Vol 3-Sep2018
ISSN: 2541-3023

The Implementation of Prudential Banking Principle In The Process of Channeling of Funds At Bank Riau Kepri Based on Banking Law

Sandra Dewi, Andrew Shandy Utama

Lecturer in Faculty of Law, Lancang Kuning University

*Corresponding Email : sandra.fh.unilak@gmail.com, andrew.fh.unilak@gmail.com

Abstract. A bank is a company whose business activities raise funds from the community, channel funds to the public, and provide financial services. Of the three business activities of the bank, the activity of channeling funds is an activity that is a source of income spread to banks. However, large profits are directly proportional to the high level of risk, namely the occurrence of non-performing loans. What is the implementation of prudential banking principle in the process of channeling funds to Bank Riau Kepri under the Banking Act? The method used in this research is socio-legal research. The results of this study that based on Law Number 10 of 1998 about Banking, credit provided by banks contains risks, so that in its implementation banks must pay attention to sound credit principles. To reduce this risk, before giving credit, banks must make a careful assessment of the character, ability, capital, collateral and business prospects of the customer, or better known as the principle of 5C (character, capacity, capital, collateral, and condition). The implementation of prudential banking principle in the process of channeling funds to Bank Riau Kepri is regulated in the form of Decree of the Board of Directors of Bank Riau Kepri Number 22 / KEPDIR / 2013 about Bank Credit Policy.

Kata kunci: Banking; Prudential Banking Principle; The Implementation

INTRODUCTION

In Indonesia, as mandated by Pancasila and the 1945 Constitution of the Republic of Indonesia, the goal of national development is the creation of a just and prosperous society based on economic democracy by developing a just economic system. In order to ensure the ongoing economic democracy, all the potentials, initiatives and creative power of the people must be mobilized and fully developed within limits that do not harm the public interest, so that all potential economic forces can be mobilized into real economic forces for the benefits of improvement. prosperity of the people. In order to achieve this goal, the implementation of economic development must pay more attention to harmony, harmony and balance of the elements of development equality, economic growth and national stability. One institution that has a strategic role in harmonizing, harmonizing and balancing each element of the development trilogy is banking.

Banking is everything related to banks, including institutions, business activities, and

Vol 3-Sep2018
ISSN: 2541-3023

ways and processes in carrying out its business activities. In simple terms, banks are defined as financial institutions whose business activities are collecting funds from the community and channeling the funds back to the community, as well as providing financial services (Kasmir, 2012). Correspondingly, based on Article 1 of Act Number 10 of 1998 concerning Banking, it is explained that banks are business entities that collect funds from the public in the form of deposits and channel them to the public in the form of credit and / or other forms in order to improve the living standards of the people many.

From the above definition, it is known that the business activities of a bank are collecting funds, distributing funds, and providing services. The Bank collects funds from the public in the form of deposits in the form of savings, time deposits and demand deposits by providing cash compensation, known as bank interest, to the public in accordance with the nominal amount of its deposits. After raising funds, the bank channels it to the public in the form of loans in the form of loans by asking for interest in the form of interest to the public in accordance with the nominal amount of the loan. In addition, banks also provide financial services that can provide convenience to the public in carrying out various financial transactions, such as money transfer services that can send money remotely within seconds.

Of the three business activities of the bank, lending activities are business activities that are a source of income spread to banks. However, large profits are directly proportional to the high level of risk, namely the occurrence of bad credit. Bad loans are defaults made by customers because customers do not fulfill their obligations to pay credit installments to banks as agreed in the credit agreement. Bad credit has the potential to be experienced by a bank because banks lend money to customers in cash while customers return it to the bank in installments in accordance with a mutually agreed time period.

This research was conducted at Bank Riau Kepri. Bank Riau Kepri is one of the companies owned by the Riau Provincial Government and the Government of the Riau Islands Province. From the observations made, the researchers obtained information that there were problems regarding the existence of non-performing loans caused by the lack of implementation of the prudential banking principle. In fact, some of them culminated in corruption cases. One of them is that in 2016, a corruption case was discovered at Bank Riau Kepri Pelalawan Branch in the form of a fictitious credit distribution of 50 billion rupiah to the Panca Ekatama Palm Farmer Cooperative.

From the background of the problems described above, the problem that will be discussed in this study is how is the implementation of prudential banking principles in the process of channeling of funds at Bank Riau Kepri based on Banking Law?

Vol 3-Sep2018
ISSN: 2541-3023

METHOD OF RESEARCH

Legal research is a scientific activity that is based on certain methods, systematics, and thoughts, which aims to study one or several specific legal symptoms by analyzing them (Soerjono Soekanto, 2007). The research method used in this research is socio-legal research. Data sources used in this research are primary data and secondary data. Primary data is data obtained directly from the results of observations and interviews at the research location; while secondary data is data obtained from scientific journals, legal literature, and legislation. Data collection techniques used in this research are observation, interview, and literature study. The data analysis technique used in this research is qualitative analysis.

RESULT OF RESEARCH AND DISCUSSION

Law Number 10 of 1998 about Banking confirms that banks are required to implement prudential banking principles in all of their business activities, including lending activities. In Article 8 of Law Number 10 of 1998 about Banking, it is explained that in distributing credit, banks must have confidence based on a good analysis of the intention and ability and ability of the customer to repay the debt as agreed. Therefore, in channeling credit to the community, banks must implement measures that do not harm their business and also do not harm the rights of customers who trust their money to be kept in the bank. This is because the money channeled by the bank in the form of credit is public money that is kept in the bank on the basis of trust, so the bank must continue to maintain the level of health and public trust in it.

Indonesian people have lost confidence in banks during the 1998 economic crisis. The economic crisis has become a destruction for the national banking system because many banks have not implemented prudential banking principles in managing their business activities. The concrete evidence that resulted from this was the freezing of the efforts of 38 private banks, including Ciputra Bank, Ganesha Bank, Pesona Bank, Alfa Bank, Aspac Bank, and so on. Furthermore, there are 7 private banks taken over by the government, namely RSI Bank, Putera Sukapura Bank, POS Bank, Artha Pratama Bank, Nusa Nasional Bank, Jaya Bank, and IFI Bank. In addition, there are also 4 state-owned banks, namely Dagang Bank, Exim Bank, Bumi Daya Bank, and Bapindo which were collapse and merged into Mandiri Bank (Andrew Shandy Utama, 2018).

The prudential banking principle means that the bank and the people involved in it, especially in making policies and carrying out their business activities, are obliged to carry out their respective duties and obligations carefully, thoroughly and professionally so as to gain

Vol 3-Sep2018
ISSN: 2541-3023

public trust. In addition, the bank in making policies and carrying out its business activities must always comply with all laws and regulations that are consistent with the basis of good faith. Trust from the community is the key to developing or not operating a bank's business (Hermansyah, 2006).

Implementation of prudential banking principle in the process of channeling funds to Bank Riau Kepri regulated in the Decree of the Directors of PT Bank Riau Kepri Number 22 / KEPDIR / 2013 concerning Bank Credit Policy, which covers the principal policies in credit, procedures for assessing credit quality, professionalism and integrity of credit officials , the code of ethics for credit officers, as well as sanctions for violations.

1. **Principal Policy in Credit**

The main policy in credit is a policy that must be carried out each will give credit to prospective borrowers or debtors by always taking into account the principle of benefit, which is beneficial and beneficial for the bank, beneficial to economic growth, and beneficial to the business development of the debtor while still prioritizing the principle of prudence .

The principal policies in credit include healthy credit procedures, application of risk management, ceiling or capitalization, handling of non-performing loans, establishment of loan allowance, allowance for impairment losses, write-off loans, collectible loans, collateral credit, maximum lending limit, credit determination which contains high risks, prohibited credit, policies for setting credit interest rates, credit guarantee policies, policies to support foreign trade (export-import) and domestic activities (buying and selling), as well as annual credit budgets.

2. **Procedure for Evaluating Credit Quality**

Bank Riau Kepri assesses credit quality in accordance with the regulations set by Bank Indonesia. The implementation of credit analysis at Bank Riau Kepri in accordance with existing operational standards by using the principle of 5C to assess character, capacity, capital, condition, and collateral.

3. **Professionalism and Integrity of Credit Officials**

Commissioners, Directors, officials, and all employees of Bank Riau Kepri who are related to credit must uphold professionalism in the credit sector and understand the provisions of the Banking Law, Bank Indonesia Regulations and internal bank regulations.

4. **Credit Officer Code of Ethics**

All officials and employees in charge of credit must comply with the code of ethics as follows:

 Vol 3-Sep2018
ISSN: 2541-3023

a. Obedient and obedient to the prevailing laws and regulations and credit regulations, both external and internal.
b. Independent, honest and objective.
c. Do not abuse his authority for personal, family and / or other parties.
d. Avoid involvement in decision making in the event of a conflict of interest.
e. Must take into account the impacts that can be detrimental to any policy of granting credit to economic, social and environmental activities.
f. Do not accept any gifts or rewards that affect their professional opinion in credit assessment or decisions.
g. Do not carry out disgraceful actions that can harm the image of the profession.
h. Maintain the confidentiality of customers and banks.
i. Avoiding unhealthy competition.

5. **Sanctions for violations**

An official or employee related to credit can be penalized if:

a. Conduct acts against the law and the prevailing laws, including, among others, making engineering and practices that deviate from banking provisions; conduct actions that can be categorized as providing benefits to owners, managers, employees and / or other parties that can harm or reduce the profits of the bank; and actions that violate the principle of prudence in granting credit.
b. Conduct violations / irregularities in the Code of Ethics of Bank Credit Officers.
c. Conduct violations and irregularities or not comply with the statutory provisions and credit regulations that have been regulated in this decree.

CONCLUSION

A bank is a company whose business activities raise funds from the community, channel funds to the public, and provide financial services. Of the three business activities of the bank, the activity of channeling funds is an activity that is a source of income spread to banks. However, large profits are directly proportional to the high level of risk, namely the occurrence of bad credit. Based on Law Number 10 of 1998 about Banking, loans provided by banks contain risks, so that in its implementation banks must pay attention to sound credit principles. To reduce this risk, before giving credit, banks must make a careful assessment of the character, ability, capital, collateral and business prospects of the customer, or better known as the principle of 5C (character, capacity, capital, collateral, and condition). Implementation of prudential banking principles in the process of channeling funds to Bank Riau Kepri regulated in the Decree of the Board of Directors of Bank Riau Kepri Number 22 / KEPDIR / 2013 concerning Bank Credit Policy.

REFERENCES

[1] Hermansyah. (2006). *Indonesian National Banking Law*. Kencana: Jakarta.

[2] Kasmir. (2012). *Basics of Banking*. Rajawali Pers: Jakarta.

[3] Lailiyah, A. (2014). 5C Analysis Urgency in Providing Banking Loans to Minimize Risk. *Yuridika Journal*, Vol. 29, No. 2, pp. 217-232.

[4] Suharto, E.S.; Pertiwi, N.D.; Tirtasari, Y.A. (2015). Risks in Banking Credit Agreements According to Bank Indonesia Regulation Number 5/8 / PBI / 2003 about Application of Risk Management for Commercial Banks. Privat Law Journal, Ed. 7, pp. 36-41.

[5] Utama, A.S. (2018). Oversight of Supervision of State-Owned Enterprise Banks in the National Legal System in Indonesia. Soumatera Law Review Journal, Vol. 8, No. 2, pp. 1-21.