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The Influence of Company Risk Management on the Effectiveness of Micro, Small and Medium (MSM) Distribution of Credits

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The research aims to examine the effect of COSO 2004 based Risk Management variables on the Effectiveness of Lending to PT Bank West Java and Banten, Tbk. This type of research uses an explanatory study. The study population was 65 branch offices, 57 sample offices with respondents from 65 MSM accounts / credit officers with purposive judgment sampling techniques according to the criteria of conducting MSM credit services. The analysis tool uses Structural Equal Modelling to test the variable loading factor on latent variables and goodness of fit. The results demonstrate that the model Confirmatory Factor Analysis shows all dimensions of Risk Management variables and Distribution Credit Effectively (DCF) variables are valid and reliable constructs with goodness of fit. Contribution of Risk Management variable variability to variability of Distribution Credit Effectively variable is quite good and the hypothesis shows that Risk Management is variable to effective Distribution Credit.

Key words: *Risk Management, Distribution Credit Effectively.*

Preliminary

Research Background

Economic growth is an indicator of a country's progress related to the role of financial institutions in the banking sector (Ekaulandari and Dwirandra, 2013). Bankingis deemed as a driver and economic facilitator in the development of the business world (Rini and Astuti, 2017). Banking potential is closely related to capital needs in an effort to stabilize and improve achievement of business goals (Papalangi, 2013). Banking has an important role as a provider of capital for the community. (Sadikin and Yani, 2015) and in its activities as raising funds, channelling funds and providing other bank services (Kasmir, 2017: 13). In its activities, the bank channelling loans in the form of financing can be in the form of money or bills whose value is measured by money, then there is an agreement between banks (creditors) and credit recipients (debtors) (Kasmir, 2017: 82).

Credit is provided if it is deemed returning credit can be returned on time (Ekaulandari and Dwirandra, 2013: 588). The effectiveness of credit is related to the fulfilment of the principles and procedures that credit can return according to the time set with a predetermined amount of interest. (Nafiah and Yuliana, 2015: 53; Rahman & Zhang, 2017). Provision of credit is channelled based on the needs of prospective debtors regarding capital requirements, business financing, capital accumulation, and utilization of facilities in the context of implementing and developing its business. One of the potential markets for lending is the small and medium business sector. (Nafiah and Yuliana, 2015: 52)

BI NO 17/12 / PBI / 2015 concerning provision of credit to micro, small and medium enterprises in the structure of the national economy confirms the regulation of commercial banks that are required to provide MSM loans or financing with the lowest portion set at 15%.

The fact is that at the end of 2017, the fulfilment of the MSM loan ratio was only 65% of 115 banks in Indonesia with a 15% portion. The majority of banks have not met the rules including: Regional Development Banks, National Private Commercial Banks in the category of Business Group Commercial Banks II and a small number of foreign banks (Tim Kontan, 2017).

The provision of credit that is not yet effective based on related facts is strengthened by the number of loans and non-performing loans for MSM in the Regional Development Banks for 2017.

The portion of MSM Loans in Regional Development Banks per Quarter of 2017

Year	**Quarter**	**Portion**
2017	I	5,40%
	II	7,24%
	III	7,85%
	IV	7,97%

Source: Financial Services Authority

Non-Performing MSM Loans in Regional Development Banks per Quarter of 2017

Year	**Quarter**	***Non Performing Loan***
2017	I	13,25%
	II	12%
	III	11,11%
	IV	10,18%

Source: Bank Indonesia

Banking difficulties in complying with central bank regulations regarding the obligation to fulfil MSM loan portion, namely: 1) office network problems in channelling MSM loans, 2) high risk level, and 3) difficulties in accessing debtor data because it is not bankable, 4) MSM credit restructuring problems namely moral hazard as a banking risk in channelling loans which prefer to auction debtor assets because the value of debtor assets is higher than the credit value and the debtor has limitations and constraints in negotiating with the bank to settle credit. (Team Republika, 2018).

BI No. 11/25 / PBI / 2009 states that risk management is a series of methodologies and procedures used to identify, measure, monitor and control risks arising from all business activities of the bank. Risk management needs to be effected as a conscious effort to identify, measure and control the form of losses that can arise continuously because a risk will always be faced by an agency and impact effectiveness in channelling credit. (Lidyana, Widodo and Dharmawan, 2016). The Committee of Sponsoring Organization of the Treadway Commission (COSO) issued an Enterprise Risk Management (ERM) - Integrated Framework in 2004 as a framework to help companies identify, measure and manage risk. ERM COSO 2004 has eight interrelated components, namely: internal environment, objective setting, event identification, risk assessment, risk response, control activities (control activities), information and communication (information and communication), and monitoring (monitoring). (Kurt et al, 2013)

Ekaulandari and Dwirandra's (2013) study on LPD in Gianyar Regency concluded that risk assessment has a negative effect on the effectiveness of lending and that information and communication has a positive effect on the effectiveness of lending systems and control activities have a positive effect on the effectiveness of lending systems and finally that monitoring does not affect the effectiveness of granting lending system and the control environment has a positive effect on the effectiveness of the lending system (Papalangi, 2013 entitled Application of SPI in supporting the effectiveness of SME lending at PT). BRI (Persero) Tbk Manado, use the control environment, risk assessment, information and communication, control activities, and monitoring as indicators of SPI and business credit applications, credit investigation and analysis, application of credit applications, approval of credit applications, credit agreements and credit disbursement as an indicator of the effectiveness of the lending system. Nafiah and Yuliana's (2015) research entitled The Effect of Internal Control Systems in Supporting the Effectiveness of the Small and Medium Enterprises (SME) Credit System at the Semarang KSP concluded that the internal control system had a significant effect in supporting the effectiveness of the SME lending system.
The research of Lidyana, Widodo and Dharmawan (2016) entitled The Role of Internal Audit and Risk Management on the Effectiveness of Credit Management at PT. Home Credit Indonesia concludes that internal audit has a positive and significant effect partially on the effectiveness of credit management, risk management has a negative and partially significant effect on the effectiveness of credit management and the application of internal audit and risk management has a positive and significant effect simultaneously on the effectiveness of credit management. The Rini, Astuti and Harimurti (2017) research entitled Implementation of the Internal Control System on the Effectiveness of Lending in the Swamitra Branch of Nusukan Loan and Savings Unit concluded that the elements of internal control are: organizational

structure, authorization and recording procedures, sound practices, employee quality affect and effectiveness credit.

The Literature Review identified the gap to be researched in order to confirm and measure how much influence Risk Management has on the effectiveness of MSM lending to PT Bank Jawa Barat and Banten, Tbk.

Literature Review

Credit

The provision of money or bills based on an agreement or loan agreement between the bank and another party that requires the borrower to repay the debt after a certain period of time with interest is called credit. The provision contains various risks based on the possibility of non-repayment of credit by the debtor at the end of the period (due).

Effectiveness of Lending

Effective credit is needed for credit analysis as a process of assessing the risk of lending to companies or to individuals. The main purpose of credit analysis is to determine the borrower's ability and sincerity to repay the loan in accordance with the terms of the agreement. Elements that must be considered by the Account / Credit Officer in conducting credit analysis include: Credit Leadership Policy (Management), Organization (Bank), Prospective Debtor Company, Bank Technology Information System. (Jopie Jusuf, 2014: 269-270)

Risk management

The fundamental concept of COSO defines Enterprise Risk Management (ERM) or Risk Management (RM) is a process in an organization that is influenced by individuals at managerial level based on company strategies at all organizational levels and units including the determination of risk portfolios. ERM COSO Components 2004: Internal Environment, Objective Settings, Event Identification, Risk Assessment, Risk Response, Control Activities, Information Communication, Monitoring (Saudi et al., 2019).

Method

The object of the research is PT Bank Jawa Barat and Banten, Tbk. The study population comprised 65 branches of MSM services. The sample was set at 57 branch offices using Purposive Jugging Sampling for each branch as many as 4 respondents with a total of 65 accounts / credit officers of MSM as a unit analysis with the criteria of respondents being their involvement in MSM credit services at PT Bank Jawa Barat and Banten, Tbk. The analysis tool uses the analysis of Structural Equal Modelling (SAM) to carry out confirmatory test of the conceptual loading factor of the research model and the hypothesis is based on explanatory research (Sinaga et al., 2019).

Results

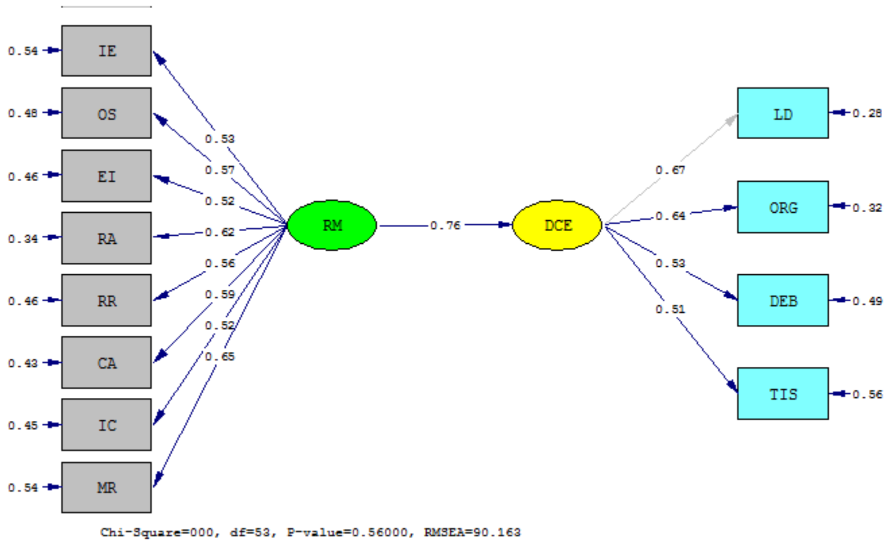
Validity test

Based on testing the instrument validity in 50 questions, the results show that each question item shows the value of r count> 0.5 Pearson correlation, so that all the items in question meet the validity test.

Reliability Test

Based on the testing of reliability instruments in 50 questions, the results show that each question item shows Cronbach Alpha value> 0.7 (Secuzo), thus all question items fulfil the reliability test.

Figure 1. First order loading Factor



Analysis of measurement models

Risk Management variable loading factor shows a value of> 0.50, which means that the standard loading factor above 0.50 can be concluded that the validity of all observed variables on latent variables is good (Kamarudin et al., 2019).

Observer Variable	Risk Management		
	Loading Factor	t -value	error
Internal Environment,	0,53	9,35	0,54
Objective Settings,	0,57	10,4	0,48
Event Identification,	0,52	7,51	0,46
Risk Assessment,	0,62	8,54	0,34

Observer Variable	Risk Management		
	Loading Factor	t -value	error
Risk Response,	0,56	22,79	0,46
Control Activities,	0,59	7,82	0,42
Information Communication,	0,52	8,47	0,45
Monitoring.	0,65	7,54	0,54
Total	4,56		3,69
∑ Loading Stand.Loading2	20,79		
Construct Reliability	0,85		
Variance Extracted	3,69		

Standard Construct Reliability value> 0.70 based on the results of testing the value of Construct Reliability 0.85> standard and the value of Variance Extracted standard 0.50 test results 3.69> 0.50 concluded the distribution Credit Effectively a reliable variable construct.

The DCE variable loading factor shows a value of> 0.50, which means the standard value of loading factor above 0.50.

Observer Variable	Distribution Credit Effectively (DCE)		
	Loading Factor	t -value	Error
Policy Management	0,67	6,6	0,28
Bank Organization	0,64	9,9	0,32
Debtor	0,53	7,17	0,47
Technology Information System	0,51	6,6	0,56
Total	2,35		1,63
∑ Loading Stand.Loading2	5,52		
Construct Reliability	0,77		
Variance Extracted	1,63		

The value of Construct Reliability is based on the standard> 0.70 based on the results of testing the value of Construct Reliability 0.77> the standard value of the Variance Extracted 0.50 test results 1.63> 0.50 and are concluded reliable DCE variable constructs.

Goodness of Fit Test

The results as follows:

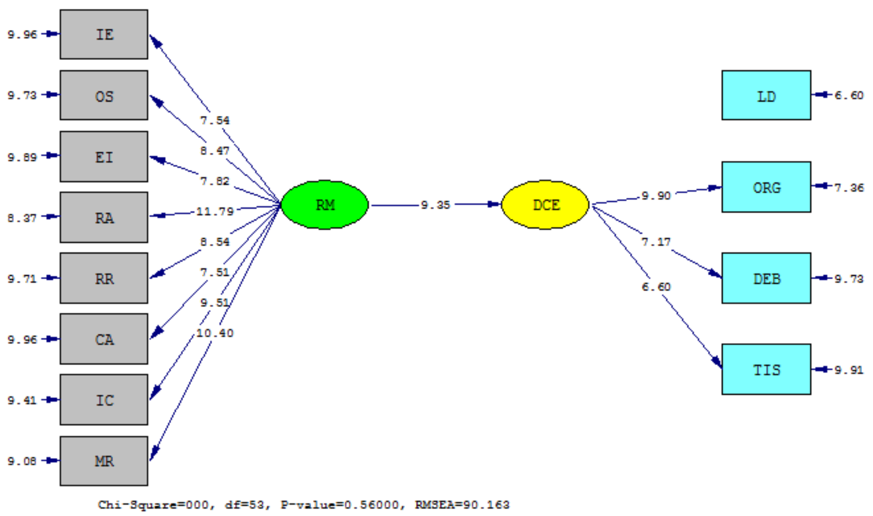
Testing	Standard Value	Test Result	Conclusion
Incremental Fit Index	≥ 0.90	0.94	Good Fit
Relative Fit Index	≥ 0.90	0,97	Good Fit
Critical N	= 200	256.67	Good Fit
Root Mean Square Residual	≤ 0.05	0.045	Good Fit
Goodness of Fit Index	≥ 0.90	0.98	Good Fit

The test results are obtained based on the standard test of IFI, RFI, CN, RMR, GFI is entirely above the standard, thus the conceptual paradigm model confirmed in empirical is good. The value of R^2 = 0.57 means that the variable variability of the RM contributes to the change in the DCE variable by 57%, the remaining 43% is the contribution of the variables not examined.

Hypothesis testing.

The target value of t the variable charge table at df = 53 shows the value of 2.0057, the value of t value based on the test results shows 9.35> 2.0057 and an estimate of 0.76> 0.50 thus the hypothesis is accepted namely the variable RM significantly influences the DCE , as shown below:

Figure 2. Load t value



Discussion

Implementation of Risk Management and Giving MSM Loans to PT Bank Jawa Barat and Banten, Tbk

1. Internal environment has been implemented, MSM credit leaders are responsible for decision making in credit management based on competency and managerial skills. The environment demonstrates integrity and understands ethical values and discipline in carrying out its duties.
2. Objective settings are implemented by using guidelines in MSM credit services with strategies based on vision and mission and considering risks and determining the maximum risk that can be accepted in credit services in an effort to comply with the regulations of a neutral bank.
3. Event identification is applied in identifying market conditions, force majeure, development of credit service technology information, bank infrastructure, losses that can arise in the credit service process using technology or the five senses in setting credit loan limits that can be given to MSMs.
4. Risk assessment is applied based on credit risk assessment that may occur in the debtor's balance sheet and administrative account position, possible liquidity risk from funding sources such as cash and bank assets that can be used, risks that may occur due to system failure and human error, risk arising when violating regulations and applicable laws of the central bank, as well as the risks that arise if the level of stakeholder trust and debtors is reduced due to inadequate credit services.
5. Response risk is applied in stopping risk-causing activities and following up debtors who have a risk of bad credit, taking steps to reduce risk by calculating the amount of credit interest in accordance with the ability of debtors to pay credit by referring to the agreement of both parties and accepting the risk if the risk does not can be controlled even more by the bank.
6. Control activities are implemented based on policies and procedures in controlling accounting and management information and implemented by credit leaders and credit officers. The credit leader always reviews the results of credit distribution in each period and controls the number of employees, the quality of employees, and employee turnover in lending. Credit leaders and credit officers reconcile regularly.
7. Information communication is applied regarding information on MSM credit services that can be accessed online regarding the requirements for applying for credit and the minimum and maximum amount of credit loans. Financial and non-financial information from MSMs was briefly analyzed by credit officers and communicated to credit leaders. Leaders and credit officers always maintain good relationships and have responsibility in delivering reliable, accurate, detailed, and available information in supporting credit services.

8. Monitoring is implemented in monitoring the performance of credit officers in relation to compliance with policies and procedures stipulated in routine billing, warning due date, bill amount and interest in accordance with the credit agreement and evaluating credit as material for decision making and development of MSM credit services.

Model Analysis

Risk Management is manifested as follows:

The Internal Environment manifest of the Risk Management variable is based on the proposition that: directors delegate the authority to give credit through credit policies to managers and staff who will receive sufficient and experienced training and be responsive to customer needs so that the credit provided will be effective.

Objective Settings manifest from the Risk Management variable that each credit officer official has the authority to decide on different amounts of credit according to the needs of the debtor and the amount of risk so that the effectiveness of lending is achieved. Credit decision making is based on the level of authority such as the level of office where the branch leader is lower than the regional leader. Every credit officer official has the authority to decide on different amounts of credit according to the needs of the debtor and the amount of risk so that the effectiveness of lending is achieved.

Event Identification manifest of the Risk Management variable, the company requires qualitative analysis internally such as the factors that are within the control of the company and externally such as those outside the company in analyzing the lending to achieve effectiveness.

The manifest Risk Assessment of the Risk Management variable, that risk analysis based on the impact and possibility that occurs is inherent credit risk will be higher if the bank credit growth is considered high such as the development of credit marketing with the new credit segment, namely the micro segment. There is a need to assess the risks that might arise to protect company property by minimizing the possibility of fraud, waste, credit congestion, and increasing efficiency and effectiveness of performance.

Risk Response planning is evident from the results of the Risk Management variable, that the reaction to the risk setting based on the risk assessment that has been carried out and the account / credit officer will determine whether avoidance is done which is to stop the activity that causes risk, reduction is to take steps to reduce risk, sharing is shared acceptance risk that is accepting the risks that occur.

Activities manifest control of the Risk Management variable that the effectiveness of lending through analysis of lending is influenced by human resource management such as the number of workers, quality of employees, employee turnover and accounting system as the ability and speed of the company to provide financial reports to banks in supporting credit decision making that effective information and communication from all levels and functions of the company in fulfilling its responsibilities, especially banking, such as credit offers made to the target banks based on a brief analysis, is the business's attempt to serve customers effectively.

Monitoring the manifest of the Risk Management variable that credit supervision can increase the effectiveness of efficiency at each stage of lending so that credit planning can be implemented properly.

The test results show that Risk Management has an effect on Distribution Credit Effectively. It can be illustrated empirically that MSM loans have been applied based on procedures from credit checking based on BI checking and leaders assessing prospective borrowers' credit viability and whether it runs smoothly, needs special attention, is not smooth, doubtful or bad credit and the existence of short and long term agreements in returning credit in accordance with the qualifications and determination of interest. Credit problems that occur at BJB Bank can be resolved by management based on good experience and credibility and consistent with credit policies and procedures. BJB Bank's Standard Operating Procedure (SOP) covers the purpose of credit, availability of credit facilities, credit ceiling amount, credit period, steps to fulfil credit requirements documents that must be fulfilled by the debtor and the person in charge of each procedure and each BJB Bank branch office having MSM credit services already have credit managers and MSM credit officers as responsible. Disbursement of funds as a realization of MSM loan disbursement is given according to applicable provisions such as disbursement at once or in stages where before conducting the credit disbursement, the background of MSM is assessed and analysis of 5C and 7P is continued with credit officers interviewing prospective debtors and appealing to balance which must be provided by MSMs and bankable and fulfill the quality of information that is relevant, understandable, timely, complete, accurate, and flexible so that credit applications can be accepted by BJB Bank.

Conclusion

The findings of this research of the appropriate paradigm research between theoretical and empirical shows that Risk Management affects the effectiveness of lending to MSM loans at PT Bank Jawa Barat and Banten, Tbk

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