burden of debtors (Association of Bankers of Indonesia 2015:91). Gorter and Bloem (2002) argued that non-performing loans are mainly caused by individuals' wrong economic decisions and bad luck like unexpected price changes for certain products, Etc.

To anticipate the risk of non-performing loans, banks are required to form and set aside funds to cover the risk of loss to credit given to debtors (Fitriana and Arfinto,2015). The problematic credit will affect the ratio of bad debt, The Allowance of Impairment Loss (CKPN), and the Bank's profit (Ismail, 2010). Literature shows that non-performing loans may be caused by external or/and internal factors to banks (Evelyn Richard, 2011) and supported by research from Dwi Aesar (2016). Research results from Waqas, Fatima, Aryan & Arif (2017) indicate that credit risk is not influenced by only external factors but also by internal factors for example bad management. another Research from Shingjerji (2013) that GDP growth is external factors that has a positive effect on non-performing loans.

Method of Restructuring

According to Kumar in Kajiwa & Martin (2019), restructuring is to reorganize the financial assets and liabilities to create an advantageous financial environment for a corporate entity. According to POJK No. 40/2019, Credit Restructuring is an improvement effort by the Bank in crediting debtors who have difficulty fulfilling their obligations. Restructuring is one of the efforts of the Bank to handle problematic loans. (Giacinto Micucci & Paola Rossi, 2016) said that debtor that has been restructuring has more performance, analysis supports the hypothesis of restructured firms' superior performance. Restructuring is the most effective recovery method with the lowest risk according research from Ardhita (2020).

The restructuring method used is rescheduling, reconditioning, re-structuring, and combination (Ismail, 2010). Meanwhile, according to POJK No. 40/2019, restructuring methods can be carried out by decreasing interest rate, extended credit term, deduction of credit interest arrears,

deduction of credit Principal arrears, the addition of credit facilities; or Convert credit into temporary capital investment. The method of restructuring depends on the policy of the internal Bank. As research by Octav Negurita (2017) examines the restructuring methods used by banks in Romania that About 83 percent of restructuring is doing with changes of terms and conditions, the rest of the measures being made to refinance.

Factors Caused Non-Performing Loan

The restructuring certainly cannot be successful. Based on internal data at Bank Horizon, the factor is grouped into 4 (four): no willingness to pay, prospect business, internal management, and Inappropriate Restructuring Scheme. Meanwhile, in a study conducted by Evelyn Richard (2011), the cause of debtor downgrade to NPL on commercial banks in Tanzania is Diversification of funds/poor management of funds, weak credit analysis and the integrity of borrowers. Based on the result of Richard's research, borrowers' integrity is the third rank with 27% voted and has a frequency of downgrade is eleven times.

Research from Aballey (2009) states in Determinants of Non-Performing Loans in Commercial Banks quoted from Viswanadham, N & Nahid, B (2015). At the African Development Bank that causes non-performing loans is positively correlated to ineffective low credit appraisal and loan monitoring. Further, Kangimba (2010) studied in Standard Chartered Bank that the causes of non-performing loans are unwillingness of borrowers to pay back the loan, long-duration granted for repayment of loans, poor management, cheating in a declaration of collateral, lack of business skills, and high competition. Bad management indicates that positively associated with increases non-performing loans in the future (Anthony & Nakita, 2018). Support by Waweru & Kalani (2009) found that most banking crises because lack of skills amongst loan officers respectively.

Analytical Hierarchy Process (AHP)

Analytical Hierarchy Process (AHP) is an analytical method for decision-making problems. In the 1970s, Thomas L. Saaty developed Analytic Hierarchy Process (AHP) to solve various hierarchies; there are goals, criteria, and decision alternatives. AHP methodology have been expressed in several books and articles ([210] Vargas, 1990; [180], [182] Saaty, 1990, 2001b; [185] Saaty and Vargas, 2001).

The goal is the objectives of the research using some criteria or parameters. The first goal of this research is to determine the most effective restructuring method. Next, the criteria used are Total Outstanding, Average of CKPN, Sustainability of Restructuring, and Risk. Last, the alternatives used are Rescheduling, Reconditioning, Re-structuring, and Combination. The second goal of this research is to determine the most influential factors that cause failed restructuring. The criteria used are Total Outstanding NPL, Sustainability of frequency, and Risk. Last, the alternatives used are No Willingness to Pay, Business prospect, Internal management, and Inappropriate Restructuring Scheme.

Conceptual Framework

A conceptual framework is a form of thinking framework that can be used to solve problems. Figure 2 is the conceptual framework used in this study.

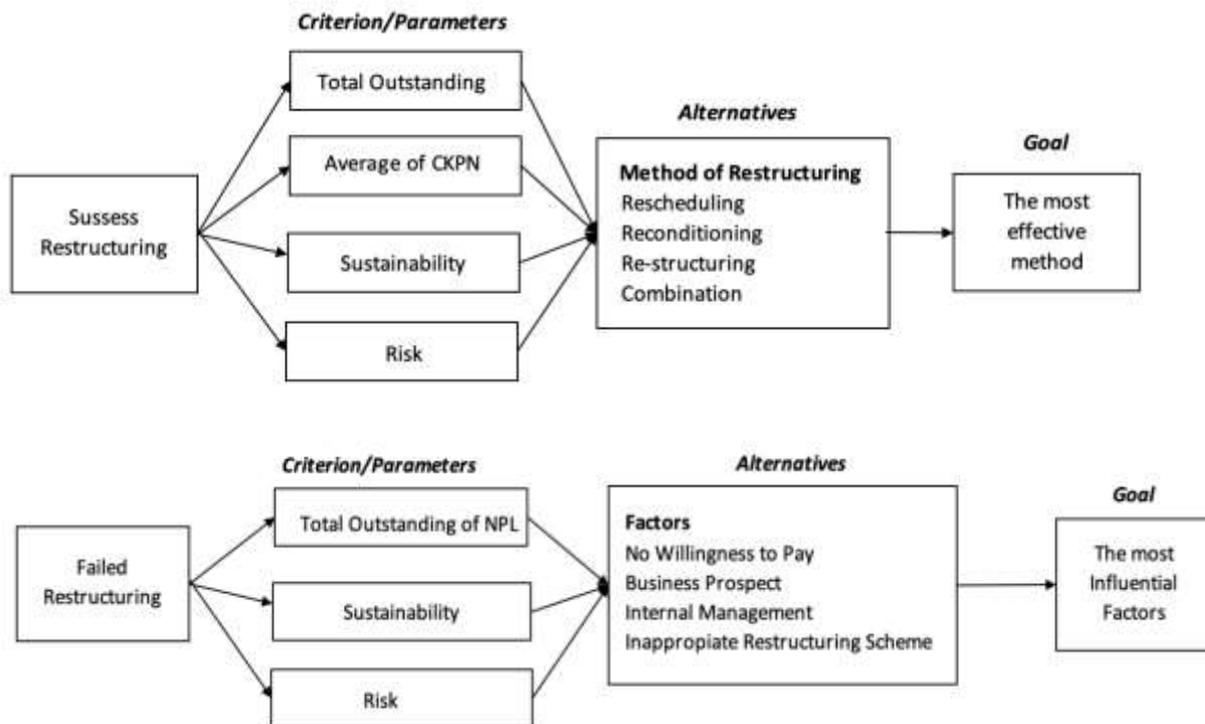


Figure 2: Proposed Conceptual framework

Source: Author's Interpretation

Research Method

This research used data analysis & qualitative methods with an in-depth interview. The qualitative research method analyzes and describes the phenomenon or research objects through social activities, attitudes, and perceptions of people individually or in groups (Sugiyono, 2017). The data analysis method evaluates the performance restructuring with some criteria for the period 2016 until Apr 2020. Meanwhile, an In-depth interview was chosen to gain the information through some research questions based on correspondent perspective, knowledge, and experience. After gaining results from the analysis of internal data and interviews, To get more objective decisions, this research using decision-making tools with Analytical Hierarchy Process (AHP) software using Super Decision Version 2.10. AHP is useful tools for making multicriteria decisions involving benefits, opportunities, costs and risks (Sipahi, Seyhan & Timor, Mehpare,2010).

Source of Data Analysis

Source for data analysis is from the internal data of the restructuring performance of Bank Horizon – Commercial Risk Unit Bandung period 2016 – Apr 2020, while the qualitative data gained from an in-depth interview with 8 (eight) experienced people in management level at Commercial Risk and Commercial Banking.

Result and Discussions

Analysis of Data Performance

Table 1: Restructuring Performance Based on Internal Data

No	Method of Restructuring	Total Outstanding (IDR)	Portion	Average Balance of CKPN		Sustainability
				Percentage	Parameter	
1	Combination	3.477.929.000.000	69%	22,1%	Medium	Average Decreasing
2	Rescheduling	423.017.000.000	8%	11,6%	Low	Average Decreasing
3	Reconditioning	1.124.150.000.000	22%	29,3%	Medium	Average Decreasing
4	Re-structuring	22.650.000.000	0,4%	47,9%	High	Average Increasing

Based on internal data from Bank Horizon, combination method has the highest total outstanding for the period 2016 – Apr 2020 because this method is most commonly used in the process of restructuring. For the second parameter, the lowest average of CKPN is the rescheduling method because this method does not decrease the restructured debtor's collectability. For the sustainability of the four methods, it can be said that all three methods each year experience a decrease in the value of CKPN, but the re-structuring method has low sustainability among the others. It can be concluded for performance restructuring based on the internal data is the Combination method.

No	Causes of Failure Restructuring	Outstanding NPL From 2016 - Apr 2020 (IDR)	Portion	Average From 2016 - Apr 2020 (IDR)	Frequency
1	Restructuring Scheme	57.849.000.000	4%	37.140.941.176	Rarely
2	Business Prospect	1.151.553.000.000	28%	270.953.647.059	Usually
3	No Willingness to Pay	1.688.023.000.000	42%	397.181.882.353	Often
4	Internal Management	1.068.878.000.000	26%	251.500.705.882	Rarely

Source: Author's Analysis (Data Process)

Based on internal data from Bank Horizon, for the performance of the most influential factor in failed restructuring with the parameters of total outstanding NPL is No Willingness to pay with 42% of the total NPL and for sustainability parameters seen how often those factors cause NPL downgrades is Business Prospect with frequency downgrade almost every year. However, if the author breakdowns again, the total debtor who downgrades because business prospect is nine debtors more than factor no willingness to pay only four debtors, so the result for second research based on internal data is factor business prospect.

Performance Risk Findings

Based on in-depth interview results, for the first research to find the restructuring method from lowest to highest risk, the first rank is Rescheduling, the second rank is Combination, the third rank is Reconditioning, and the last fourth rank is Re-structuring. For the second research to find the most influence factors, the first rank is No Willingness to Pay: The third rank is Business Prospect, the third rank is Internal Management, and the last rank is Inappropriate Restructuring Scheme.

Analytical Hierarchy Process (AHP) Result

Table 2: Result using AHP Analysis

Method of Restructuring	ideals	Normals
Rescheduling	1,00000	0,384414
Combination	0,815532	0,313501
Reconditioning	0,555158	0,21341
Re-structuring	0,230675	0,088675

Factor Causes of Failed Restructuring	ideals	Normals
No Willingness to Pay	1,00000	0,415665
Business Prospect	0,845364	0,351389
Internal Management	0,368354	0,153112
Inappropriate Restructuring Scheme	0,192064	0,079834

Source: Analysis's Author from Super Decision V 2.10

From the results of the AHP matrix analysis in Table 2, a decision model is obtained, the highest rank from the first goal is the Rescheduling method with 38,4% impact, and the lowest rank is the Re-structuring method with 8,8%. Meanwhile, the second goal's highest rank is factored no willingness to pay with 41,5% impact, and the lowest rank is Inappropriate Restructuring Scheme with 7,9%.

So based on the AHP analysis result, the most effective restructuring method in the Commercial segment Region Bandung at Bank Horizon is Rescheduling Method, and the most influential factors cause of failed restructuring in the Commercial segment Region Bandung at Bank Horizon is factors No Willingness to pay.

Conclusions and Recommendation

Based on this study's results, it can be concluded that, First, the most effective restructuring method with criteria Total outstanding, lowest average of CKPN, sustainability, and low risk is the method of rescheduling. As seen from the performance during the last 4 (four) years, the rescheduling method is rated the least in the contribution of CKPN. Also, correspondents have this method as the lowest-risk method with high success. Second, the most influential factor that causes failure in restructuring with criteria Total Outstanding NPL, sustainability restructuring of frequency occurrence, and highest Risk is the No Willingness to pay factor. According performance over the last four years no willingness to pay factor has the largest Outstanding NPL, and most correspondent said that factor has the highest risk

Recommendations can be given to improve restructuring performance by monitoring end-to-end process credit at Horizon Bank. In the early stages, a guideline /reference such as Risk Acceptance Criteria (RAC) is made to assess the debtor's character because currently, the RAC is only to assess business prospects. The next stage in the post-restructuring credit monitoring process is creating a scoring tool as an early warning signal to withstand debtor downgrade collectability to Non-performing loans and maintain the quality of portfolio credit.

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