Research Article

Analysis of the Implementation of Credit Risk Management at PT. Pegadaian (Persero) Lhokseumawe Branch

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Abstract
This study aims to determine the effectiveness of implementing credit risk management at PT. Pawnshop (Persero) Lhokseumawe Branch. The type of research used is descriptive research with a qualitative approach by explaining the application of credit risk management at PT. Pegadaian (Persero) Lhokseumawe Branch has been effective. The analysis technique used in this research is the description stage. The data analysis method used in this research is qualitative data analysis where after the collected data is processed, it is then analyzed by providing an interpretation in the form of a description. The results showed that the application of credit risk management at PT. Pegadaian (Persero) Lhokseumawe Branch was ineffective due to fluctuations in bad loans from 2016 to 2018.

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1. Introduction
Non-performing loans (NPL) are the ratio or comparison between the number of non-performing loans and the total loans disbursed. An increase in NPL will greatly affect an institution's financial performance and economic development. Economic development is the most important thing in the economy of a country. Economic development is an effort to improve and maintain an increase in per capita gross domestic product by taking into account population growth and improving a country's economic structure to achieve people's welfare.

Several factors can increase the well-being community, one way is to increase economic activity. Developing these economic activities certainly requires a source of funds. One source of funds needed for the development of these economic activities is credit. The credit function includes helping community businesses that need funds for investment and working capital. So that it can assist in developing and expanding its business, economic stability, to increase income distribution. Where credit can be given by financial institutions. A financial institution is any company engaged in the financial sector, collecting funds, channeling, or both. In practice, financial institutions consist of two, namely bank financial institutions and financial institutions. Both of these institutions have a function and role as intermediaries between people who have excess funds and lack funds.

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Pegadaian is part of a financial institution (institution non-bank finance) that provides loan facilities with certain guarantees. Where the amount of the collateral value will affect the loan amount. Two things make pawnshops a typical non-bank financial institution business form. First, the financing transactions provided by the pawnshop are similar to loans through bank credit but are regulated separately based on pawn law and not with regulations regarding ordinary borrowing. Second, the pawnshop business in Indonesia is legally monopolized by only one business entity, namely PT. Pawnshop.

In general, the ideal goal of PT. Pegadaian is the provision of funds with a simple procedure to the wider community, especially the lower middle class for various purposes, must accept and manage various types of financial risks effectively so that various risks do not occur. The risk that must be accepted by a financing institution is the possibility of an event or series of events that may result in failure or something that may even be detrimental to the company itself.

To minimize the risks that may occur, the pawnshop is required to take steps to prepare for the implementation of risk management. For this reason, the Financial Services Authority stipulates regulation no. 52/SEOJK/2017 concerning Implementation of Risk Management at Pawnshops. Companies must develop and implement company guidelines in carrying out pawnshop business activities. Implementation of Risk Management aims to avoid losses caused by the occurrence of a risk. Risk Management is a field of science that discusses how an organization applies measures in mapping various existing problems by placing various management approaches comprehensively and systematically. The focus of risk management is to identify, manage and control risks as well as possible.

PT. Pegadaian (Persero) Lhokseumawe Branch, is inseparable from various risks that can result in business failure at pawnshops. For this reason, PT. Pegadaian (Persero) Lhokseumawe Branch is required to implement Risk Management in carrying out daily operations to comply with the regulations of the Financial Services Authority and provide added value to the pawn shop itself. This research is only focused on the credit risk of PT. Pegadaian (Persero) Lhokseumawe Branch. Credit is a business unit that has a high level of risk, due to various factors such as economic changes or other environmental conditions that can cause problem loans. Credit risk is still very dominant compared to other risks. PT. Pegadaian (Persero) Lhokseumawe Branch is a financing institution that earns income from capital leases paid by borrowers and comes from fees paid by customers for obtaining certain services.

Most credit risks are inseparable from bad credit. For this reason, below the researchers attach data about bad loans at PT. Pegadaian (Persero) Lhokseumawe Branch for the last three years:

<table>
<thead>
<tr>
<th>No</th>
<th>Year</th>
<th>Ending balance</th>
<th>Total Credit Realization</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2018</td>
<td>1,395,491,235,100</td>
<td>1,499,305,548,021</td>
<td>0,93</td>
</tr>
<tr>
<td>2</td>
<td>2019</td>
<td>1,194,036,953,087</td>
<td>2,798,215,389,075</td>
<td>0,04</td>
</tr>
<tr>
<td>3</td>
<td>2020</td>
<td>17,989,644,139,27</td>
<td>1,403,217,110,276</td>
<td>1,28</td>
</tr>
</tbody>
</table>

Source: PT. Pegadaian (Persero) Lhokseumawe Branch

In 2018 the total debit balance (final balance) was IDR 1,395,491,235,100 while the total credit realization is Rp.1,499,305,548,021 the percentage of bad loans is 0.93% of the total credit. Whereas in 2019 the total debit balance (final balance) was IDR 1,194,036,953,087 while the total credit realization was IDR 2,798,215,389,075 the percentage of bad loans is 0.04% of the total overall credit. And in 2020 the total debit balance (final balance) was IDR 17,989,644,139,27, while the total credit realization was IDR 1,403,217,110,276, and the percentage of bad loans was 1.28% of the total credit. Based on these data, bad loans from 2018-2019 have decreased, this is due to better economic conditions so that the businesses of most debtors can provide more profits and can pay off their obligations on time, that it is caused by the willingness factor and high awareness of debtors in paying their obligations.
Whereas in 2020 there has been a significant increase, this is because the businesses run by debtors have not brought much profit, which has affected the ability of some debtors to pay off their obligations and the debtor's lack of awareness in paying their obligations. Based on the background described above, has the implementation of risk management been implemented effectively? Therefore the writer is interested to conduct research in a later proposal, with the title "Analysis of the Application of Credit Risk Management at PT. Pegadaian (Persero) Lhokseumawe Branch".

**Literature Review**

**Management of Risk**

Management of risk is a set of policies, and complete procedures, which belong to the organization, to manage, monitor and control the organization's exposure to risk. (Mamduh 2018: 18). According to Leo Victor (2018: 50) Risk management is setting targets and seeing or predicting any events that can interfere with achieving targets. Risk management aims to create and protect value, risk management improves performance, encourages innovation, and supports goals. Risk management improves performance, drives innovation, and supports goals. The principles of risk management guide how to characterize effective and efficient risk management, too convey the values it contains, and explain its aims and objectives. These principles are the basis for managing risk and should be considered when establishing a risk management process.

Effective risk management requires the following elements:

a. Integrated
   Risk management is an integral part of all organizational activities.

b. Structured and thorough
   A structured and comprehensive approach to risk management provides consistent and comparable results.

c. Tailored to the needs of its users
   Risk management frameworks and processes must be tailored to their users and comparable to internal and external contexts, as well as to related objectives.

d. Inclusive
   Adequate and timely involvement of stakeholders will make them willing to share their knowledge, views, and perceptions to be taken into consideration. The result of this process is the increased awareness of related parties and the implementation of mature risk management.

e. Dynamic
   Risks can emerge, change or disappear when there is a change in the external or internal context.

**Credit**

Credit comes from the word credere, which is Italian and means to believe, credit is the provision of funds or bills based on a loan agreement for a certain period so that the pawnshop (as a provider of funds) with another party (as a borrower or who needs funds) is based on trust.

According to Rivai (2013), the term credit comes from the Latin credo which means I believe and believe or I give trust. According to Raymont (2013) credit is the authority to receive payments and is obliged to make payments on time or at the right time will come due to the present gift of goods. Credit is a financial facility that allows a person or business institution to borrow money to buy a product and pay it back within a specified time. The credit financial system facilitates the transfer of capital from owners to users with expectations of receiving benefits. Credit is given based on the person's belief in the skill and honesty that he sees. According to Malay and Hasibuan (2013), credit is trust, namely trust and creditors and debtors will repay the loan interest following the loans of both parties.
Ismail (2010) defines credit, which is confidence in the ability of the beneficiary or debtor to pay a sum of money with an agreement or agreement that has been determined by the bank for the future. Provision of results (services) by one party to another within a certain period with money as a counter-performance (reward) Anwar (2012).

**Framework**

In simple terms, the framework of thought in this study is shown in the following chart:

![Figure 1. Framework](image)

**Analysis Techniques**

The data analysis method used in this study is qualitative data analysis where after the data is collected it is processed and then analyzed by providing an interpretation in the form of a description. Qualitative data analysis consists of three stages, namely:

1. **Stage Description**
   - In the description stage, two problems will be discussed, namely the first identification of what problems are being studied and providing problem boundaries in research, in this case, related to the research variables being studied.

2. **Reduction Stage**
   - The reduction stage is the process of limiting the problem to recovery and determining the research focus.

3. **Selection Stage**
   - The selection stage consists of data collection, data management, theory emergence, and research reporting as a whole by taking action from the research results that have been carried out during the research.

**Results and Discussion**

**Research result**

1. **Results of interviews from the pawnshop**
   - Data from the results of this study were obtained by conducting interviews and observations from June to July 2019. Based on interviews conducted by researchers with informants, the following interview transcripts can be seen:

   "The results of the researcher's interview with the credit analyst pawnshop at PT. Pegadaian (Persero) Lhokseumawe Branch" (Result of interview, Mr. Budiman, January 11, 2023)

   - Based on in-depth interviews conducted by researchers with informants about whether in granting credit to PT. Pegadaian (Persero) Lhokseumawe Branch emphasizes the 5C principle. The informant answered as follows:

     One of the stages of financing that must be passed by the pawnshop is financing analysis using the 5C principle. To gain confidence that the prospective debtor will be able to pay off his credit, a
credit analysis must be carried out based on the basic principles of credit analysis, namely the 5C principle (Result of interview, Mr. Usman, January 13, 2023). Principle 5c consists of:

a. Character

Character describes the character and personality of the prospective debtor. Pegadaian needs to analyze the character of the prospective debtor to know that the prospective debtor has the desire to fulfill the obligation to pay off the loan until it is paid off. Pegadaian's willingness to repay from the prospective debtor, namely the pawnshop's belief in the prospective debtor that the prospective debtor is willing to fulfill his obligations according to a predetermined period. Pegadaian wants to know that the prospective debtor has good character, is honest, have a commitment to repayment of credit that will be received from the pawnshop. The way that needs to be done by the pawnshop find out the character of the prospective debtor is to conduct in-depth research on the prospective debtor.

b. Capacity

Analysis of this capacity is intended to determine the ability of prospective debtors to fulfill their obligations according to the credit period. Pegadaian needs to know with certainty the ability of the prospective debtor to fulfill obligations if the pawnshop provides credit. The ability of prospective borrowers is very important because it is the main source of repayment of credit provided by pawnshops.

c. Capital

Capital or capital that needs to be included in the credit object needs to be analyzed more deeply. Capital is the amount of capital owned by the prospective debtor or the number of funds that will be included in the project financed by the prospective debtor. The greater the capital owned and included the collateral provided by the prospective debtor for the proposed credit. Collateral is the second source of payment, meaning that if the debtor cannot pay his installments and is included in bad credit, the pawnshop can execute the collateral. The proceeds from the sale of collateral are used as a second source of payment.

d. Condition of economy

The condition of the economy is an analysis of economic conditions. Pegadaian considers the business sector of the prospective debtor with economic conditions, and whether these economic conditions will affect the prospective debtor's business in the future.

e. Collaterals

Collateral has another name, namely guarantee or collateral in a credit transaction. Collateral itself is a term related to a valuable asset belonging to the borrower to be given to the lender as collateral.

Pegadaian applies the 5C principle in analyzing its credit to protect creditors, and also as a way to minimize credit risk. This principle is also used as a benchmark by creditors if at any time the debtor cannot return the funds that have been given by the creditor, and The pawnshop can immediately execute the guarantee without having to get a legal ruling from the court. Company location PT. Pegadaian (Persero) Lhokseumawe Branch is not difficult for customers to visit, because this location stands near residential areas where residents live, close to the Presidential Instruction market (Pasar Pagi), and is passed by many people. This pawn shop is on the side of the road.

The location of the establishment of this company is quite strategic, the location of the company is in a crowd, and the route that is passed by vehicles around the company is quite easy. Judging from the design or condition of the corporate building, PT. Pegadaian (Persero) Lhokseumawe Branch has a one-level building with a large yard and a waiting room for customers as well designed as possible. At the front, there is a security post to ensure the safety of the pawn shop and serve customers who have just arrived at the place. The cleanliness of the building is quite well maintained due to the use of a cleaning service and trash bins are provided in every corner of the room.
The number of employees at PT. Pegadaian (Persero) Lhokseumawe Branch has six people, namely unit heads, credit analysts, cashiers, and warehouse holders. The unit head is named Syamsul SE, the credit analyst is named Irmayanti SE, the cashier is named Luqmanika and the warehouse holder is Zulfadli. All employees are very friendly and very enthusiastic about serving customers. Customers at PT. Pegadaian (Persero) Lhokseumawe Branch, Mondays, and Saturdays are very busy, so customers who have different hands are busy. But if other days the customers who come are not as busy as Monday and Saturday.

**Discussion**

Bad credit or commonly known as Non-Performing Loan is the ratio of the ratio between the number of troubled loans to the total loans realized. An increase in NPL will greatly affect an institution's financial performance and economic development. The risk management process is a series of systematic steps to help target owners manage opportunities and threats for target achievement in a systematic, measurable, and controlled manner.

In general PT. Pegadaian (Persero) Lhokseumawe Branch follows the 5C principle in lending so that the loans provided by financing institutions are of high quality and follow their business fields. To minimize risks that may occur, Pegadian is required to take preparatory steps from a series of risk management implementations, and guidelines for implementing risk management for the financial services authority stipulate regulation NO.52/SEOJK/20117 concerning the application of risk management at pawnshops.

The important thing for the pawnshop to do before making a credit agreement with the debtor is to carry out an in-depth examination of faith goods and the debtor's ability to return credit or financing so that the pawnshop gains the confidence to provide the credit or financing in question. This confidence is obtained from the results of credit assessment before credit is disbursed. Credit assessment or analysis by the pawnshop can be carried out in various ways to gain confidence about the debtor, such as through the correct procedures, in assessing the criteria and aspects of the assessment remains the same, and with the established standards it has become a standard of assessment.

Criteria for the assessment/examination that must be carried out by PT. Pegadaian (Persero) Lhokseumawe Branch to get customers who are truly profitable and able to pay their credit, is carried out by analyzing aspects that have come to be known as the 5C Principle including:

- **Character** is a belief that the nature or character of the person to be given credit is truly trustworthy. This is stated in the customer's background, both work and personal, such as the way of life or lifestyle he adheres to, family circumstances, hobbies, social, morals, and honesty of credit applications.

- **Capacity (Ability)**, to see the customer's ability to control the business, which is linked to his education, ability to comply with government regulations, lead, master the field of his business, and the seriousness of the future perspective, so that the application business goes well and provides a profit, and in the end can return the credit he received.

- **Condition of economic (economic conditions)**, namely the political situation, social, economy, a culture that can affect the state of the economy at a certain time and period, where credit is given by pawnshops to debtors, including the business prospects of the sector being run, must be business prospects that have good prospects so that the possibility of the credit relatively small problem.
With this principle used at PT. Pawnshop (Persero) Lhokseumawe branch in providing credit so that the risk of bad credit can be minimized. In addition, it is necessary to carry out procedures for granting credit which include credit applications, credit analysis, credit decisions, credit agreements, and credit disbursements. In addition to fulfilling the principles and procedures for giving credit, the credit granting system at PT. Pegadaian (Persero) Lhokseumawe Branch as follows:

1. The customer submits a credit application complete with supporting documents such as (the husband and wife's KTP, BPKB, STNK, Business License, Card Family, and Business Location Plan)

2. The application is processed by the Micro Team after the data is collected completely required. The process begins by requesting debtor information data by conducting visits to business locations (on the spot), interviews, and collateral valuation.

3. Then an analysis/assessment of creditworthiness is carried out by the analyst credit based on the data that has been obtained and the results of site visits as well as interviews. The analysis is poured into a report. Credit appraisal is also known as credit appraisal or credit recommendation.

**Credit Analysis Stage**

At this stage, the pawnshop officer, namely the estimator, conducts a survey place of business and residence. This is done to analyze the feasibility of the prospective customer's business. The 5C analysis carried out is:

- **a. Character**
  This assessment is based on the background regarding the prospective customer, coming to the customer's place to see where he lives

- **b. Capacity**
  This assessment is seen from the ability of prospective customers to be able to pay installments that have been determined by the company according to the period which has been specified.

- **c. Capital**
  This assessment is seen from the capital owned according to the criteria Micro-entrepreneur

After this analysis phase is carried out, the results of the analysis are obtained. If the results of the analysis show that the prospective debtor's business is eligible for credit, provided that it fulfills the credit conditions and shows that the prospective debtor's business is following the information provided, then the credit application can be realized as soon as possible. Then the results of the analysis are given to the Head Manager of the Branch office to find out whether the credit is approved or not. 52/SEOJK/20117 concerning the application of risk management in pawnshops. The important thing for the pawnshop to do before making a credit agreement with the debtor is to carry out an in-depth examination of the goodwill and ability of the debtor to return credit or financing so that the pawnshop gains the confidence to provide the intended credit or financing. This confidence is obtained from the results of credit assessment before credit is disbursed. Credit assessment or analysis by the pawnshop. This can be done in various ways to gain confidence about the debtor, such as through the correct procedures, in assessing the criteria and aspects of the assessment that remain the same and with the standards set have become the standard of assessment.

Criteria for the assessment/examination that must be carried out by PT. Pegadaian (Persero) Lhokseumawe Branch to get customers who are truly profitable and able to pay their credit, is carried out by analyzing aspects which are then known as the 5C Principle including Character (Character), a belief that the nature or character of the person to be given credit can be trusted. This is stated in the customer's background, both work and personal, such as the way of life or the
lifestyle he adheres to, family circumstances, hobbies, social, morals, and the honesty of credit applications.

Capacity (Ability), to see the customer's ability to control the business, which is linked to his education, his ability to comply with government regulations, to lead, to master the field of business, the seriousness of the future perspective, so that the business application run well and make a profit, and in the end be able to return the credit it receives.

Capacity (Capital), namely capital from credit applications, for developing its business, to see whether the use of capital is effective, seen from the financial statements (balance sheet and profit and loss statement) by making measurements such as in terms of liquidity, and solvency, profitability and other measures. Capital must also be seen from any source of existing capital.

Collateral, is wealth that can be tied up as collateral, for the certainty of repayment at a later date, if the recipient of the credit does not pay off the debt. Collateral should exceed the amount of credit given. The validity of the guarantee must also be examined, so that if problems or bad credit occur, then the guarantee that is deposited will be able to be used as soon as possible, the guarantee is not only in the form of material but can also be in the form of a personal guarantee.

Conditions of economics, namely political, social, economic, and cultural situations that can affect the state of the economy at a certain time and period, where credit is given by pawnshops to debtors, including the business prospects of the sector being carried out, must be business prospects that truly really have good prospects, so the possibility of a credit problem is relatively small.

With this principle used at PT. Pawnshop (Persero) Lhokseumawe branch in providing credit so that the risk of bad credit can be minimized. In addition, it is necessary to carry out procedures for granting credit which include credit applications, credit analysis, credit decisions, credit agreements, and credit disbursements. In addition to fulfilling the principles and procedures for granting credit.

1. Credit Analysis Stage

At this stage, the pawnshop officer, namely the estimator, conducts a survey place of business and residence. This is done to analyze the feasibility of the prospective customer's business. The 5C analysis carried out is:

a. Character
   This assessment is based on the background regarding the prospective customer, coming to the customer's place to see where he lives

b. Capacity
   This assessment is seen from the ability of prospective customers to be able to pay installments that have been determined by the company according to the period which has been specified.

c. Capital
   This assessment is seen from the capital owned according to the criteria of micro-entrepreneur.

d. Collateral
   Is a collateral that is intended as a source repayment of credit if the customer experiences difficulty in fulfilling his obligations at a later date

e. Condition Of Economics
   This assessment is seen from the economic conditions that are likely to get affect the smooth return of credit that has been given.

After this analysis phase is carried out, the results of the analysis are obtained. If the results of the analysis show that the prospective debtor's business is eligible for credit, provided that it fulfills the credit conditions and shows that the prospective debtor's business is following the information provided, then the credit application can be realized as soon as possible. Then the
results of the analysis are given to the Head Manager of the Branch office to find out whether the credit is approved or not.

2. Credit Decision Stage
   At this stage, the Head Manager of the Branch office receives documents on the results of the analysis that has been carried out by the appraiser. From the data obtained, the head of the branch office manager decides on the credit application submitted by the prospective debtor, whether the credit is accepted or not.

3. Implementation Stage
   At this stage, the Head Manager of the Branch office approves the Credit Application submitted by the prospective debtor, so the prospective debtor signs a credit contract or agreement. Such as payments made through installments and agreements if the prospective debtor cannot fulfill his obligations after the specified time limit, then the collateral will be auctioned. After the contract or agreement is approved by both parties, then the Head Manager of the branch office provides credit approval documents to the cashier for the disbursement of funds.

   The number of bad loans at PT. Pegadaian (Persero) Branch Lhokseumawe in the last three years, namely in 2016 it was 0.93%, in 2017 it was 0.04% and in 2018 the percentage of bad loans increased to 1.28%. From the analysis of the percentage data on the number of bad loans at PT. Pegadaian (Persero) Lhokseumawe Branch, it is known that the number of bad loans fluctuates, so the application of credit risk management.

4. Conclusion and Suggestions
   Overall, the application of credit risk management at PT. Pegadaian (Persero) Lhokseumawe Branch in extending credit uses the 5C principle to minimize the occurrence of bad credit. The application of credit risk management at PT. Pegadaian (Persero) Lhokseumawe Branch is ineffective, this can be seen due to fluctuations in the number of bad loans from 2018 of 0.93% to 0.04% in 2019 but in 2020 the percentage of bad loans by 1.28%.

   Based on the conclusions obtained in this study, suggestions are proposed that can be given to PT. Pegadian (Persero) Lhokseumawe Branch as a complement to the research results as follows:
   - Improving the ability of employees in a risk management work unit through various training.
   - The pawnshop must conduct a credit analysis in a structured, thorough, and objective manner as well as carry out periodic supervision to prevent problem loans from occurring and to create effectiveness in providing credit, minimize irregularities that may be committed by the debtor, so credit monitoring should be carried out directly and indirectly.

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