



Internal Control Of Multi-Purpose Credit Granting: Case Study Of Bank Xyz In Indonesia

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ABSTRACT

This research aims to analyze internal control in the provision of Multi-Purpose Credit (KSM) at Bank XYZ Branch XX. The primary focus of this study is to understand how control activities can minimize credit risk faced by the bank. Credit risk refers to the potential loss incurred by lenders due to borrowers failing to meet their obligations as per the agreed terms. In this context, effective internal control is crucial to ensure that all aspects of credit provision are carried out accurately and properly. Control activities encompass a series of procedures and policies designed to manage credit risk, including application processes, document review, risk assessment, credit approval, and periodic monitoring of credit after disbursement. Multi-Purpose Credit is an unsecured product offered to permanent employees with a maximum loan limit of IDR 1,500,000,000 and a maximum tenor of 15 years. This study also explores the actions taken by the bank against employees who violate SOPs in the provision of KSM. By utilizing qualitative analysis methods, this research is expected to provide deeper insights into the effectiveness of internal control in credit provision, as well as recommendations for improving the existing control systems. The findings of this research are anticipated to serve as a reference for the bank in enhancing the quality of credit control and reducing potential risks in the future.

INTRODUCTION

In this digital era, banks play an important role in supporting business activities. This is evidenced by the many parties who need banking services, both individuals and institutions. The banking services in question include savings and loans (credit).

Credit is one of the important elements in the economy. In general, credit can be defined as an agreement between two parties, where one party (creditor) provides a certain amount of money or goods to another party (debtor) with the hope of receiving a return at a predetermined time. The provision of credit is based on the principle of trust, one of which is in the provision of unsecured credit which relies on trust between the bank (creditor) and the customer (debtor). However, the provision of unsecured credit also carries risks for financial institutions, known as "credit risk." Credit risk is the possibility that the party lending money, such as a bank, will suffer losses due to the borrower being reluctant to return the money or bills they receive in accordance with the agreement that has been made (Sutrisno, et al., 2023). To manage credit risk and minimize potential losses that may occur, banks need to pay attention to control activities in providing credit.

Control in credit management involves a series of procedures and policies designed to ensure that all aspects of credit provision are carried out appropriately and accurately. The credit provision process refers to the banking Technical Operational Instructions (PTO), such as the application process, document review, risk assessment, credit approval, and periodic monitoring of credit after disbursement. In addition, the audit committee is responsible for overseeing the credit provision process to ensure that there is no misappropriation that could result in losses for the bank, including losses that will be suffered by Bank XYZ.

Bank XYZ develops a business strategy by collaborating with companies in the Payroll Cooperation Agreement system, making it easier for Bank XYZ to distribute banking products to all company employees and government agencies. One of them is the provision of Mandiri Multipurpose Credit (KSM). KSM is a maximum of IDR 1,500,000,000 (one billion five hundred million rupiah) and a maximum tenor of 15 years. The installment payment mechanism is carried out every month by direct debit from the salary account. Based on previous research, a research gap or difference in conclusions was found regarding Internal Credit Control. The results of the study by Purba, H.A.T., et al. (2024) regarding Internal Credit Control at Bank XYZ Stabat Branch showed that credit granting activities were in accordance with procedures, is a credit with unsecured facilities at Bank XYZ which is intended for Permanent Employees, with a loan limit including verification of customer data, in-depth credit analysis, and separation of duties, thus minimizing the risk of bad credit. With strict control, the credit disbursed is right on target and does not harm the bank. However, this is not in line with the results of observations made by researchers at Bank XYZ Branch XX, where there are customers with bad credit. The data regarding the provision of non-performing loans of KSM at Bank XYZ Branch XX based on collectibility 2A - 5 months May 2024 is as follows





Table 1. Collectibility 2A - 5 Months May 2024 PT Bank XYZ Branch XX

Kolektibilitas	Total Kredit yang tersalurkan	Kolektibilitas						TOTAL KREDIT MACET
		2A	2B	2C	3	4	5	
1		496,265,076.55						496,265,076.55
2A		2,215,443,633.86						2,215,443,633.86
2B			858,977,040.77					858,977,040.77
2C				416,637,311.74	246,949,042.19			663,586,353.93
3					730,280,645.90			730,280,645.90
4						3,351,203,345.83		3,351,203,345.83
5							295,759,635.17	295,759,635.17
Grand Total	210,038,500,000.00	2,711,708,710.41	858,977,040.77	416,637,311.74	977,229,688.09	3,351,203,345.83	295,759,635.17	8,611,515,732.01
Keterangan :								
Upgrade								
Stay								
Downgrade								

Table 1 identifies that the provision of Mandiri Multipurpose Credit distributed by Bank XYZ Branch XX is experiencing problems. The data shows that in May 2024, the total non-performing loans at Branch XX reached IDR 8,611,515,732 from the total credit distributed of IDR 210,038,500,000. So that the branch's Non-Performing Loan (NPL) ratio reached 4%. Although this figure is still below the maximum limit set by the Financial Services Authority (OJK), which is 5%, it still indicates problems in credit risk management. Based on the collectibility analysis, it was found that several debtors experienced stay (remain in the same category) and downgrade (decrease in collectibility category), which indicates the weak effectiveness of internal control in credit risk mitigation. Several factors that contributed to the high number of bad debts at Bank XYZ Branch XX include the absence of a payroll transfer statement letter during the credit period, which makes it difficult for the bank to verify the validity of customer data. In addition, there are irregularities in filling out the credit application form related to the debtor's employment status, which has the potential to increase the risk of default. The unavailability of official reports from the company regarding employees receiving KSM facilities is also an obstacle in the supervision process. In addition, the unrenewed payroll cooperation agreement hinders the bank from conducting data validation and risk analysis accurately.

This situation has serious consequences for the financial stability of Bank XYZ, considering that the increasing number of bad loans can have an impact on the profitability and sustainability of the banking business. Therefore, a comprehensive evaluation of the internal control system is needed that is applied in the provision of KSM in order to minimize credit risk in the future.

LITERATURE REVIEW

A bank is a financial institution tasked with collecting funds from the public in the form of deposits and distributing them back to the public in the form of credit and other forms. According to Law of the Republic of Indonesia No. 4 of 2023, a bank is a business entity that collects funds from the public in the form of deposits and distributes them to the public in the form of credit and other forms in order to improve the standard of living of the people.

According to Kasmir (2019:4), a bank is a financial institution whose activities include

1. Collecting funds (money) from the public in the form of deposits, meaning in this case the bank is a place to store money or invest for the public
2. Distributing funds to the public, meaning that the bank provides loans (credit) to people who apply. In other words, the bank provides loans to people who need them
3. Providing other banking services such as money transfers, collection of securities within the city (clering), collection of securities outside the city and abroad (inkaso), letters of credit, safe deposit boxes, bank guarantees, bank notes, traveler's checks and other banking transactions.

Internal Control COSO can be understood that internal control is a process because it penetrates into the operational activities of an organization and is an inseparable part of basic management activities. Internal control can only provide adequate assurance, but cannot provide absolute hope. This proves that even though internal control is designed and operated at that level, it can only provide adequate assurance, and even the design and structure of internal control cannot fully and effectively achieve internal control objectives.

According to Romney & Steinbart (2018) states that internal control has three important functions, namely as follows:

1. Preventive Controls. This control is an internal control to prevent problems before they arise. Examples include recruiting qualified personnel, separating duties between employees, and controlling assets and information.
2. Detective Controls. This control is an internal control to find problems that cannot be prevented. Examples include re-checking calculations and preparing bank reconciliations and monthly trial balances.
3. Corrective Controls. This control is an internal control that is useful for identifying and correcting problems found and recovering from errors. Examples include maintaining backup copies of documents, correcting errors



in data entry, and resubmitting transactions for further processing.

Credit

In the context of banking, one of the main aspects that supports the intermediation function is the provision of credit, which fundamentally plays an important role as an instrument in driving economic growth by providing financing for various sectors.

According to Anwar in (Andrianto, Fatihudin, D., & Firmansyah, A 2019) Credit is the transfer of goods, services or money from one party (creditor or lender) on the basis of trust to another party (debtor or debtor) with a promise to pay from the credit recipient to the creditor on a date agreed upon by both parties.

The elements of credit (Andrianto, 2020) include:

1. Time, which states that there is a gap between the time of approval of the credit and its repayment.
2. Trust, which underlies the provision of credit by the creditor to the debtor, that after a certain period of time the debtor will return it according to the agreement that has been agreed upon by both parties.
3. Submission, which states that the creditor will submit the economic value to the debtor which must be returned according to the due date.
4. Risk, which states that there is a risk that may arise during a certain period of time between the provision and its repayment.
5. Agreement or Contract, which states that there is an agreement between the creditor and the debtor and is proven by the existence of an agreement.

Mandiri Multipurpose Credit (KSM) is one type of consumer credit provided by the Bank to active employees who have a fixed income to finance various needs. The purpose of Mandiri Multipurpose Credit (KSM) is to finance various needs (multipurpose), as long as it does not violate morality, public order and is contrary to the law. The fine for late payment of credit installments (principal and interest) is 2% above the applicable interest rate and is calculated from the amount of arrears. The amount of the late fine can change according to the authority of the Group Head of Micro Banking. Meanwhile, Mandiri Multipurpose Credit (KSM) is given for:

1. PN S/TNI/POLRI where the terms and conditions are:
 - a. Have a Decree as a Civil Servant
 - b. Minimum income of IDR 1.5 million.
 - c. Minimum age 21 years/married
 - d. Maximum age 55 years (when credit is paid off)/in accordance with retirement provisions
2. BUMN/BUMN where the terms and conditions are:
 - a. Have become a permanent employee and attach a Decree of Appointment
 - b. Minimum age 21 years/married
 - c. Minimum monthly income of IDR 1 million
 - d. Maximum age 56 years (when credit is paid off) or in accordance with provisions
3. Private Employees where the terms and conditions are:
 - a. Have become a permanent employee and attach a Decree of Appointment
 - b. Minimum age 21 years/married
 - c. Minimum monthly income of IDR 1 million
 - d. Maximum age 55 years (when credit is paid off) or according to the provisions

In addition, there are also several other advantages offered by Bank XYZ, including:

1. Fast and easy process
2. Attractive interest rates and admin fees
3. Fixed credit installments until paid off
4. No collateral
5. 15-year installment period with a limit of 1.5 M
6. Flexible life insurance protection In addition, regarding the KSM Guarantee, the Bank in providing credit to debtors certainly requires collateral for the credit given. However, currently many banks have started to provide credit without collateral (collateral). Mandiri Multipurpose Credit (KSM) does not require collateral in the form of material.

In the Mandiri Multipurpose Credit product, there are 2 (two) types of settlement fines, namely:

1. Partial repayment of credit before maturity is permitted, but is subject to a fine of 4% of the outstanding debit balance. Repayment of all credit before maturity is permitted with the provision that it is carried out on the due date of the monthly installment payment.
2. Repayment of all credit before maturity will be subject to a fine of 8% of the debit balance. If the repayment date is not the same as the due date of the monthly installment payment, then the calculation of the full repayment before maturity is based on the current period's debit balance plus the current interest.



Factors Causing Problematic Credit Problematic credit describes a situation where the agreement for credit payment fails or is hampered and will ultimately result in losses. The factors causing problem credit according to Andriano (2020:185-186):

1. From the debtor's side
 - a. Lack of good faith from the debtor
 - b. The decline in the debtor's business results in a decrease in the debtor's ability to pay installments.
 - c. The debtor does not have sufficient knowledge and experience in managing the business so that his business does not run well.
 - d. The debtor's dishonesty in using credit that is not in accordance with the original purpose in the credit agreement.
2. From the Bank
 - a. Bad faith from bank officers for personal interests such as bank employees who realize debtor credit who give compensation for the disbursement of the credit.
 - b. Inability of bank officers in managing credit provision from application submission to credit disbursement.
 - c. Ineffectiveness of bank officers in fostering debtors, so that debtors easily take advantage of loopholes to try to commit violations or break promises (default).

Non Performing Loan is a comparison between non-performing loans and total loans (Ismail, 2018:32), while Sorongan (2020) argues that Non Performing Loan is an indicator to measure the bank's business risk ratio which indicates the magnitude of the risk of non-performing loans that occur in the bank. This ratio also shows the quality of the bank's credit portfolio. If the ratio is low or there is a downward trend in a certain period, it indicates that a minimum risk strategy has been implemented. The lower the NPL ratio, the lower the level of non-performing loans, and vice versa, the higher the NPL ratio, the greater the credit risk that will be borne by the bank (Vanni, 2017).

According to OJK Regulation Number 40/POJK.03 (2019) Credit Collectibility is the state of payment of principal or installments of principal and interest on credit by customers and the level of possibility of receiving funds invested in securities or other investments.

According to OJK Regulation Number 40/POJK.03 (2019), the classification of credit based on Collectibility is as follows:

1. Collectibility 1 A person's credit value is considered smooth if he always pays the principal and interest on time. In addition, there are no arrears on his account and the health of the account is in accordance with credit requirements.
2. Collectibility 2 means that a person is in special attention because he is in arrears in paying the principal or interest for 1 to 90 days.
3. Collectibility 3 Credibility 3 is a value that indicates that a person's credit quality is less smooth because he is in arrears in paying the principal or interest within a period of 91 to 120 days.
4. Collectibility 4 Further assessment in the collection tibility is the status of "Doubtful" if the debtor is in arrears of payment for approximately 121 to 180 days.
5. Collectibility 5 is said to be stuck if the debtor is late in making payments for more than 180 days. According to Sorongan (2020), (Vanni, 2017), and the Indonesian Bankers Association (2016:31) the formula for the Non Performing Loan variable is as follows:

$$NPL = \frac{\text{Total Kredit Bermasalah}}{\text{Total Kredit}} \times 100\%$$

METHOD

This type of research uses a descriptive method with a qualitative approach. This study provides an accurate description and explanation of the conditions or symptoms faced. According to Sugiyono (2020:9) qualitative research methods are research methods used to research natural object conditions, where researchers are key instruments, data collection techniques are carried out by triangulation (combination), data analysis is inductive, and qualitative research results emphasize meaning rather than generalization. This study aims to provide a description, describe and interpret the existing conditions related to Internal Control of Mandiri Multipurpose Credit Provision at PT. Bank XYZ.

RESULT

Internal Control Process for Mandiri Multipurpose Credit Provision Implemented at PT. Bank XYZ Branch XX The process of providing Mandiri Multipurpose Credit at PT. Bank XYZ Branch XX follows a series of systematic and structured steps. The following are the details of the process flow:

1. Credit Application: Prospective debtors submit a credit application by submitting the required documents, including Identity Card (KTP), Taxpayer Identification Number (NPWP), pay slip, and Decree (SK) of appointment. This document is the basis for verifying the identity and eligibility of the debtor.
2. Document Verification: After the application is received, the Branch Sales Manager is responsible for verifying





the validity and completeness of the submitted documents. This verification includes checking the conformity of the information provided by the debtor with the data in the bank.

3. Inputting Data into the System: After the verification process is complete and the documents are declared complete, the Sales Generalist will input the debtor's data into the Loan Origination System (LOS). The data entered must be accurate and organized to facilitate the next process.
4. Credit Analysis: Next, the Micro Credit Analyst conducts a creditworthiness analysis based on the 5C principle (Character, Capacity, Collateral, Capital, and Condition of Economy). This analysis is important to assess whether the debtor meets the requirements for credit.
5. Review by the Regional Credit Center (RCC) Team: The analyzed data is then sent to the Regional Credit Center Team for further review. The RCC confirms the information submitted, both with the debtor and the company where the debtor works, to ensure data accuracy.
6. Credit Decision: After all steps have been taken, the RCC makes a decision regarding credit approval. If approved, the bank will proceed with the disbursement of funds to the debtor's account.

Analysis of Four Problems in the Provision of Mandiri Multipurpose Credit Implemented at PT. Bank XYZ Branch XX with the COSO Framework From the analysis conducted, several problems in the internal control process at PT. Bank XYZ Branch XX were identified, including:

1. Deficiencies in Document Collection: It was found that several important documents, such as a statement letter prohibiting the transfer of payroll, were often not included in the application. This can cause debtors to move to other banks, which increases the risk of bad debt for the bank.
2. Information Manipulation: There were cases where several employees listed debtors as permanent employees even though their status was invalid. The pressure to meet high targets triggered manipulative practices in filling in debtor data.
3. Lack of Communication and Monitoring: Ineffective communication between the bank and the company resulted in an information gap. The bank did not receive the latest updates on the debtor's status, which is important for better risk management.

Recommendations Made by the Bank Against Employees Who Violated Standard Operating Procedures (SOP) in the Provision of Mandiri Multipurpose Credit Implemented at PT. Bank XYZ Branch XX If employees violate the rules in distributing Mandiri Multipurpose Credit, they will be punished according to the provisions in force at Bank XYZ. This punishment policy is designed to minimize violations and improve employee performance, so that higher productivity can be created. The research conducted shows that sanctions are imposed based on existing standard operating procedures (SOPs), which serve as guidelines for all employees. One informant emphasized that all employees, without exception, will be subject to sanctions if they make mistakes or violate established norms and rules. PT. Bank XYZ took several firm steps to improve the situation, including:

1. Reprimands and Sanctions: Employees who violate procedures will be given a reprimand by the branch manager. The sanctions given vary depending on the level of violation, ranging from minor reprimands to more severe disciplinary actions, such as job transfers or termination of employment (PHK) for very serious violations
2. Education and Training: Bank XYZ holds regular training programs to improve employee understanding of banking products and the importance of compliance with SOPs. This training aims to build awareness of ethics and responsibility in managing debtor data, as well as encourage employees to carry out their duties with integrity.
3. Routine Audit and Monitoring: The bank conducts routine audits of the credit application process to detect potential irregularities. This audit aims to ensure that all procedures are followed properly and to identify problems before they become bigger.
4. Improvement of Control System: In an effort to improve the internal control system, the bank improves the debtor information verification procedure. In addition, communication with related companies is also strengthened to ensure that the information received is always accurate and up-to-date.

DISCUSSION

In this section, the researchers can give a simple discussion related to the results of the research trials. This section contains the author's opinion about the research results obtained. Common features of the discussion section include the comparison between measured and modeled data or comparison among various modeling methods, the results obtained to solve a specific engineering or scientific problem, and further explanation of new and significant findings



CONCLUSION

Based on the results of the study and discussion regarding the analysis of internal control activities in the provision of Mandiri Multipurpose Credit at Bank XYZ Branch XX, it can be concluded that

1. Weaknesses in Internal Control: The internal control process is not optimal, with weaknesses in the completeness of documents, communication effectiveness, and less stringent verification procedures. This increases the risk of bad debts and non-compliance with the Technical Operational Instructions (PTO) and Standard Operating Procedures (SOP), which can result in financial losses. Interviews with informants showed that every element in the credit granting process is very important, but lack of coordination is a contributing factor to the problem. Analysis using the COSO framework indicates the need for improvements in the control environment, risk assessment, and control activities.
2. Sanction Policy: Bank XYZ implements a strict sanction policy against employees who violate SOPs, including reprimands, job transfers, demotions, or termination of employment (PHK) for serious violations. This policy aims to minimize violations, improve performance, and create a disciplined work culture. The bank is also committed to providing training so that employees understand the responsibilities and consequences of violations.

To improve internal control in providing Mandiri Multipurpose Credit at Bank XYZ Branch XX, it is recommended:

1. Strengthening Verification Procedures: The bank needs to set stricter document verification standards, including requesting a statement letter prohibiting payroll transfers. Credit applications must be rejected if documents are incomplete.
2. Routine Training: Banks should hold regular training and information sharing sessions related to irregularities that occur, so that employees can understand the provisions and work optimally.
3. Improving Communication Channels: Banks need to strengthen communication channels with companies, such as conducting visits to monitor the status of employees who receive KSM facilities. This aims to create transparent relationships and increase debtor satisfaction.

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