

Risk Mitigation Strategy for Problematic Mortgage Financing at Bank BTN Syariah KCPS Probolinggo 2020-2023

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Abstract

Home ownership credit (KPR) financing is one of the mainstay products offered by financial institutions to meet the needs of the community for housing. However, the increase in the number of problematic KPR financing can bring significant risks to banks and financial institutions. This study aims to identify and evaluate effective risk mitigation strategies in dealing with problematic KPR financing. The research methods used include literature studies and interviews with practitioners in the banking sector. The results of the study indicate that risk mitigation strategies can be grouped into several categories, such as stricter credit analysis, increased communication with customers, application of technology for risk monitoring, and development of restructuring programs for customers who experience payment constraints. In addition, customer education regarding financial management and the importance of planning before taking a KPR has also proven effective in reducing risk. This study is expected to provide input for financial institutions in formulating better policies and strategies to face the challenges of problematic KPR financing, as well as supporting the sustainability and stability of the banking sector as a whole.

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INTRODUCTION

Banks are institutions that collect funds from the public and then channel them back to improve people's welfare. Currently, banks function as intermediary financial institutions that play an important role in development. Because of this major role, supervision of banks needs to be carried out intensively to ensure that the process of collecting and distributing funds can run in accordance with development goals. In Indonesia, the banking system uses a dual banking system, which includes conventional banks and Islamic banks. This was emphasized in the changes to banking through Law No. 7 of 1992, which was later strengthened by Law No. 10 of 1998 concerning banking. Initially, the Indonesian people were more familiar with and utilized the services of conventional banks, until Islamic banks emerged as an alternative (Prasetyaningrum et al., 2021). In general, Islamic banks and conventional banks carry out the same technical functions. However, both have many differences in characteristics, such as in the legal aspects and contracts used, profit and interest sharing mechanisms, dispute resolution, types of businesses financed, and their work environment (Zamroni et al., 2022).

Along with the rapid growth of banking institutions and the increasingly complex business activities of banks, this development has given rise to intense competition between conventional banking and Islamic banking. This increasingly tight competition encourages banks to be more careful in managing their business. However, risk remains an unavoidable part of all efforts made. Banking understands risk as something that can happen and have a negative impact on bank income and capital. To minimize this risk, banks must manage these risks well so as not to cause adverse impacts.

Therefore, Islamic banks need effective steps to reduce the risks arising from financing operations, namely through the implementation of risk management (Febrianto, Jadid, et al., 2022). Islamic banks need to manage risks properly, because if not managed properly, it can lead to mass financing. The high risk of financing indicates that the bank is facing financing problems. Problematic financing occurs when customers cannot fulfill their obligations, either because of their lack of intention, or because of difficulties that are actually experienced by the customer.

Islamic banks that operate based on sharia principles obtain revenue from financing or funding activities that they carry out, one of which is BTN SYARIAH KCP PROBOLINGGO bank. Currently, BTN SYARIAH KCP PROBOLINGGO bank is carrying out activities to advance the progress of financing growth, namely by creating a home ownership credit (KPR) program with Islamic principles.

The mainstay product and much in demand by the community at BTN SYARIAH bank KCP PROBOLINGGO is the BTN SUBSIDIZED and NON SUBSIDIZED KPR product, which means a product that is given to customers if the customer wants a comfortable home according to sharia principles. In its mechanism, BANK SYARIAH KCP PROBOLINGGO KPR financing uses a murabahah contract or sale and purchase contract. The murabahah contract is a sale and purchase contract by notifying the price and profit in advance, then agreed by the seller and buyer.

Sharia mortgage is a mortgage loan that is given according to sharia principles. One of the advantages of sharia mortgage is that the amount of mortgage installments remains fixed until the end of the loan. This is different from conventional mortgages where the amount of installments can increase or decrease along with changes in credit interest (Febrianto, Widad, et al., 2022)

KPR (Home Ownership Credit) is a financing product that allows individuals to

buy a house by paying in installments. In this context, it is important for financial institutions, such as BTN Syariah Bank, to apply the principle of prudence in distributing KPR. Debtor eligibility assessment must be carried out selectively to avoid the risk of loss due to bad credit (Alhammadi, 2023).

Risks in mortgages are often triggered by various factors, such as macroeconomic conditions (inflation, rising interest rates, or declining economic growth) that can have a direct impact on the financial capabilities of customers. On the other hand, personal factors such as job loss, declining health, or sudden financial burdens can also affect customers' ability to repay their loans. This condition risks increasing the NPL ratio in banks, which ultimately has a negative impact on financial performance, capital reserves, and the reputation of financial institutions (Harismawan et al., 2023).

Therefore, a comprehensive risk mitigation strategy is needed to handle non-performing loans in mortgages. This mitigation strategy aims to reduce the impact of non-performing loans on the stability of bank performance (Wahyuningsih & Rojuaniah, 2023), while providing support to customers experiencing financial difficulties so that they can continue their payment obligations. Risk mitigation steps in mortgages include various stages, starting from initial risk identification, proactive monitoring of payments, credit restructuring, to periodic evaluation of the mortgage portfolio (Kharissidqi & Firmansyah, 2022).

By implementing appropriate risk mitigation strategies, banks can maintain the health of their mortgage portfolios, protect financial stability, and strengthen relationships with customers. Good handling of problem loans also plays a role in building a positive image for financial institutions in the eyes of shareholders, customers, and the wider community (Leal Filho, 2020).

RESEARCH METHOD

The method used in this study uses a qualitative method. Where the qualitative research approach the researcher acts as the main instrument in collecting data, which is usually obtained through methods such as in-depth interviews, participant observation, case studies, and document analysis. Through qualitative research, researchers can reveal a broader meaning of a phenomenon, understand the background that influences a person's behavior or views. Overall, qualitative research makes a significant contribution to the social sciences and humanities, especially in understanding aspects related to human behavior, social processes, and meanings constructed in a particular context.

FINDINGS AND DISCUSSION

very company that runs a business or business must face risks. Risk is the potential for an undesirable event that can occur in the future, including in the financial sector such as banking. In the banking industry, one of the risks that may arise is financing risk. This risk arises when customers fail to fulfill their obligations to pay installments to banks or financial institutions after maturity.

The form of financing risk that occurs in BTN Syariah KPR financing at the BTN Syariah KCPS Probolinggo branch was conveyed by Mr. Mochammad Rafsanjani as the sub-branch head, namely as follows: *"The financing risk is the risk of default, so customers do not make installment payments."*

According to Mr. Rafsanjani, the financing risk that occurs at BTN Syariah Bank KCPS Probolinggo comes from customers who do not make payments. Customers who do not make installment payments result in the risk of default and bad financing. In conditions like this, if one party is negligent, namely the customer is negligent in fulfilling the agreement between the two parties made at the beginning, it is called a default.

Bad debts caused by customers can occur either intentionally or unintentionally. Intentional bad debts are related to the character of customers who do not have good intentions to pay off their obligations, even though they are financially able to pay. Meanwhile, unintentional bad debts are usually caused by external factors that cause customers to lose the ability to fulfill their obligations.

From the results of the interview with the sub branch head of BTN Syariah Bank KCPS Probolinggo, Mr. Mochammad Rafsanjani, he said: *"Every activity in banking certainly has risks, whether they arise from within or outside. We can manage risks if we have a strong and appropriate foundation, so they can be prevented, handled, or resolved properly. Mitigating existing financing risks, the risk mitigation process is very necessary and very important, and has become a mandatory procedure in banking."*

At BTN Syariah Bank KCPS Probolinggo, mortgage financing risk mitigation cannot be done directly by every relationship manager, account manager, or account officer. This mitigation process is carried out in stages and requires in-depth understanding. Therefore, competent human resources are needed who understand the risk mitigation process in mortgage financing. As a strategy, BTN Syariah Bank KCPS Probolinggo trains their human resources well so that they are able to recognize customer characteristics, analyze customer business activities, and obtain factual information related to customers while working in the field.

The next interview was conducted by researchers by exploring the process of risk mitigation of KPR financing by BTN Syariah KCPS Probolinggo bank to customers, what are the main factors that need to be done that can affect the course of risk mitigation. *"We carry out the process of customer profiling, sales process, financing process, and finally acc maintenance. The stages are identifying customers, making sales by explaining the procedures and processes of KPR financing, then the analysis process up to verifying customer character."*

In the 5C analysis, the eligibility of prospective customers can be evaluated through the following aspects: character, which is assessing the character of customers to understand their seriousness in fulfilling payment obligations, capacity, which is measuring the financial ability of prospective customers to pay their obligations to the bank, capital, which evaluates the capital owned or provided by prospective customers, condition of economy, which looks at the economic conditions of customers based on the business or work they have, collateral, which assesses the collateral that can be provided by prospective customers. In implementing risk mitigation strategies in BTN Syariah KCPS Probolinggo KPR financing, the banking party uses the five principles that have been explained..

The risk mitigation process in KPR BTN SYARIAH KCPS PROBOLINGGO financing is carried out by employees who have been equipped with a deep understanding of the financing risk mitigation procedure, because not all employees have the ability to carry out this task. This is due to the need for employees who can directly interact with prospective customers who apply for financing. This strategy is included in the risk mitigation efforts for KPR BTN syariah KCPS Probolinggo financing which focuses on internal bank factors.

Employees who are assigned to the field to carry out risk mitigation for prospective customers come from the mortgage and consumer head division. Furthermore, an employee performance evaluation is carried out to assess their ability to carry out risk mitigation procedures. This assessment determines whether the employee is able to carry out the task well or not, which will ultimately affect the results of the risk

mitigation process.

CONCLUSION

In conclusion, the risk mitigation implemented by BTN Syariah KCPS Probolinggo bank is a very important initial step in KPR financing. This step aims to anticipate and prevent the emergence of risks that can disrupt the smooth running of the KPR financing process. The BTN Syariah KCPS Probolinggo risk mitigation procedure is guided by the 5C principle, supported by special staff who have been effectively trained to carry out their roles in the risk mitigation process.

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