

Banks' Legal Responsibilities in Handling Non-Performing Loans: A Regulatory Perspective and its Implementation in Indonesia

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Abstract

Non-performing loans (NPLs) are a major challenge for the banking industry because they have the potential to threaten the financial stability of banks and the national economy. This study aims to evaluate the legal responsibility of banks in handling non-performing loans in Indonesia, focusing on the effectiveness of applicable regulations, such as the Banking Law, Financial Services Authority (OJK) regulations, and the application of Basel III principles. Through a normative-empirical approach and case analysis from several banks in Indonesia, this study finds that existing regulations are quite effective in reducing the number of NPLs if implemented with high compliance. However, there are operational, legal, and economic challenges that affect the optimal implementation of regulations. The study recommends improved risk management and better supervision to support banks in fulfilling their legal responsibilities regarding non-performing loans.

1. Introduction

In the banking industry, non-performing loans (NPLs) are one of the major challenges that must be managed properly. Non-performing loans are loans that experience payment obstacles from customers in accordance with agreed terms or schedules. The inability of customers to meet their credit obligations is often caused by various factors, such as unstable economic conditions, business factors, and negligence on the part of the debtor. As an entity that plays an important role in the economy, banks have an obligation to maintain credit quality so as not to burden

operations and maintain the health of the national financial system.

The management of non-performing loans is not only related to financial risks, but also has a far-reaching impact on banking and economic stability. When non-performing loans increase, banks will face difficulties in managing liquidity and capital, which can have a domino effect on the bank's overall financial performance. If not handled appropriately, the increase in non-performing loans can disrupt banking stability and threaten the national economy. In Indonesia, this phenomenon is of particular concern, especially when there is an economic crisis or weakening economic conditions, where the level of non-performing loans tends to increase.

The Impact of Non-Performing Loans on Bank Financial Stability and the National Economy Non-performing loans that are not handled properly can cause huge losses for banks, ranging from a decrease in revenue to the need to make larger capital reserves. On a national scale, if the number of non-performing loans in the banking sector is high, this can have systemic effects that affect overall financial health. Banks have to set aside some of their income to reserve credit losses, which means reducing the bank's ability to provide new loans. This will hinder the ability of banks to act as financial intermediaries that provide funds for productive activities in the economy.

In addition, the increase in non-performing loans can cause public distrust in the banking sector. Trust is a valuable asset for banks, and when that trust is disrupted, people tend to withhold their funds or divert their investments from the banking sector. This is where strong regulation and the legal responsibility of banks in handling non-performing loans are important to maintain economic stability and public trust in the national financial system.

From the above explanation, the main question that is the focus of this study arises, namely: What is the legal responsibility of banks in handling non-performing loans in Indonesia? This question aims to understand the role of banks as financial institutions in dealing with non-performing loans and how banking regulations regulate the process of handling them. Furthermore, this question also seeks to identify the challenges faced by banks in implementing these responsibilities, as well as analyze the extent to which existing regulations are able to reduce the number of non-performing loans in the Indonesian banking sector.

This article aims to provide an in-depth understanding of the legal responsibilities of banks in the management of non-performing loans, especially in Indonesia. This research will:

- 1) Explain the legal responsibilities carried out by banks in handling non-performing loans in accordance with applicable regulations.

- 2) Evaluate the effectiveness of existing regulations, such as the Banking Law, Financial Services Authority (OJK) regulations, and other provisions related to non-performing loans.
- 3) Identify obstacles faced by banks in implementing regulations and policies related to non-performing loans.
- 4) Provide recommendations to increase the effectiveness of regulations in supporting financial stability and managing non-performing loans.

This research is expected to contribute to banking industry players, regulators, and other stakeholders in understanding the importance of banks' legal responsibilities in dealing with non-performing loans and how proper management can contribute to the stability of the financial sector and the national economy.

2. Research Method

This study uses a normative-empirical approach to evaluate the legal responsibility of banks in handling non-performing loans in Indonesia. The normative approach focuses on analyzing the regulations that govern bank responsibilities, such as the Banking Law and provisions from the Financial Services Authority (OJK). On the other hand, an empirical approach is carried out through direct observation and case studies on several banks in Indonesia that handle non-performing loans. With this combination of approaches, the research is expected to be able to describe the relationship between regulations and their implementation in the field.

In collecting data, this study relies on regulatory data sources and secondary data, including the OJK's annual report which provides information on Non-Performing Loans (NPLs) and the level of bank compliance with regulations. Case studies are also conducted to enrich the empirical analysis by looking at the steps taken by banks in dealing with non-performing loans, such as credit restructuring and collection processes. The analysis technique used is a descriptive qualitative analysis with the support of quantitative data, where the results will provide a deep understanding of the effectiveness of regulations and the challenges faced by banks in their implementation.

3. Results and Discussion

Non-Performing Loan (NPL) Concept

Non-Performing Loans (NPLs) are loans that experience problems in repayment or payment in accordance with the agreement between the customer (debtor) and the bank

(creditor). In the banking industry, non-performing loans are one of the important indicators used to measure the quality of a bank's credit portfolio. When the credit provided is not paid on schedule, this indicates the existence of financial risks that have the potential to threaten the stability and liquidity of the bank. In general, non-performing loans are identified as loans that have been late in paying interest or principal for more than 90 days, according to international banking standards.

Non-performing loans are classified into several categories based on the difficulty of return. These categories often include:

- 1) Current: Loans whose interest payments are on time and show no signs of difficulty in repayment.
- 2) Special Mention: A credit that indicates the potential to experience payment difficulties in the near future.
- 3) Less Current (Substandard): Loans whose interest payments are in arrears and show signs of declining ability to pay.
- 4) Doubtful: Loans that are in arrears for a long time and show potential for default.
- 5) Loss: Loans that are actually uncollectible and are usually allocated as losses to banks.

These categories are important for assessing credit status and determining the steps that banks need to take to manage non-performing credit risk, from intensive monitoring to further resolution efforts.

Non-performing loans can arise from various factors, both from the customer's internal and external sources that affect the overall economic situation. Here are some common causes of bad credit:

- 1) Macroeconomic Factors: National and global economic conditions greatly affect the ability of customers to pay their credit obligations. When the economy experiences a recession, increased inflation, or currency exchange rate instability, people's purchasing power and corporate income can be affected. This causes customers to have difficulty paying their credit obligations, which results in an increase in non-performing credit scores.
- 2) Debtor Business Factors: The inability of debtors to manage their businesses properly is another fairly common cause. For example, a decrease in revenue, a decrease in market share, or poor business management can cause debtor companies to experience financial difficulties, which then results in an inability to pay credit installments.

- 3) **Internal Bank Factors:** Internal factors related to a bank's credit policy can also affect the quality of a credit portfolio. Overly lax credit policies, inaccurate risk assessments, or lack of monitoring of customers can increase the potential for non-performing loans. If banks do not carry out careful evaluations or do not apply the principle of prudence in granting credit, the risk of non-performing loans will be even higher.
- 4) **Financial Condition and Customer Behavior:** Individual or household factors, such as job loss, decreased income, or deteriorating health conditions, can affect a person's ability to pay credit. In addition, consumptive behavior or poor financial management also often causes customers to have difficulty in fulfilling credit obligations.
- 5) **Political Situation and Government Policy:** The government's fiscal and monetary policies, regulatory changes, or unstable political situations can have an impact on the business climate and economic stability. Policies that are less supportive of the business world or certain sectors can interfere with the performance of companies that are bank debtors, thereby increasing the risk of non-performing loans.
- 6) **Crises and Natural Disasters:** Crises such as pandemics, natural disasters, or other emergencies can cause significant financial losses for both companies and individuals. During the COVID-19 crisis, for example, many companies experienced a drastic decline in revenue, making it difficult to meet their credit obligations.

Non-performing loans have a significant impact on banks, ranging from a decrease in revenue to an increase in loss reserves. Banks need to allocate a portion of their revenue as reserves to cover potential non-performing loan losses, which could affect the bank's liquidity and capacity to channel new credit. In the long run, high non-performing loans can reduce public confidence in banks and cause systemic impacts that affect national economic stability (Suhardjono & Kuncoro, 2002).

To manage the risk of non-performing loans, banks generally implement various strategies, such as:

- 1) **Credit Restructuring:** Changing the terms of credit repayment to help debtors pay off their obligations in accordance with their new financial capabilities.
- 2) **Intensive Billing:** Take a specific approach to collecting payments from overdue customers.

- 3) Asset or Collateral Sale: Selling credit collateral to cover some of the losses incurred by the bank.

It is important to handle non-performing loans so that the risks faced by banks can be managed properly and do not cause a greater negative impact on the financial system as a whole (Siahaan, 2018).

Non-performing loans are one of the main risks faced by banks and the banking industry in general. Economic factors, debtor business management, internal bank policies, to changes in regulations and political situations, can all affect the occurrence of non-performing loans. Understanding the causes and impacts of non-performing loans is essential for banks to implement appropriate measures in risk management. With effective management of non-performing loans, banks can maintain their financial stability and support the national economy in a sustainable manner.

Legal Aspects of Non-Performing Loans

Non-Performing Loan (NPL) management not only requires technical handling from banks, but also has a strong legal basis regulated in various regulations in Indonesia. As a financial institution that plays an important role in supporting the national economy, banks are obliged to follow legal provisions in handling non-performing loans to ensure financial stability and health. In Indonesia, regulations related to the management of non-performing loans are regulated in the Banking Law as well as various regulations issued by the Financial Services Authority (OJK). This article will discuss the legal aspects related to the management of non-performing loans in Indonesia.

1) Banking Law

Law No. 10 of 1998 on Banking is the main foundation of banking law in Indonesia, which regulates various aspects of banking activities, including banks' obligations in maintaining the quality of the credit they provide. In the Banking Law, one of the main focuses is the application of the prudential banking principle, which requires banks to minimize risks in asset management, including non-performing credit risk.

- a. Prudential Principle: The Banking Law requires banks to apply the prudential principle in all of their activities, especially in the provision of credit. Banks must ensure that credit is provided with a careful analysis of the debtor's ability to repay the loan. The application of this prudential principle involves a thorough risk assessment, including a credit check of prospective debtors and an assessment of the collateral or collateral they have.
- b. Reserve Obligations: The Banking Law also stipulates that banks must reserve

funds to cover potential losses that may arise as a result of non-performing loans. This reserve is known as allowance for possible losses or non-performing loan write-off reserve. This step is important to ensure that banks remain adequately capitalized and do not incur excessive losses that could affect their financial stability.

- c. Rights and Obligations of Debtors and Creditors: The Banking Law explains the rights and obligations of both banks (creditors) and debtors. The Bank has the right to collect and take legal action if the debtor experiences default or fails to fulfill credit payment obligations. On the other hand, debtors also have the right to be transparent about their obligations and credit terms.

By adhering to the Banking Law, banks are expected to be able to manage non-performing loans in accordance with applicable legal standards, so that they can maintain their financial health and protect customers and the public.

2) Financial Services Authority (OJK) Regulations

As an institution tasked with supervising the banking and financial industry in Indonesia, the Financial Services Authority (OJK) has an important role in regulating the management of non-performing loans through various regulations (Mahmoedin, 2004). The OJK routinely issues regulations related to credit risk management, non-performing credit management, and other provisions that support the stability of the banking sector. Some of the relevant OJK regulations in regulating non-performing loans are as follows:

- a. OJK Regulation No. 42/POJK.03/2017 concerning Risk Management in the Use of Information Technology by Banks: Although the focus of this regulation is on the use of information technology, the risk management aspect includes the obligation of banks to identify and manage non-performing credit risks. The use of information technology in risk management can help banks monitor credit quality and detect potential non-performing loans early.
- b. OJK Regulation No. 17/POJK.03/2014 concerning Risk Management for Commercial Banks: This regulation stipulates provisions related to risk management for commercial banks, including credit risk. Banks are required to have effective risk management policies and procedures to identify, measure, and manage non-performing credit risk. This includes a policy on handling non-performing loans, which must be prepared in accordance with the bank's risk profile and management capacity.
- c. OJK Regulation No. 40/POJK.03/2019 concerning Asset Quality Assessment

of Commercial Banks: This regulation regulates the standards for assessing the quality of assets owned by banks, including loans disbursed. Non-performing loans, in accordance with these regulations, are classified based on a level of quality that includes current, in special concern, less current, doubtful, and stuck. This asset quality assessment helps banks to monitor the health of their credit portfolios and take preventive measures against potential non-performing loans.

- d. OJK Regulation No. 18/POJK.03/2016 on Credit Restructuring: This regulation provides guidance on credit restructuring procedures as a measure to rescue non-performing loans. Credit restructuring is an effort made by banks to provide relief to debtors so that they can continue their credit payment obligations in accordance with the debtor's latest financial condition. This restructuring process can include changes in payment schedules, interest rate reductions, or credit term extensions.

3) Implementation of Regulations in Non-Performing Loan Management

Regulations set by the Banking Law and OJK are a reference for banks in handling non-performing loans appropriately and in accordance with standards. The implementation of this regulation is expected to help banks manage credit risk effectively and maintain the quality of their credit portfolios to remain stable. The implementation of this regulation also provides protection to debtors through clear mechanisms related to rights and obligations, including a transparent credit restructuring process.

However, in practice, banks often face challenges in implementing regulations optimally. These challenges can include the ability to manage credit risk that varies between banks, the lack of resources to closely monitor credit quality, and unpredictable changes in the economic situation.

4) The Importance of Compliance with Legal Aspects in Handling Non-Performing Loans

Compliance with existing regulations is important for banks to manage non-performing loans appropriately and minimize the risks posed. By complying with established regulations, banks not only protect their financial health, but also maintain the stability of the financial system as a whole.

Effective implementation of OJK regulations and the Banking Law ensures that banks are able to proactively manage non-performing loans, prevent a significant increase in non-performing loans, and maintain public trust in the

banking sector.

The management of non-performing loans in Indonesia's banking sector has a strong legal basis, which is regulated in the Banking Law and clarified through OJK regulations. This regulation covers various important aspects, ranging from the principle of prudence in granting credit, reserve obligations, to credit restructuring procedures. Despite the challenges in its implementation, this regulation is the foundation for banks to carry out their legal responsibilities in managing non-performing loans. By following applicable regulations, banks can maintain the quality of their credit portfolios, protect financial stability, and make a positive contribution to the national economy (Harahap, 2019).

Regulations Related to Banks' Responsibilities in Handling Non-Performing Loans

Non-Performing Loans (NPLs) are one of the main challenges in the banking industry that must be carefully managed to maintain financial stability and prevent negative impacts on the economy. In Indonesia, regulations related to the handling of non-performing loans are regulated through the Banking Law, various regulations issued by the Financial Services Authority (OJK), and the application of Basel III principles. The following is a discussion of various regulations that govern the responsibility of banks in handling non-performing loans in Indonesia, as well as a critical review of the strengths and weaknesses of these regulations.

- 1) **Banking Law: The Role of the Banking Law in Regulating Non-Performing Loans**
Law No. 10 of 1998 on Banking is the main legal basis that regulates banking activities in Indonesia, including the responsibility of banks in managing non-performing loans. The Banking Law requires banks to apply the prudential banking principle in every activity, especially in providing credit. This prudential principle is the basis for ensuring that banks conduct proper analysis before granting credit, so as to minimize the risk of default.
 - a. **The Principle of Prudence in Granting Credit:** The Banking Act requires banks to conduct an in-depth credit analysis, including an assessment of the debtor's eligibility and the collateral they have. With this principle, banks have a responsibility to ensure that the credit provided has manageable risks and minimizes the potential for non-performing loans.
 - b. **Reserves to Cover Risks:** The Banking Law also regulates the obligation of banks to provide capital reserves to cover potential losses from non-performing loans. This reserve aims to ensure that banks still have sufficient capital to protect their finances in debtor default situations. The Banking Law

has an important role in forming a clear legal framework for banks in the management of non-performing loans. However, its implementation requires compliance from banks as well as supervision from regulators to ensure that this prudential principle is actually applied in credit activities (Chosyali & Sartono, 2019).

2) Financial Services Authority (OJK) Regulations: Non-Performing Credit Arrangements, Settlements, and Restructuring OJK as a financial supervisory institution in Indonesia has an important role in issuing more specific regulations related to the management of non-performing loans. Some of the important regulations issued by the OJK in dealing with non-performing loans include:

- a. OJK Regulation No. 17/POJK.03/2014 concerning Risk Management for Commercial Banks: This regulation requires banks to have a risk management policy that includes procedures for identifying, measuring, monitoring, and controlling non-performing credit risks. Banks are also required to have adequate systems and mechanisms to handle non-performing loans according to the level of risk they have.
- b. OJK Regulation No. 40/POJK.03/2019 concerning Asset Quality Assessment of Commercial Banks: This regulation provides guidelines for banks to classify loans based on their quality, ranging from current, in special attention, less current, doubtful, to stuck. This classification is important for determining the appropriate handling actions and backup strategies for troubled loans.
- c. OJK Regulation No. 18/POJK.03/2016 concerning Credit Restructuring: This regulation regulates credit restructuring procedures as an effort to rescue non-performing loans. In this regulation, OJK provides guidance for banks to restructure through modification of credit terms, such as extension of payment terms, reduction of interest, or changes in the amount of installments, so that debtors can continue to pay according to their latest financial capabilities.

These OJK regulations serve to ensure that banks have the right procedures and policies in handling non-performing loans, so that they can minimize the risk of losses and maintain their financial stability.

3) Implementation of Basel III in Indonesia: The Role of Basel III in Managing Risk Management and Mitigating Non-Performing Loans Basel III is an international standard that governs global banking with the aim of strengthening regulation, supervision, and risk management. In Indonesia, the Basel III principles were adopted to strengthen risk management and ensure banks have sufficient capital

to address credit risks, including non-performing loans.

- a. Higher Capital Requirements: Basel III establishes higher capital requirements and introduces the Capital Conservation Buffer, which serves as a reserve to cope with unforeseen financial situations. Higher capital utilization helps banks to cover potential losses arising from non-performing loans.
- b. Liquidity Risk Management: Basel III also emphasizes the importance of liquidity management for banks. Liquidity risk is closely related to non-performing loans, as an increase in non-performing loans can reduce bank liquidity. With liquidity regulations such as the Liquidity Coverage Ratio (LCR), banks are expected to be able to manage their liquidity better to overcome the impact of non-performing loans.

The implementation of Basel III in Indonesia helps strengthen the banking sector through increased capital requirements and stricter risk management. It also encourages banks to have more effective procedures for handling non-performing loans as well as maintain the stability of the banking system.

- 4) A Critical Review of the Strengths and Weaknesses of Existing Regulations The power of existing regulations, both in the Banking Law, OJK regulations, and the implementation of Basel III, has significant power in helping banks better manage non-performing loans. This regulation provides clear guidance for banks in implementing effective risk management and ensuring procedures for dealing with non-performing loans. With asset quality classification, banks can identify credit problems early and take appropriate action. In addition, OJK regulations on credit restructuring provide flexibility for banks to rescue potentially non-performing loans, thereby reducing the risk of losses.

Weaknesses of Regulations However, although the existing regulations are quite comprehensive, there are several weaknesses in their implementation. First, not all banks have adequate risk management capacity to implement regulation properly. Some banks, especially smaller ones, may have limited resources to fully implement Basel III standards. Second, the credit restructuring process is often not fast or flexible enough in responding to customer needs, especially in crisis situations. In addition, regulations related to non-performing loans may need to be further adjusted to deal with changing economic situations, such as economic crises or pandemics.

Regulations in the Banking Law, OJK regulations, and the implementation of Basel III provide a strong legal framework for banks in handling non-performing loans in Indonesia. This regulation ensures that banks apply the principle of prudence

in granting credit, have adequate risk management procedures, and can identify and manage non-performing loans effectively. However, optimal implementation is still a challenge, especially in terms of risk management capacity and the speed of the restructuring process. With continuous adjustment and supervision, these regulations can help create a more stable banking system that is resilient to potential future non-performing loans (Kasmir, 2020)

Implementation of Regulations in Handling Non-Performing Loans by Banks in Indonesia

Non-Performing Loans (NPLs) are one of the significant problems in the banking industry. As a form of legal responsibility, banks are obliged to handle non-performing loans with the right strategy, including complying with regulations set by the government and the Financial Services Authority (OJK). In Indonesia, various regulations have been drafted to assist banks in dealing with non-performing loans through approaches such as restructuring, collection, and asset sales. This article discusses the implementation of regulations in handling non-performing loans by banks in Indonesia, the strategies used, the restructuring process, and the challenges faced in its implementation.

- 1) Non-Performing Credit Resolution Strategies In dealing with non-performing loans, banks in Indonesia generally use several main strategies, namely credit restructuring, intensive collection, and the sale of assets or collateral. Each strategy has a different approach tailored to the debtor's credit condition and risk profile.
 - a. Credit Restructuring: The restructuring process is carried out by adjusting credit terms according to the debtor's latest financial capabilities. This can be in the form of a change in the payment schedule, a decrease in interest rates, or an extension of the credit term. Restructuring aims to provide relief for debtors, so that it can reduce the possibility of default.
 - b. Intensive Collection: In some cases, banks intensify collections on debtors who still have the potential to pay their credit obligations. This billing is carried out with a persuasive approach, negotiation, and periodic communication. In certain situations, banks may use the services of a third party to collect outstanding loans.
 - c. Sale of Assets or Collateral: If the debtor is unable to meet its obligations after collection or restructuring, the bank can confiscate and sell the assets used as credit collateral. The sale of these assets aims to cover some or all of the losses

caused by non-performing loans. This process is generally strictly regulated by regulations so that it can run transparently and fairly.

Each of these strategies is part of the bank's responsibility to maintain the quality of the credit portfolio and minimize the risk of losses that could affect the bank's liquidity.

2) Credit Restructuring Process in accordance with Regulatory Provisions

Credit restructuring in Indonesia is carried out in accordance with the provisions regulated by the OJK, as stated in OJK Regulation No. 18/POJK.03/2016 concerning Credit Restructuring. This restructuring process must follow the principle of prudence and comply with the following provisions:

- a. Evaluate the Debtor's Capabilities: Banks should carefully evaluate the debtor's financial capabilities to determine whether a credit restructuring is feasible. This evaluation includes an analysis of the debtor's cash flow, business conditions, and future prospects.
- b. Preparation of Restructuring Scheme: Based on the results of the evaluation, the bank prepares a restructuring scheme that is adjusted to the debtor's financial condition. This scheme can be in the form of rescheduling principal and interest payments, lowering interest rates, extending the term, or combining several methods as needed.
- c. Restructuring Credit Monitoring: After the restructuring is approved, the bank is required to conduct regular monitoring to ensure that the debtor complies with the agreed terms. This monitoring aims to evaluate the effectiveness of restructuring and ensure that credit does not experience problems again in the future (Purwosutjipto, 2013)

This restructuring process is designed so that banks can provide flexible solutions and ease the burden on debtors without having to violate applicable regulations.

3) Empirical Experience: A Case Study of Several Banks in Indonesia in Managing Non-Performing Loans

Here are some examples of empirical experiences from banks in Indonesia in managing non-performing loans through regulatory implementation:

- a. Bank BRI: In an effort to deal with non-performing loans, especially in the micro, small, and medium enterprises (MSMEs) sector, Bank BRI implements a flexible restructuring policy. The bank provides a restructuring scheme to help debtors affected by difficult economic conditions, such as during the COVID-19 pandemic. This approach helps to reduce BRI's NPL figure and

allows debtors to remain productive.

- b. Bank Mandiri: Bank Mandiri also has a structured approach in dealing with non-performing loans. The bank implements an intensive collection strategy and provides special restructuring options for debtors in certain sectors affected by the crisis. In addition, Bank Mandiri conducts intensive monitoring of the credit portfolio to identify potential non-performing loans from an early age.
- c. Bank Central Asia (BCA): As one of the largest private banks, BCA focuses on strengthening credit risk management by implementing in-depth credit analysis and continuous monitoring. In dealing with non-performing loans, BCA conducts a rigorous risk analysis to determine the most effective restructuring or collection steps.

Case studies from these banks show that the implementation of regulations related to non-performing loans can help banks to effectively manage risks and maintain financial stability, especially in uncertain economic situations.

4) Challenges in Implementation: Legal, Economic, and Operational Constraints

The implementation of regulations in dealing with non-performing loans does not always run smoothly. The bank faces various challenges, including:

- a. Legal Constraints: The process of handling non-performing loans often involves legal aspects, especially if it has to go through litigation or asset forfeiture. Long and bureaucratic legal processes can slow down efforts to resolve non-performing loans, which has an impact on the bank's overall performance.
- b. Economic Conditions: Macroeconomic situations such as recessions, inflation, or market uncertainty can affect a debtor's ability to pay off credit. In difficult economic conditions, the number of non-performing loans tends to increase, thus burdening banks in an effort to maintain the quality of their credit portfolios.
- c. Operational Constraints: In some cases, banks face operational challenges in carrying out non-performing loan handling. The limitation of skilled human resources in risk management and the restructuring process can affect the effectiveness of regulatory implementation. In addition, banks also need to invest in monitoring systems and technology to ensure good credit quality.
- d. Lack of Regulatory Flexibility: Although regulations related to non-performing loans in Indonesia are quite comprehensive, banks sometimes need greater flexibility, especially in dealing with crisis situations such as

pandemics or global economic crises. Regulations that are too rigid can limit the bank's room for movement in providing solutions for debtors.

The implementation of regulations in handling non-performing loans by banks in Indonesia plays an important role in maintaining the financial stability of banks and the banking system as a whole. Through credit restructuring, intensive collection, and asset sales strategies, banks can handle non-performing loans more effectively. The credit restructuring process in accordance with OJK provisions provides opportunities for debtors to continue to fulfill their obligations, while case studies from several banks show successful regulatory implementation practices in maintaining credit quality (Ibrahim, 2016)

However, the implementation of regulations is inseparable from various challenges, both from legal, economic, and operational aspects. Legal constraints in dispute resolution, fluctuating economic situations, and limited operational resources affect the effectiveness of handling non-performing loans. Therefore, continuous evaluation of existing regulations, as well as adjustments are needed so that banks have greater flexibility in facing economic challenges and maintaining optimal financial stability.

Evaluation of Banks' Legal Responsibilities and Regulatory Effectiveness in Dealing with Non-Performing Loans

Non-performing loans (NPLs) are one of the main risks faced by banks in their operational activities. Strict regulations have been implemented by the Financial Services Authority (OJK) and the Indonesian government to ensure banks manage non-performing loans properly and minimize their impact on financial stability. This article evaluates the effectiveness of existing regulations in reducing non-performing loans, a review of banks' compliance with regulations, and legal implications for banks that fail to carry out their responsibilities in accordance with regulatory provisions.

1. Analysis of the Effectiveness of Existing Regulations in Reducing Non-Performing Credit Scores

Regulations related to the management of non-performing loans in Indonesia are regulated in the Banking Law and various regulations issued by the OJK. Some of the main regulations include OJK Regulations on risk management, asset quality assessment, and credit restructuring procedures. These regulations are designed to help banks reduce their non-performing loan numbers and maintain the quality of their credit portfolios.

a. Effectiveness of Prudential Banking: Regulations requiring banks to apply prudential principles in lending have helped banks assess credit risk more deeply. By applying this principle, banks can ensure that they only provide credit to debtors who have the ability to pay, so that they can reduce the potential for non-performing loans in the future. As a result, the NPL figure tends to be stable in banks that strictly apply the prudential principle.

b. Credit Risk Management through Asset Quality Classification: Regulations related to asset quality assessment that separate credit into several categories, such as current, under special attention, less current, doubtful, and stuck, allow banks to monitor credit risk more effectively. With this classification system, banks can intervene early before the credit experiences a total default.

c. Credit Restructuring as a Preventive Solution: The credit restructuring process regulated in OJK regulations provides solutions for debtors who experience temporary financial difficulties, so that they can prevent non-performing loans. This regulation gives banks the flexibility to adjust credit terms according to the debtor's latest financial capabilities, which can ultimately help reduce NPLs significantly.

In general, existing regulations are quite effective in reducing the number of non-performing loans. However, this effectiveness is highly dependent on compliance and consistent regulatory implementation by individual banks.

2. Review of Banks' Compliance with Regulations in Dealing with Non-Performing Loans

Bank compliance with regulations is a key factor in the effectiveness of handling non-performing loans. OJK as a supervisor has an important role in ensuring that each bank complies with applicable regulations. Overall, the level of regulatory compliance of banks in dealing with non-performing loans varies depending on the size, risk management capacity, and compliance culture implemented by the bank.

a. Compliance with Risk Management: Large banks tend to have higher compliance in risk management, as they have stronger internal oversight systems and trained human resources. These banks generally implement strict credit policies as well as good monitoring systems to monitor their credit portfolios. Meanwhile, small and medium-sized banks often have challenges in adhering to established risk management standards, especially due to resource constraints.

b. Compliance with the Credit Restructuring Process: The credit restructuring process provides flexibility for banks in handling non-performing loans, but compliance with restructuring procedures remains a challenge. Some banks tend to use restructuring as a last resort after failing to make a collection, even though this

procedure must be carried out as soon as the debtor experiences financial difficulties. Suboptimal compliance levels in the restructuring process can worsen non-performing loan conditions.

c. Compliance in the Provision of Credit Loss Reserves: As per regulations, banks are required to provide capital reserves to cover potential losses from non-performing loans. Banks that comply with these reserve regulations are better able to survive rising defaults. However, some banks sometimes delay or do not fully meet their reserve obligations to avoid a decline in profits.

Compliance with regulations is critical to the successful implementation of a non-performing loan management strategy. Therefore, the OJK conducts routine supervision and provides sanctions for banks that violate existing regulations.

3. Legal Implications for Banks That Fail to Carry Out Their Responsibilities in accordance with Regulatory Provisions

Banks that fail to carry out their responsibilities in handling non-performing loans face various legal implications, both from the regulator side and from the debtor or other aggrieved customers.

a. Sanctions from the Financial Services Authority (OJK): The OJK has the authority to sanction banks that violate regulatory provisions in the management of non-performing loans. These sanctions can be in the form of written warnings, fines, restrictions on business activities, and even revocation of operating licenses if the violations committed are considered very serious. These sanctions aim to ensure that banks remain compliant with the standards that have been set in maintaining the quality of their credit portfolios and maintaining their financial stability.

b. Legal Claims from Customers: If there is a violation in credit management that has an impact on the customer's losses, the customer has the right to file a lawsuit against the bank. For example, if a bank collects credit or seizes assets without going through procedures that are in accordance with the provisions, the debtor can sue the bank for the action. This lawsuit can have an impact on the bank's reputation and affect public trust in the bank.

c. Implications for Management Responsibility: Banks that fail to carry out their responsibilities in handling non-performing loans can also have legal implications for bank management. In some cases, if it is proven that there is negligence or deliberate error by the bank's management, the management may be personally liable and may be subject to administrative or legal sanctions.

Banks' failure to comply with non-performing loan regulations has a serious impact

on their reputation and financial stability. Banks that fail to meet their legal responsibilities can suffer significant financial losses, lose public trust, and even face the risk of legal sanctions that impact their operational continuity.

An evaluation of banks' legal responsibilities and regulatory effectiveness in dealing with non-performing loans shows that existing regulations are quite effective in reducing the number of non-performing loans if implemented with good compliance. Strict regulation from the OJK and the application of the prudential principle allow banks to manage credit risk more effectively and prevent an uncontrolled increase in NPLs.

However, the effectiveness of the regulation depends on the bank's compliance with the applicable provisions. Banks that implement strict risk management and carry out appropriate restructuring are able to maintain better credit quality. In contrast, banks that do not comply with regulations face serious legal implications from regulators and potentially damage their reputation in the eyes of customers (Fuady, 2014).

With continued compliance and supervision, non-performing credit regulation can help create a more stable banking system and support sustainable national economic growth.

4. Conclusion

Regulations related to the management of non-performing loans in Indonesia have provided a strong legal framework to help banks maintain their credit quality and financial stability. Effective implementation of these regulations, including the application of prudential principles, asset quality assessment, and credit restructuring, has proven to be able to reduce the number of non-performing loans if followed by a high level of compliance from banks. However, challenges in the implementation of regulations, such as operational constraints, fluctuating economic conditions, and limited resources for small banks, are still obstacles that must be overcome to improve the effectiveness of handling non-performing loans in all banking sectors.

As a suggestion, banks need to strengthen risk management and monitoring of non-performing loans regularly to detect potential problems as early as possible. In addition, increasing training and development of human resources in the field of risk

management can help banks in implementing regulations optimally. OJK is expected to continue to supervise and provide technical support, especially for small banks, so that they are more prepared and responsive in handling non-performing loans according to the provisions. Thus, existing regulations can function more effectively in maintaining the stability of the banking system and supporting sustainable economic growth.

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