

## **Risk Analysis and Risk Mitigation in PT. BPR Artanawa**

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### **ABSTRACT**

The banking business is currently quite developed and is increasingly needed by the community. Banks as financial institutions play a role in enhancing the country's development because they can provide services in the form of credit to the public. The existence of credit from banks will certainly benefit the community because it can facilitate the acquisition of additional capital in their business activities. Bank Perkreditan Rakyat (Rural Bank herewith BPR) is a business entity that collects funds from the public in the form of savings and distributes them to the public in the form of credit or other forms in order to improve the standard of living of the people in general. The study reveals that using effective risk management properly lead to good financial performance of PT BPR Artanawa.

**Keywords:** bank, risk, mitigation, micro-finance

### **1. INTRODUCTION**

The The basis for management strategy and policies in managing and developing the BPR business are global economic conditions, applicable laws and regulations, government policies, determination of market share that has good prospects, and the established BPR Business Plan. In relation to Risk Management, improving the quality of human resources is a top priority, especially the Account Officer (AO).

Compliance with applicable regulations, application of the precautionary principle and sound credit principles in the implementation of lending must be carried out consistently so that the credit provided is always smooth, and avoids abuse of authority or deviant acts in extending credit, due to the slightest deviation. is the beginning of the emergence of a risk.

Rural Banks are one of the banks in Indonesia that exist and grow as a bank that is capable of business idealism with spiritual values that underlie its operations. To optimize its influence on consumer behavior in marketing products to its customers, the Bank needs to develop its marketing communication strategy by implementing integrated marketing communications, namely through advertising, self-selling, sales promotion, direct marketing and public relations. One of the goals of integrated marketing communications is to build the company's image to its customers. A strong image in this case is that the Bank can gain direct trust from consumers in achieving the goals previously set by the bank.

Rural Banks must be able to involve important activities between the Bank and its consumers, so that an agreement can be established in transactions that will build a good relationship in the present and in the future. Every company cannot escape its role as communicator and promoter. Therefore, companies must be more active in marketing their products or services to consumers

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by implementing integrated marketing communications properly. By combining all the elements of integrated marketing communications, the company seeks to improve long-term relationships and strengthen the company's image in the eyes of consumers and potential customers. Risk Mitigation is an effort to reduce or stop negative impacts or losses that have occurred. There is a relationship between risk management and internal control. The main meeting point is in the interest of taking preventive action or building an effective early warning system or alert system in the company, where various risks that may occur and their impacts can be identified, measured, and finally can be identified, minimized as small as possible.

The Allah SWT, BPR Artanawa is now able to win awards both at the level of the Bank Indonesia Kediri Office, East Java Regional OJK Office, National and International Levels by obtaining awards from both Bank Indonesia and an Award from Info Bank Magazine with a VERY GOOD predicate as well as receiving the GOLDEN AWARD in a row.

It all went through a very long and winding journey, Artanawa which was originally in the form of a cooperative starting November 11, 1991 and turned into a Limited Liability Company of the Artanawa People's Credit Bank (PT BPR Artanawa) by being ratified by a decision of the Minister of Law and Human Rights of the Republic of Indonesia with a Legal Entity Number. No. AH-46859.AH.01.01 dated 01 August 2008 and has been approved by Bank Indonesia No. 9/503/DPBPR/IDABPR/Kd on 20 August 2008.

The award that BPR Artanawa has received every year until now is proof that Artanawa is getting ahead and improving according to his motto, also thanks to the management of top management who use IT in facing the era of digitalization and marketing 4.0. BPR Artanawa now uses the ON Line network and is equipped with CCTV in its 7 (seven) cash offices, all of this to welcome the Digitalization Era and welcome the Marketing Era 4.0 which has been implemented by top management with Value HERO (Hope Empathy Open Mind).

The risks faced by BPR banks need to be managed appropriately because mistakes in management can impact on NPF (Non Performing Financing). The high level of NPF will be effect on the decrease in income received by the Bank and for the results received by the BPR depositors. Financing risk is the risk caused by failure counterparty in fulfilling its obligations.

There are two types risks of financing, namely internal and external risks. Internal risk is risks originating from the bank's own products, and external risks originating from customers. Environmental situation both internal and external banking has always experienced rapid development followed by increasing the complexity of the risks of banking business activities thereby increasing the need for sound bank governance practices (good corporate governance) and implementation of risk management which includes active supervision of bank management, policies, procedures and determination of risk limits, processes of identification, measurement, information system, and risk control, as well as internal control. The success of the BPR Artanawa interesting to be studied and need more elaboration so that the performance can be continued and be used for other BPR institutions.

## **2. THEORETICAL BASIS**

### **2.1. Credit Risk Analysis**

Before the bank decides to provide loan funds, usually the bank will make sure whether the prospective borrower is eligible or not to get a loan. For this reason, the bank will conduct a credit analysis first on the prospective debtor (Belás et al., 2015). The goal is to ensure that later credit disbursement can take place safely and there is certainty about repaying the loan (Bandyopadhyay, 2022). This is of course crucial for banks to do as an effort to avoid the risk of bad credit or non-performing loans (NPL).

Credit analysis is a study conducted to determine the feasibility of a credit application (Feng et al., 2021). The main purpose of the credit worthiness analysis is to gain confidence as to

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whether the credit applicant has the ability and willingness to fulfill their obligations to repay the loan. In fact, it's not just the principal loan, but also the interest in accordance with the agreement with the creditor (the bank).

Credit analysis is carried out by the bank with the aim that the credit provided reaches the target (Adem, 2022). In accordance with the agreement between the creditor and the credit applicant customer (Bandyopadhyay, 2022). While the purpose of the word directed can be interpreted that the credit given is used for the purpose as referred to in the credit application. And of course all of that is in accordance with the rules and agreements when hinted at in the credit agreement.

Usually credit analysis is carried out by bank employees who are assigned to analyze credit applications (Feng et al., 2021). Among them are account officers (AO), credit officers (CO), or credit analysts (CA). In carrying out the task of analyzing credit, an AO, CO, or CA is required to have technical expertise and skills (Adem, 2022). He must also have knowledge of a theoretical nature. They must also have adequate knowledge of economic, financial, management, marketing, technical, legal aspects, as well as have extensive knowledge of credit principles.

Of course, a credit analyst must also have a strong mentality and integrity. Credit analysis techniques must be carried out carefully and thoroughly (Pasigai & Rahmat, 2017). Also must always pay attention to or be guided by the applicable provisions. Both related to quantitative analysis and qualitative analysis which refers to the principle of prudence (prudential regulations).

In the world of banking, it is generally known that there are 3 basic principles in analyzing credit namely the 5C Principles, 5P Principles, and 3R Principles. All the basic principles have advantages and disadvantages.

The 5C principle includes: Character, Capital, Capacity, Condition, and Collateral. Each C are discussed briefly below.

The first C here is Character. The point is the character or nature of the customer (Elhusadi & Demirel, 2020). Both in personal life and in a work or business environment. There are several parameters that are considered in the analysis of this character. That includes aspects of character that are expected from prospective customers, namely responsibility, honesty, openness and no negative indications/speculation. Furthermore, it is still a matter of character, there is credit checking which is part of verifying the business character of prospective customers in dealing with creditors such as finance companies or banks (Ashique Ali & Subramanian, 2022). Then there is also trade checking. This relates to verifying the business character of prospective customers in running their business. Age also determines one's character. The older you get, usually a person will be more responsible. Likewise if the status is married, harmonious and have children. If someone already has dependents, they generally do not tend to speculate. Meanwhile, people who are divorced (disharmonious family) will have a greater risk of being single or married. Length of business and place of residence also determine character. Prospective customers who intend to cheat, usually have a tendency to move places. Meanwhile, the longer a person lives and works in a place, the environment will recognize the character of the prospective customer well. Then the attitude of responsibility in fulfilling obligations such as electricity bills, telephone bills, and others will be able to logically explain the source of income (Keuangan, 2019). That way, the credit survey/analyst team is sure of the debtor's ability to pay installments.

The second C is Capital. Capital is the amount of funds or own capital owned by prospective customers (Flögel & Gärtner, 2020). The greater the own capital in the company, the higher the sincerity of prospective customers in running their business and creditors will feel more confident in giving credit. Capital adequacy is needed considering that income and expenses are not stable every month, so customers need to have ready funds to face "minimum" periods or months. Such as financial readiness for childbirth (if the wife is giving birth), financial readiness for children to go to school, adequacy of savings if income is not fixed every month.

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The third C is Capacity. Capacity is the ability possessed by prospective customers in running their business in order to obtain the expected profit or work. The goal is to earn enough income to pay all installments or obligations every month, meet routine expenses, and daily living expenses every month (Essel, 2022). The things that are commonly used in checking capacity include; debt service ratio (DSR), debt burden ratio (DIR), income value based on payslips or savings accounts, turnover values based on savings/checking accounts, length of work as an employee, permanent or contract employee status.

The fourth C is Condition. The point is the political, social, economic, cultural situations and conditions that affect the state of the economy at a time (Adem, 2022). This condition is likely to affect the smooth running of the business or company where the prospective debtor works.

Finally is the fifth C, Collateral. Collateral is goods or objects submitted by the customer as collateral for the credit received. The collateral must be assessed by the creditor to find out the extent of the risk of the customer's financial obligations to the creditor. The risk of extending credit can be reduced in part or in whole by asking for good collateral from customers.

Apart from the 5C principles above, there is another 1C principle, namely Constraints. Constraints are limitations and barriers that do not allow a business to be carried out in a certain place. Limitations or obstacles that do not allow credit to be given. For example; the establishment of a gas station business in the vicinity of many welding workshops or brick kilns or loans to invest in pig farms in areas where the majority of the population is Muslim. Or it could also be credit for certain industries that have toxic and hazardous waste that will be rejected by the surrounding population.

Then the 5P Principles include: Party (group), Purpose (goals), Payment (source of payment), Profitability (ability to earn profits), and Protection (protection). Brief description for each Ps are presented below,

The first P is Party (Group). Party is trying to classify prospective debtors into certain groups according to their character, capacity and capital, by means of an assessment of the 3Cs.

Then the second P is Purpose. What is meant by purpose is the purpose of using the proposed credit (Tiwari et al., 2021). What is the real purpose of the credit, whether it has broad positive social aspects or not. How is the upstream linkage (backward linkage) and downstream linkage (forward linkage). Furthermore, the creditor/lender must also examine whether the credit is really being used for its original purpose.

The third P is Payment (Source of payment). After knowing the real purpose of the credit, it is necessary to estimate the possible amount of income that will be generated. So that the creditor can calculate the ability and strength of the debtor to repay the credit, as well as determine the method of payment and the credit repayment period.

The fourth P is Profitability (ability to earn profits). Profitability here is not only the profit achieved by the debtor, but also assessed and calculated the profit that will be obtained by the creditor if he gives credit to certain debtors (Tiwari et al., 2021). The comparison is that it is better to give credit to other debtors or not to give credit at all.

For example, certain debtors use bank services other than credit more often than other debtors. Apart from taking credit, certain debtors have deposits, often make remittances and so on. Then all of this will provide its own material and psychological benefits for creditors or banks.

Finally is the fifth P, Protection (protection). Protection is intended to anticipate unforeseen circumstances, the creditor needs to protect the credit he gives by asking for collateral or collateral from the debtor, even both the collateral and the credit are insured.

While the 3R Principles include: Returns (results achieved), Repayment (repayment), and Risk bearing ability (Ability to bear the risk). The first R is Returns (Results achieved). Returns means an assessment of the results to be achieved by the debtor's business after being assisted by a loan from the creditor (Pasigai & Rahmat, 2017). Whether the results achieved can cover the loan repayments and the debtor's business continues to grow or not. Returns here can also be

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interpreted as the profit that will be obtained by the creditor on the credit given to the debtor. Then the second R is Repayment (Payback). The creditor must assess how long it will take the debtor's business to repay the loan in accordance with the repayment capacity and whether the credit must be paid in installments or paid off all at once at the end of the period. Lastly is the third R, Risk bearing ability (ability to bear risks). Anything that is meant is where the creditor must know and assess the extent to which the debtor's business is able to bear the risk of failure if something unexpected happens (Kurniawan et al., 2023). By having strong capital, the debtor's business will usually be stronger in facing or winning competition with other parties. Besides that, the ability to bear risk is also on the creditor's side, namely by asking for guarantees or collateral from the debtor.

## **2.2. Risk Mitigation**

Mitigation is sustainable planning and action to be done to reduce the impact of the event even if there is a risk of unpleasant consequences (harmful) by action or performance (Belás et al., 2015). Risk mitigation is planned and implemented steps continuously carried out by the risk owner so that it can minimize the consequences of potential events that are detrimental to the owner risk. According to Darmawi, mitigation is reducing the magnitude risk or minimize the frequency of occurrence of the magnitude of the risk.

There are there are four risk aspects mitigation (Ali et al., 2020):

1. Risk Identification, identifying risks is done through symptom assessment risks for all of its products and bank operations. Not only about that, the bank ensures that a risk arises from banking products as well as new activities that have been undergoing an unpublished risk management stage.
2. Risk Measurement, Calculation of banking risk exposure as indications that apply the need to carry out the management stage correctly.
3. Monitor Risk, Monitoring risk is also carried out by way of tolerance to risk, adherence to internal limits, magnitude risk exposure, and outcomes from implementing compliance through policies based on established procedures.
4. Controlling risk, the solution minimizes the risk consistent with minimize the risk, exposure (exposure) to risk, and as well as the level of risk that can be achieved.

The purpose of mitigating credit risk is to try to minimize credit risk of lending to customers. The risk has several objectives, namely:

1. Identify and manage the risks that will be faced
2. Minimizing the potential impact of risks.
3. Protect the agency from influences that can stop the goal agency.
4. Improving agency performance and awareness and a sense of concern employees against risks.

## **3. RESEARCH METHODS**

The type of research used in this research is empirical legal research or in other terms it is usually called field research. Qualitative methods reveal in-depth facts based on scientific characteristics to understand something behind the phenomenon. The qualitative approach is general, flexible, and dynamic. So that it can be analyzed through the research process directly to informants to understand in depth the truth of the phenomena that occur.

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The research used is a qualitative approach where the main tools are human (human tools), meaning that it involves self-research as an instrument by taking into account the ability of researchers to ask, track, observe, understand and abstract as important tools that cannot be replaced by researchers who must be present in the field. to find the necessary data that is continuous, directly or indirectly, with the problem under study, where in this study the authors did not determine the length of time or day, but researchers continuously explored.

Data were collected using in-dept interview. Informants for the study were managers, credit analyst and marketing officers of BPR Artanawa.

#### **4. RESULT AND DISCUSSION**

The Effective risk management is an important component for the success of any banking organization. For most banks, loans are the biggest and most obvious source of financing risk. However, sources of financing risk are found in all Bank activities. In operational activities, BPR Artanawa is supported by fundraising products and fund distribution products. Product distribution of funds, which in this case is called financing, is carried out between the bank and partner customers by providing contributions in the form of funds or services. At BPR Artanawa there are 2 financing products, namely regular karo install credit.

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As for the types of risk prevention managers/entrepreneurs must increase knowledge about:

1. Technical skills, especially those related to the production process. Strived to use methods that can reduce production costs, for example with appropriate/modern technology.
2. Organizing skills, namely the ability to mix the right factors of production in doing business.
3. Leadership skills, namely the ability of the bank to achieve business goals and can be carried out properly and harmoniously by all in the organization. for that every leader is required to make a good work concept.
4. Make a business strategy, Creating a directed business strategy for the future, which includes a production strategy, financial strategy, HR strategy, operational strategy, marketing strategy, and research and development strategy. There are three objectives of this strategy, namely to keep making a profit, the future is still better than now and it remains stuck. Efforts made reliability analyze and predict conditions within and outside the scope of the organization.

Shift the loss to the insurance company, with the consequence every time you have to pay insurance premiums which will be expenses. Business risks, natural disasters, robbery, theft, and bankruptcy are risks that often occur in many companies, especially banks. There are still many banks that do not comply with Bank Indonesia Regulation (PBI) Number 11/25/PBI/2010 regarding amendments to PBI Number 5/8/PBI/2003 concerning bank obligations to implement risk management. Banks only focus on measuring returns without including risk calculations in making decisions.

Based on risk management is the process of anticipating risks so that losses do not occur to the organization. Then the calculation of risk management can be an added value, because the potential return obtained has been calculated to be greater than the potential risk of loss. Broadly

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speaking, the risks faced by banks consist of three types of risk, namely credit risk, market risk and operational risk. Credit risk is the biggest risk in the banking world. Credit risk can occur after starting with operational risk.

However, operational risk is often mistakenly identified as credit risk, or vice versa. Credit risk itself is caused by debtor defaults and loan concentrations while operational risk is caused by analysis errors, collateral binding and credit documentation. Therefore, the form of financial loss is caused by five things, namely the failure of the company's internal processes, human resource errors, system failures, losses caused by events from outside the company, and losses due to violations of applicable laws and regulations.

Sometimes this operational risk escapes the attention of banks. Banks are often late in identifying this operational risk and this can bring banks to bankruptcy. Therefore, banks need to calculate the level of operational risk. By calculating the maximum potential loss of operational risk, it is expected that operational activities will not cause losses beyond the ability of the bank itself. There are many approaches that can be used to calculate operational risk.

For the financing procedure at BPR Artanawa above, the financing procedure is not too complicated and lengthy, if the prospective customer receives the facility and has submitted the file to customer service, Bank Artanawa will immediately follow up. Even so, there are stages that must be passed to approve the proposed financing. It is felt that the financing procedure is very important to be carried out correctly and precisely so that there are no big risks that arise in the future.

## **5. CONCLUSION**

The financing application is the initial stage carried out by the prospective customer receiving the financing facility by including the terms and conditions in one document. At this stage, the bank can also identify prospective customers who are recipients of the facility through fulfilling the requirements submitted. At the beginning of submitting a financing application, the customer can come to the bank in person by bringing the complete requirements in the brochure or the customer can hand it over to Customer Service.

The Company's articles of association emphasize that the purpose and objective of establishing the Company is to do business in the field of people's credit banks with the main activities namely, collecting funds from the public in the form of savings and time deposits, and providing credit to small entrepreneurs and/rural communities.

With the existence of a financing procedure, prospective customers who receive the facility will definitely be properly selected if all the conditions set have been met. The financing procedure is the first step to protect the bank from existing risk threats. Artanawa, which was originally in the form of a cooperative starting November 11, 1991 and changed to the Artanawa People's Credit Bank Limited Liability Company (PT BPR Artanawa). PT. BPR Artanawa has provided the author with a lot of useful knowledge and experience in the future towards the world of work. During 1 month at PT BPR Artanawa, the author had the opportunity to find out about the financing process for customers, attended PT BPR Artanawa member development events, as well as credit application activities for prospective customers.

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