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Research Article

# Analysis of the Implementation of Prudential Banking Principles in Providing Business Capital Financing and its Impact on the High and Low Risk of Non-performing Financing (Study at BPRS Metro Madani Head Office)

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**Abstract.**
The prudential principle is crucial to the continued success of the business. As far as giving support in light of Sharia standards and completing different activities, banks need to make strides that do not hurt the bank and the interests of clients who share their assets with the bank. And, banks are expected to work as per prudential standards. This study employed descriptive qualitative research, which falls under the category of field research. Information sources in this study utilized essential information acquired through meetings and auxiliary information such as true records, diaries, and other writing. The results showed that the implementation of the prudential banking principle in business capital financing at BPRS Metro Madani Head Office is by using feasibility analysis 5C + IS, 7P and setting the maximum limit of fund disbursement. The application of good prudential principles has a positive and good impact on the bank. This is evidenced by the decline in the level of problematic financing in BPRS from year to year.

**Keywords:** prudence principle, problem financing, NPF

## 1. Introduction

Banking is a financial institution in Indonesia that has an important role in the sustainability of the country's economy. The role of banking is to carry out fundraising activities (funding), distribution of funds (lending), and other bank services (services). The role of the bank must be managed simultaneously because the roles of one another are interrelated so if one of these roles is not carried out, the bank will suffer a loss [1].

According to Law Number 21 of 2008, Sharia Commercial Banks and Sharia People's Financing Banks are the two types of Sharia Banks that conduct their business operations by Sharia law. Furthermore, as per Regulation Number 21 of 2008, a Sharia

Specialty Unit is a work unit of the administrative center of a Regular Business Bank that capabilities as the parent office of an office or unit that completes business exercises given Sharia standards, or a work unit in a branch office of a bank domiciled abroad, which does business exercises routinely what capabilities as the parent office of a sharia sub-branch office and/or sharia unit.[2]

The type of asset payment exercise done by Islamic banks is funding. Financing is money given to another party by one party to help them make planned investments, either by themselves or by institutions. Working capital financing is financing that aims to meet the needs of increasing production, both quantitatively (in terms of the quantity of production results) and qualitatively (in terms of the quality or quantity of production results), as well as for trade or increasing an item's utility.[2]

Banking is an institution whose existence requires the trust of the public. A very important principle in maintaining and maintaining public trust in banks is the prudential principle, therefore financial institutions, especially banks, must conduct a feasibility study before providing financing to their customers.[3]

After the promulgation of Law No. 7 of 1992, which deals with banking, and Law No. 10 of 1998, which amends Law No. 7 of 1992, which deals with banking, the precautionary principle has been embodied in various articles and also elaborated in Bank Indonesia Regulations in the form of bank health signs or prudential standards in the form of operational provisions.[4] Some signs are prohibitive, restrictive, and orderly. One of the objectives of the prudential principle is to protect depositor customers. With the execution of the preparatory guideline, it is trusted that the degree of public confidence in the financial business will stay high, so people, in general, are willing and not reluctant to store their assets in the bank.[6] Prudential Financial Rule or prudential standard is a rule that stresses that banks in working their business exercises both in gathering, particularly in circulating assets to the general population should be extremely cautious.[5]

Islamic banks as financial institutions must of course also maintain the bank's financial condition to remain in a healthy condition by implementing prudential banking principles or prudential principles as an effort to avoid the possibility of the risk of banks experiencing material losses. The loss in question is a loss due to financing, namely by applying in accordance with Islamic banking rules, namely the 5 C principle consisting of character, capacity, capital, collateral and condition of economic) [6]. For Islamic banks, the basis of 5C analysis is not enough, therefore it is necessary to add 1S (sharia). This sharia principle believes and ensures that the goods to be funded are far from haram elements such as liquor and so on. In addition to applying the 5C principles, banks in providing financing also apply the 7P principles, namely personality, party, purpose, prospect, payment, profitability, and protection.

The precautionary principle is generally permissible based on the Qur'an surah Al-Hujurat verse 6:

يٰٓاَيُّهَا الَّذِيْنَ اٰمَنُوْٓا اِنْ جَاۤءَكُمْ فَاسِقٌۢ بِنَبَاٍ فَتَبَيَّنُوْٓا اَنْ تُصِيْبُوْا قَوْمًاۢ بِجَهَالَةٍ فَتُصْبِحُوْا عَلٰى مَا فَعَلْتُمْ نٰدِمِيْنَ

“O believers, if a wicked man comes to you with a message, then examine carefully so that you do not inflict a calamity on a people without knowing the circumstances that cause you to regret your actions.” (Q.S Al-Hujurat: 6)

In general, banks will experience several risks, namely credit/financing, market, operational and liquidity risks. The financing risk faced by Islamic banking is one of the risks that needs to be managed appropriately and carefully because errors in managing financing risks can be fatal to the increase in Non-Performing Financing (NPF). Non-Performing Financing is a non-performing loan consisting of substandard, doubtful and bad loans.[7]

Based on the central function of the banking system, it can be understood that banks as financial institutions have various risks that will be posed. Because of the function of the bank, the implementation of the precautionary principle in banking must be implemented. The role of Islamic banking in an effort to increase economic growth cannot be separated from financing, because the size of the financing distributed will determine the amount of profit or profit obtained by the bank itself.

As per Regulation Number 10 of 1998, article 8 makes sense of that supporting with sharia standards is done in view of examination by applying the preparatory guideline so borrower individuals can take care of their obligations or return supporting subsidizes as per the understanding, so the gamble of funding disappointment or clog in reimbursement can be kept away from. Although the financing provided to members is inseparable from the possibility of the risk of non-performing financing which can ultimately affect the performance of Islamic banks.

Table 1: Non-performing Financing Ratio (NPF) of Islamic Banking for the 2020-2022 Period (in %).

| Year | BUS | UUS | BPRS |
|---|---|---|---|
| 2020 | 3,13 | 3,01 | 7,24 |
| 2021 | 2,59 | 2,55 | 6,95 |
| 2022 | 2,35 | 2,23 | 5,91 |

Source: OJK Sharia Banking Statistics, December 2022

Based on the table above, it can be seen that the ratio of non-performing financing (NPF) in BPRS is higher when compared to the NPF ratio of Sharia Commercial Banks and Sharia Business Units, where BPRS has an NPF ratio of more than 5% and is included in the criteria is quite good. According to PBI No. 13/1/PBI/2011 concerning the Health Level Assessment of Commercial Banks, it stipulates that the level of problematic financing in Islamic banks that can still be tolerated is 5%. Banks with NPF rates above 5% can be said that these banks have not been able to control the risk of problematic financing. So it can be concluded that the NPF ratio of BUS and UUS is better than the NPF ratio in BPRS, this is because the higher the NPF level, the greater the financing risk borne by the bank.

According to Law No. 21 of 2008, Article 1 of the General Provisions states that a Sharia Financing Bank (BPRS) does not offer payment traffic services in its operations. In the meantime, Islamic banking is guided by sharia, economic democracy, and prudential principles in its business operations, as stated in Article 2 of Law Number 21 of 2008.

Given the Sharia Banking Measurements of the Monetary Administrations Authority (OJK) in 2022, there are 11 BPRS in Lampung Province with an NPF ratio of 3.38% which are categorized as good. One of the BPRS located in Lampung Province is BPRS Metro Madani. The ratio of non-performing financing (NPF) of BPRS Metro Madani Head Office is as follows:

Table 2: NPF Ratio of BPRS Metro Madani Head Office for the 2020-2022 Period. (in %).

| Year | NPF |
|---|---|
| 2020 | 5,22 |
| 2021 | 3,77 |
| 2022 | 1,84 |

Source: BPRS Metro Madani Head Office

From the data above, it can be seen that the ratio of non-performing financing (NPF) of BPRS Metro Madani Head Office for the 2020-2022 period has decreased every year. Although in the 2020 period the NPF ratio was above 5%, in the 2021-2022 period the NPF ratio decreased below 5% and was categorized as good based on Bank Indonesia Regulation on Commercial Bank Health Assessment. This shows that the level of problematic financing at BPRS Metro Madani Head Office from year to year has improved performance. The ability of BPRS Metro Madani Head Office in reducing the risk level of problematic financing so that it decreases from year to year is certainly inseparable from the implementation of prudential banking principles in providing financing carried out by BPRS Metro Madani Head Office.

BPRS Metro Madani Head Office is a banking financial institution that has contributed to building the community's economy with sharia principles. The community has high hopes to get various sharia-compliant bank facilities at BPRS Metro Madani Head Office, which of course requires BPRS Metro Madani Head Office to stay healthy and more trusted for the people of Metro City. BPRS Metro Madani Head Office as the only BPRS located in Metro City focuses on driving business strategies targeting the lower class, especially in the MSME sector (Micro, Small and Medium Enterprises). Business capital financing is one of the financing product facilities distributed by BPRS Metro Madani Head Office and is also one of the most proposed financing products by prospective customers, so BPRS is obliged to Provide business capital financing in accordance with the precautionary principle to reduce the likelihood of stuck or problematic financing.

The researcher is interested in conducting a study with the following title in light of the preceding background "Analysis of the Implementation of Prudential Banking Principles in Providing Business Capital Financing and Its Impact on the High and Low Risk of Problematic Financing (Study at BPRS Metro Madani Head Office)".

# 2. Literature Review

## 2.1. Stakeholder Theory

Stakeholder theory or stakeholders explain the company's relationship with stakeholders, arises because of the growing awareness that the company has stakeholders, namely all stakeholders have equal rights in contributing to decision making. It first developed in the 1970s and the theory has the basis that companies become large, so accountability to the community is needed.[8]

So, the stakeholder theory explains that a company in carrying out its activities has responsibilities that are not only limited to the company but to parties who have interests in the company such as consumers, society and government.

The relationship between stakeholder theory and this study is that banks are financial institutions that in their operational activities are closely related to stakeholders. If it is related to the bank's goal to achieve good performance so as to benefit stakeholders, then to meet the interests of these stakeholders, financial performance becomes very relevant to maintain the continuity of the bank, especially meeting the interests of stakeholders. With the fulfillment of good financial performance, the survival of the bank both short and long term will be achieved.

One of the steps to maintain the survival of the bank and meet the interests of stakeholders in fund distribution activities (financing) is to conduct a financing analysis first to prospective customers before being given financing or what can be called the precautionary principle. Most of the funds stored in the bank come from Third Party Funds, so if the funds want to be channeled in financing, the bank must be really selective, careful and careful in providing financing. This is done in order to avoid the slightest risk that can endanger or affect stakeholders, especially for depositors and customers.

## 2.2. Sharia People's Financing Bank (BPRS)

Based on Law No. 21 of 2008 article 1 paragraph 9, Sharia People's Financing Bank is a sharia bank that in its activities does not provide services in payment traffic. So it can be concluded that Sharia People's Financing Bank is one type of Islamic bank business that in its activities does not serve interbank payment traffic and only focuses on providing services in the micro or small business sector.

In obtaining its benefits, Sharia People's Financing Bank does not apply interest rates, this is related to the fatwa issued by the Indonesian Ulema Council (MUI) No. 1 of 2004 which explains the prohibition of interest practices in financial institutions akrena in conventional banking interest practices or interest has entered the criteria of riba nasi'ah.

## 2.3. Prudential Banking Principle

The term "prudent," which translates to "prudent" or "prudential principle," is not new; rather, it refers to a new way of thinking about how to respond more forcefully, in depth, and effectively to various risks that are associated with the business of the bank. So prudential is an idea that has components of perspectives, standards, strategy guidelines and bank risk the board methods so that it can stay away from the smallest gamble that can mischief or damage partners, particularly contributors and clients [9].

In giving supporting to clients, banks should apply the preparatory standard. This principle demonstrates that banks must exercise extreme caution when conducting their business, particularly when distributing funds to the general public and raising funds. This banking prudential principle aims to guarantee that banks are always in good health so that they can effectively carry out their operations and abide by banking-specific legal regulations. The pith of prudential financial rule in Islamic bank supporting is to evaluate the judiciousness of Islamic banks in diverting outsider assets to funding clients, so that these third party funds are distributed trustfully and can maintain a positive level of trust from customers [10].

In general, the precautionary principle is permissible based on the foundation contained in the Qur'an, namely Surah Al-Ma'idah verse 49:

وَاَنِ احْكُمْ بَيْنَهُمْ بِمَآ اَنْزَلَ اللّٰهُ وَلَا تَتَّبِعْ اَهْوَآءَهُمْ وَاحْذَرْهُمْ اَنْ يَّفْتِنُوْكَ عَنْۢ بَعْضِ مَآ اَنْزَلَ اللّٰهُ اِلَيْكَۗ فَاِنْ تَوَلَّوْا
فَاعْلَمْ اَنَّمَا يُرِيْدُ اللّٰهُ اَنْ يُّصِيْبَهُمْ بِبَعْضِ ذُنُوْبِهِمْۗ وَاِنَّ كَثِيْرًا مِّنَ النَّاسِ لَفٰسِقُوْنَ ٤٩

*"And decide between them according to what Allah has revealed, and do not follow their desires. And beware of them, that they may not turn you away from what Allah has revealed to you. If they turn away, know that Allah wills to cause them misfortune because of their sins. And indeed, most of the people are the disobedient.."* (Q.S Al-Ma'idah: 49)

The verses above explain the importance of applying the precautionary principle in life, including in business activities. This principle will be more perfect if in practice it also coincides with the principles of effort as required by the Qur'an and the sunnah of the Prophet. If this principle is implemented, the risk of harming financial institutions and customers will be minimized from problematic financing or bad financing.

In the banking system, the prudential banking principle is used by banks to protect indirectly against the interests of depository customers and their deposits in banks. This principle is used to prevent the emergence of risks of loss from a policy and business activities carried out by a bank. This principle has been normative in banking regulations in Indonesia, namely in Article 2 of Law No.7 of 1992 amending Law No.10 of 1998 concerning Banking. The normative prudential principle in Law No. 7 of 1992 jo Law No. 10 of 1998 concerning Banking means an implicit affirmation that this prudential principle is one of the most important forms of principles that should be applied and completed by banks in working their business activities.[13]

The assertion of the prudential rule is controlled in Article 29 section 2 of Regulation No. Law No. 7 of 1992 10 of 1998, which states in regards to banking: According to the provisions of capital adequacy, asset quality, management quality, liquidity, profitability, solvency, and other aspects related to the bank's business, banks are required to conduct business activities in accordance with the prudential principle. Additionally, banks are required to maintain the level of bank health.

Law No. 2 also regulates the obligation of the bank to apply the prudential principle. 10 of 1998 concerning Banking, where article 8 passage (1) expresses that in each credit understanding, the bank should have certainty in view of a top to bottom examination of entirely honest intentions and the capacity or capacity of the debt holder to take care of its obligation as per what has been concurred. The application of the principle of knowing its customers in every banking transaction is important to protect the level of financial health of the bank. This is because this principle means that the bank has implemented prudential banking, thus the bank is protected from many risks that can reduce the health level of the bank itself.[11]

All banks, without exception in conducting their business activities, are required to apply the prudential principle which is further described in the form of bank health signs (prudential standards), including:

1. Financing Analysis

A study that examines the viability of a customer's financing proposal is known as financing analysis. Because it has a significant impact on the quality and smoothness of financing, the feasibility of financing is a focus and becomes an important consideration when making decisions regarding financing. Islamic banks conduct a 5C analysis, or character, capacity, capital, condition, and collateral, prior to providing customers with financing.[12]

2. Maximum Limit of Fund Disbursement

Article 37 of the Islamic banking law stipulates that the maximum limit of fund distribution must not exceed 30% of the capital of Islamic banks, meaning that the maximum limit is intended for each facility recipient customer or a group of facility recipient customers including companies in the same group.

3. Minimum Capital Provision Obligation

BPRS must a minimum of 8% of risk-weighted assets as capital. Additionally, the obligation to provide BPRS with a minimum amount of capital is based on asset risk in a broader sense, which includes both assets that are listed on the balance sheet and assets that are of an administrative nature, as shown by the commitments made to BPRS by third parties. A predetermined proportion of risk-weighted assets is used to calculate minimum capital provision obligations (ATMR).[13]

4. Obligation to announce balance sheet and annual profit/loss calculation

According to Sutan Remy Sjahdeini, one of the banking principles is the principle of transparency, namely as stipulated in Article 35 Paragraph 5 of the Sharia Banking Law that Islamic banks are obliged to publish their balance sheets and income statements to the public within the time and form determined by Bank Indonesia. And Article 39 of the Sharia Banking Law states that Islamic banks and UUS are obliged to explain to customers the possibility of loss risks arising in connection with customer transactions carried out through Islamic banks and/or UUS. This obligation is related to the interests of depository customers and investor customers at Islamic banks so that depository customers and investor customers know the financial condition of Islamic banks from time to time [12].

5. Business restrictions of Islamic banks

As with conventional bank arrangements, Islamic banks also regulate restrictions on business activities because if Islamic banks are allowed to carry out business activities without any restrictions, it can endanger the existence of Islamic banks, which in turn can harm the interests of depository customers and investor customer funds. Therefore, the Sharia Banking Law regulates the business activities that Islamic banks may carry out in Article 19 and Article 20 of the Sharia Banking Law.

According to Article 24 of the Sharia Banking Law, it is against the law for Islamic banks to engage in business activities that are in violation of sharia law. Islamic banks must adhere to sharia rules when raising money, disbursing money, and providing services. These rules are enforced by following the main provisions of Islamic law, such as the principles of justice, balance, benefit, and universality (alamiyah), and they must not contain gharar, maysir, usury, tyranny, or haram items.[12]

## 2.4. Financing in Sharia Concept

Financing broadly means funding spent to support investments that have been planned either by themselves or by others. While financing in a narrow sense can be defined as funding made by a financing institution such as an Islamic bank to customers. However, in Islamic banking, financing is associated with business where financing is funding both active and passive carried out by financing institutions to customers and business is an activity in the form of services, trade and industry in order to maximize the value of profits received.[14]

Every provision of banking financing provided to the public or legal entities always carries out risks, so in completing its business exercises banks should constantly be directed by and apply prudential standards and standards of giving sound supporting. The precautionary principle must be applied consistently and in good faith in opposition to all requirements, laws, and regulations pertaining to the financing provided by the bank. With a good financing process, of course, it can avoid unhealthy financing practice [15].

Financing analysis is one of the bank's efforts to ensure that the financing issued is in accordance with customer needs, can be utilized and can be returned at a set time in accordance with the financing agreement. Financing analysis is carried out so that banks know customer needs, management capabilities, and business feasibility and ability to return financing. In analyzing Islamic bank financing, it uses the 5C + 1S assessment principle, namely Character, Capital, Capacity, Collateral, and Condition of Economic and Sharia which is used to assess prospective financing customers. Customers who meet these principles are perfect customers to receive financing from the bank. The 5C + 1S principle consists of:

a. Character

Assessment of character is a qualitative analysis that is not detected numerically (numerically). However, this is very important because it is a major step in the financing approval process. So to strengthen this data, several things can be done, namely interviews, BI Checking, Bank Checking, and Trade Checking.

b. Capacity

Assessment of the ability of prospective financing customers in their business fields and / or the ability of financing customer management so that the bank is confident that the business to be distributed financing is managed by the right people.

c. Capital

Assessment of the overall financial situation of potential customers for financing, including cash flow projections for the future and the past.

d. Collateral

This assessment is carried out in order to determine the adequacy of the collateral value whether it is in accordance with the provision of financing.

e. Condition

The analysis is directed to the surrounding conditions both directly and indirectly can affect the prospective business of financing customers.

f. Sharia

This sharia principle believes and ensures that the goods to be funded are far from haram elements such as liquor and so on.

In addition to applying the 5C principle, banks in providing financing also apply the 7P principles, which are as follows: Personality, Party, Purpose, Prospect, Payment, Profitability, and Protection.

### 2.5. Business Capital Financing

Business or working capital funding is supporting to address the issues of expanding creation both in how much creation results (quantitative) and in working on the quality or nature of creation results (subjective) as well concerning exchange purposes or expanding the utility of spot of a thing. In the mean time, the meaning of sharia working capital supporting is transient supporting gave to organizations to subsidize their business working capital necessities in view of sharia standards.[2] Based on the contract used in sharia financing products, the types of working capital financing are divided into 5 types, namely:[2][16][17].

a. Mudharabah working capital financing

Akad mudharabah is a fund investment transaction from shahibul maal (fund owner) to mudharib (fund manager) in order to carry out certain business activities in accordance with sharia, accompanied by the distribution of operating results based on a ratio that has been previously agreed between the two parties. Mudharabah is usually applied in financing products such as financing working capital, trade and services and special investments or also called mudharabah muqqayadah.

b. Istishna' working capital financing

Bai' istishna is a sale and purchase agreement where the bank orders in advance the goods desired by partners in accordance with the specifications and clarity of the goods to be ordered, and with a mutually agreed margin and payment is made in accordance with the agreement whether in advance, installments or paid later.

c. Salam working capital financing

Salam is a type of trading with prepayment and conveyance of products sometime in the future with an unmistakable cost, determination, amount, quality, date and spot of conveyance, and concurred ahead of time in the understanding.

d. Murabahah working capital financing

Based on fatwa DSN No. 04/DSN-MUI/IV/2000 concerning murabahah, namely that in order to help the community to carry out and improve welfare and various activities, Islamic banks must have murabahah facilities for those who need them. Murabahah means selling an item by affirming its purchase price to the buyer and the buyer will pay more as profit.

e. Ijarah working capital financing

Al-Ijarah is a contract to transfer the right to use a good or service, through the payment of rental wages, without being followed by the transfer of ownership of the goods such as car rental, house rental or can be in the form of service use rights and so on.

### 2.6. Financing Risk

Credit risk in conventional banks is reflected in the Non-Performing Loan (NPL) ratio, while financing risk in Islamic banks is reflected in the Non-Performing Financing (NPF) ratio.

Problematic financing in Islamic banks is a loan where the customer has difficulty in paying off due to intentional or external factors beyond the debtor's ability.[18]

Based on Bank Indonesia Circular Letter No. 9/24/DPbs/2007 concerning the Health Level Assessment System of Commercial Banks Based on Sharia Principles, NPF is categorized into several levels, namely substandard financing, doubtful, and non-congested. For its calculation used the following formula:

$$NPF = \frac{Financing\ (KL,\ D,\ M)}{Total\ Financing} \times 100\%$$

Information:

KL : Substandard

D : Doubt

M : Bad

Table 3: NPF Rating Assessment Criteria.

| Rank | NPF Value | Predicate |
|---|---|---|
| 1 | NPF < 2% | Excellent |
| 2 | 2% < NPF < 5 % | Good |
| 3 | 5% < NPF < 8% | Good Enough |
| 4 | 8% < NPF < 12% | Not Good |
| 5 | NPF > 12% | Bad |

Source: SE BI No. 9/24/DPbs/2007

NPF reflects financing risk, if the higher the NPF level, the greater the financing risk borne by the bank. Due to high NPFs, banks are required to provide larger reserve funds, so that in the end bank capital is also eroded. The large NPF is one of the reasons for the difficulty of banks in channeling financing.

The increasing trend of NPF value can adversely affect the operation and financial performance of Islamic banks. From the operational aspect, this increase in NPF will result in a decrease in bank revenue and from the aspect of financial performance, an increase in the value of NPF will result in a decrease in the bank's health level. Problematic financing will have an adverse impact on the state, society, and for Indonesian banks. The greater the problem financing of a bank, the lower the level of health of the bank.

## 3. Methods

The examination strategy utilized is elucidating subjective investigation research. The philosophy of positivism is the foundation for the research method known as qualitative research. In this method, the researcher serves as the primary instrument, data collection methods are triangulated (combined), data analysis is inductive/qualitative, and the findings emphasize meaning rather than generalization. This study made use of research, which is a type of research.[19]

The data sources used in this study consisted of primary data and secondary data. Primary data is obtained by conducting interviews with the Financing Analyst section of BPRS Metro Madani Head Office, while secondary data are official documents, books, journals, brochures, websites, and other literature related to research. Observation, interviews, and documentation were the methods utilized for data collection. Information examination methods in this study are by information decrease, information show and check or making determinations.

## 4. Results and Discussion

Basically, all activities in providing financing by banks to their customers must go through a financing analysis process first before the financing is disbursed, this is done to prevent problematic financing, this problematic financing can eventually make losses. The bank needs information about prospective customer data. Banks in carrying out their business activities, such as providing financing to customers, must always have guidelines and of course must apply the precautionary principle. This guideline, among others, is appeared as reliable application situated with sincere intentions to all necessities and regulations and guidelines connected with the arrangement of funding by the bank concerned.

The products and types of financing available at BPRS Metro Madani Head Office vary. For example, business / work capital financing, investment financing, gold pawn, teacher certification and so on. While the contract also varies, namely murabahah (buying and selling), Mudarabah and musyarakah (cooperation), ijarah and other services offered by BPRS Metro Madani Head Office.

However, the most popular product for BPRS customers is business capital financing, where the contracts used in business capital financing are murabahah (buying and selling), Musyarakah (cooperation) and ijarah (rent) contracts. An example of the application of a murabahah (buying and selling) contract in business capital financing at BPRS Metro Madani Head Office is that one of BPRS customers wants to apply for business capital financing with a murabahah (buying and selling) contract for his business trade needs. Musyarakah contracts are usually submitted by customers for road projects with a profit ratio agreed between the two parties, while ijarah contracts are used to rent business premises or shophouses and so on.

The precautionary principle has always been applied by BPRS Metro Madani Head Office since the beginning of the establishment of the company. This precautionary principle is a rule that is obeyed by BPRS Metro Madani Head Office. The implementation of prudential banking principles or prudential principles in providing financing at BPRS Metro Madani Head Office will be explained as follows:

a. Character

In analyzing the character aspects of prospective customers, including conducting personal interviews to find out directly the character of prospective customers, Environmental Checking, BI Checking, and Trade Checking are carried out by finding out and asking prospective customers' business partners. But in reality, the assessment with this character is difficult to assess because although this character is one of the important points of the BPRS in analyzing financing, the BPRS still finds it difficult to examine the character / character / nature of prospective members. Due to the unpredictable nature of prospective customers and sometimes changes, it is very difficult for BPRS to implement it.

b. Capacity

In assessing the capacity / ability of prospective customers, BPRS Metro Madani Head Office first knows the financial capabilities of prospective customers, this can be done to calculate how much the prospective customer's ability to pay.

c. Capital

BPRS Metro Madani Head Office in analyzing capital can be seen from the business financial statements carried out at the end of several periods, interviews with customers about loans at other banks, the purpose of using loans and analyzing the eligibility data of financing applicant customers. In addition, the bank also assesses the own capital of prospective members who will be invested in its business. As long as the business activity is carried out, the profits obtained will be invested, how and how many assets are owned. Sometimes prospective customers tell their business excessively and not according to what actually happened, it indicates that the prospective customer is lying or wasteful and cannot manage finances so that they cannot make good investments.

d. Condition of economy

The financing provided also needs to consider economic conditions associated with prospective customers' business prospects. In addition, in analyzing the condition of BPRS Metro Madani Head Office not only looks at economic conditions but also looks at the health condition of prospective customers or their family members. Because it could be that prospective customers apply for financing not for their business activities but for medical expenses or actually just to pay other debts. The age condition and status concerned are also assessed, so that it can be seen whether it is productive and how the candidate manages his business.

e. Collateral

In this case the customer cannot pay the installments, then BPRS Metro Madani Head Office can sell collateral. The proceeds from the sale of collateral are used as a second source of payment to pay off the financing. Based on the results of the research conducted, there are several things that need to be considered related to collateral / collateral such as the location of the guarantee and the amount of guarantee. Collateral can be both land and vehicles. For guarantees in the form of land that can be accepted is a certificate received in the name of the disputed, wife and maximum in the name of parents or in-laws. Guarantees in other forms, such as certificates that have not been in the Certificate of Property Rights (SHM) or are still in the form of a Sale and Purchase Deed (AJB), are difficult to discuss. If the guarantee is less markatable, the BPRS Metro Madani Head Office will only provide a small amount of financing from the initial application, according to the prospective customer's application or even rejected. Financing at BPRS Metro Madani must not exceed the value of the guarantee provided.

f. Sharia

BPRS Metro Madani Head Office will only provide financing for businesses that do not conflict with sharia, such as buying and selling liquor and so on. To find out this can be done by looking directly at the customer's business location and looking for information from the surrounding environment. The application of sharia aspects to financing products as well as its implementation must be adjusted to the Fatwa of the National Sharia Council (DSN) of the Indonesian Ulema Council. In addition, what is no less important is the purpose and the contract to be used does not contradict the principles of sharia or known as MAGHRIB, namely Maisyir, gharar, and usury.

In addition to the 5C + IS principle, the application of the precautionary principle also needs to be considered based on aspects of 7P analysis and the Maximum Limit of Fund Disbursement. The 7P aspects include:

1. Personality that is to judge in terms of his personality or his daily behavior and past. Personality aspects are also related to the assessment of character aspects.

2. Party namely classifying customers into certain classifications or certain groups based on capital, loyalty and character. BPRS Metro Madani Head Office before providing financing also assesses how feasible and how much financing will be provided based on the capital, loyalty and character of prospective customers. This is because the bank should not be wrong in providing financing to prospective customers who are actually not worthy.

3. Purpose that is to find out the customer's purpose in taking financing, including the type of financing the customer wants. In assessing the objectives of BPRS Metro Madani, the Head Office analyzes and assesses in terms of economic conditions, business, health conditions of prospective customers or their family members. This is done to avoid misuse of financing funds provided by banks such as being used for medical expenses or to pay debts. In addition, the purpose of financing must also not have elements of maisyir, gharar and usury.

4. Prospect that is to assess the customer's business in the future whether it is profitable or not. In assessing the prospect, the BPRS Metro Madani Head Office immediately conducts a survey to the customer's business location to see how the business of the prospective customer, then the bank will analyze and ask the prospective customer, for example, how much income is earned per day. In addition, BPRS also assesses whether the business is feasible or not to be financed. Examples of businesses that are not feasible to finance and that do not have prospects in the future are businesses whose places do not have complete business licenses such as selling on sidewalks so that they are at risk of being expelled by the PP police force.

5. Payment that is a measure of how the customer returns the financing that has been taken or the source from anywhere for the return of the financing he gets. Payment assessment at BPRS Metro Madani Head Office is also related to capacity analysis,

namely assessing the customer's ability to manage finances and the business being run.

6. Profitability namely analyzing how the customer's ability to make a profit. Profitability assessment in this case is also related to the capacity / ability of prospective customers, namely by assessing the business run by customers.

7. Protection that is how to keep the business and guarantee protected. To protect the business of prospective customers and as a form of security, the BPRS Metro Madani Head Office will ask for a Business Decree, UN proof and proof of lease for businesses whose premises are still renting. Acceptable guarantees are in the form of guarantees for land, buildings and vehicles. To protect this guarantee, BPRS Metro Madani Head Office conducts fire insurance for guarantees in the form of buildings or buildings and accident insurance for guarantees in the form of vehicles.

As a form of bank prudence in providing financing, the Maximum Limit of Fund Disbursement (BMPD) at BPRS Metro Madani Head Office is also highly considered, which must not exceed the value of the guarantee provided or at least only 80% of the value of the guarantee. This is done as a form of prudence on the part of the bank in providing financing funds, so that in the future if the customer experiences a risk of default, the guarantee provided can be disbursed with a selling value not smaller than the financing provided to the customer.

Based on interviews conducted with the Financing Analyst section at BPRS Metro Madani Head Office, in addition to the application of the 5C aspect in several casuistics, it turns out that the 5C aspect alone is not enough in providing financing. For BPRS Metro Madani Head Office itself, there are several things that need to be considered, namely notaries and insurance. This is very influential that the guarantee must be notarized, because if the guarantee is not notarized, the bank cannot execute the guarantee.

Therefore, sometimes the BPRS Metro Madani Head Office also depends on the notary, the amount of fees or sometimes the notary does not dare to handle the case. This is one form of securing refunds and is also a concern of the Indonesian regulator, the Financial Services Authority (OJK). Insurance also needs to be considered if the guarantee can be insured, for example driving cars and motorcycles. The large demand for insurance for financing that is only a little is also an obstacle and it is difficult to get approval from the insurance so that the bank cannot intervene. In addition to the application of the 5C principle, third parties, namely notaries and insurance, also affect whether or not financing is approved, this is a form of prudent that is layered at BPRS Metro Madani Head Office.

From the application of the precautionary principle above, all aspects are important to do, but at BPRS Metro Madani Head Office there are the most important and most important aspects to be analyzed. Important and mainly, these aspects can be different from one marketing to another because each marketing has its own reasons. Some say that character assessment is important and some say that the main assessment is not character but capacity. Based on an interview with the Financing Analyst at BPRS Metro Madani Head Office, according to him, character and capacity tend to be the main assessment of capacity. This is because if the customer has a good and friendly character but does not have the ability to manage finances and return the loan is something in vain, especially if the customer has good character and good ability it is also a plus assessment for the customer.

The application of the precautionary principle of 5C + IS, 7P and the Maximum Limit of Fund Disbursement has been carried out correctly and precisely by BPRS Metro Madani Head Office According to Law Article 2 of Law Number 10 of 1998, an amendment to Law Number 7 of 1992 pertaining to Banking, Indonesian banks conduct their operations in accordance with economic democracy and the prudence principle. The viability of the utilization of the prudential guideline in supporting completed by BPRS Metro Madani Administrative center should be visible through the level of non-performing funding/NPF (Non-Performing Funding). NPF is a ratio used to determine the liability value of financing whose value has not been paid for by prospective customers.

The following are the details of Non Perfoming Financing consisting of the amount of financing, collectibility 3 (substandard), collectibility 4 (doubtful) and collectibility 5 (stuck) at BPRS Metro Madani Head Office during the period 2020 to 2022, namely:

Table 4: BPRS Metro Madani Collectibility Data Head Office. (in Rupiah).

| Year | Kol 3 (Substandard) | Kol 4 (Doubt) | Kol 5 (Bad) |
|---|---|---|---|
| 2020 | 463.336.886 | 333.283.426 | 1.913.936.883 |
| 2021 | 301.199.549 | 192.269.834 | 2.664.116.858 |
| 2022 | 689.313.536 | 654.030.851 | 1.939.971.628 |

Source: BPRS Metro Madani Financial Report Data

Table 5: Data on Amount of Financing and NPF Ratio. BPRS Metro Madani Head Office.

| Year | Financing Amount | NPF |
|---|---|---|
| 2020 | Rp 51.926.383.046 | 5,22 % |
| 2021 | Rp 83.755.603.209 | 3,77 % |
| 2022 | Rp 178.441.087.772 | 1,84 % |

Source: BPRS Metro Madani Financial Report Data

Based on the data above, it can be seen that there has been a decrease in non-performing financing from year to year, as seen from the NPF in 2020 of 5.22%, which shows that the financing risk is above the financing risk set by Bank Indonesia, which is above 5%. However, in the following year, non-performing financing decreased the NPF level to 3.77% in 2021 and also decreased again in 2022 to 1.84% from the previous year. This situation is caused by the high supervision carried out by BPRS Metro Madani Head Office on prospective customers receiving financing. There is a decrease in the level of non-performing financing (NPF) from year to year, this indicates that the precautionary principle has been implemented properly based on the application of the 5C + IS, 7P principles and the Maximum Limit of Fund Disbursement carried out by the BPRS Metro Madani Head Office.

## 5. Conclusion

The implementation of prudential banking principle or prudential principle in business capital financing at BPRS Metro Madani Head Office is to use feasibility analysis 5C + IS (character, capacity, capital, condition of economy, collateral, sharia), 7P (personality, party, purpose, prospect, payment, profitability, protection) and set the Maximum Limit of Fund Disbursement). In carrying out the feasibility analysis of BPRS Metro Madani customers, the Head Office prioritizes or the most important thing to do, namely the assessment on the capacity aspect, but also still pays attention to other aspects. In addition to applying this aspect analysis, it turns out that analysis alone is not enough in providing financing. So at BPRS Metro Madani Head Office in some casuistics there are also things that need to be considered, namely notaries and insurance. Third parties, namely notaries and insurance, also affect whether or not financing is approved, this is a form of prudent that is layered at BPRS Metro Madani Head Office.

The precautionary principle applied by BPRS Metro Madani Head Office in providing business capital financing has been carried out well by BPRS. The application of the principle of good prudence has a positive and good impact internally for the BPRS Metro Madani Head Office. This is evidenced by the decline in the level of problematic financing in BPRS from year to year. Although in 2020 the level of non-performing financing (NPF) was above 5% and exceeded the limit of the good category of NPF level based on Bank Indonesia regulations. However, through the continuous application of prudential principles, it is carried out carefully, carefully and carefully so that the level of non-performing financing has succeeded in decreasing in 2021-2022 with the NPF level below 5% and is included in the good category based on Bank Indonesia regulations.

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