



Paper 41

Risk Management in Collateral Credit: A Case Study in PT. Jamkrida (Perseroda) Sulawesi

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Abstract – This paper presents an exploratory study regarding risk management in collateral credit organizations, particularly in PT. Penjaminan Kredit Daerah (Jamkrida) (Perseroda) Sulawesi Selatan. The term collateral credit is unfamiliar to some people, even though the role of collateral credit is essential for MSMEs before applying for credit loans in a specific bank. In addition, the organization's role in supporting MSMEs is in line with their vision, contributing to regional economic development. This paper aims to determine the business process of collateral credit organization; to identify its risk management application; to determine the internal and external analysis of the business in order to achieve public awareness regarding collateral credit. The research methodology used in this paper is a qualitative approach using by exploratory case study method. The data was collected from the interview with board of commissioners and collateral credit manager. Furthermore, the analysis of TOWS strategy resulted in an in-depth analysis of PT. Jamkrida's business's development purpose.

Keywords – Collateral Credit; MSMEs; Regional Economic Development; Risk Management.

I. INTRODUCTION

Since the COVID-19 pandemic has struck, many micro, small, and medium-sized enterprise (MSMEs) were affected for its business disruptions. The essential in MSMEs business is the external funding supported by banks [1]. Before applying for its external funding request, collateral is one of crucial document after its financial reporting. The role of collateral is to make sure that loan term contracts is at low risk to smooth the process of credit acquisition for MSMEs [2].

In line with the background of the importance of collateral for credit acquisition, PT. Penjaminan Kredit Daerah (Jamkrida) (Perseroda) Sulawesi Selatan (Sulsel) which is located in Makassar, Indonesia offers services of issuing the collateral for local MSMEs. It is a Regional-Owned Enterprise with the objectives of providing MSMEs collateral credit for loan purposes that considered to meet two of the objectives, which are: (a) to support local MSME to receive their external funding; and (b) to increase regional economic development.

Collateral is used by banks as its defense to reduce their

exposure to loss [3]. The role of PT. Jamkrida (Perseroda) Sulsel is as an intermediary for MSMEs business owner and banks. From the side of business owner, it smooths the process of external funding from banks, on the other hand, from the side of banks, PT. Jamkrida (Perseroda) Sulsel will provide loan guarantees to business owners without having to worry about experiencing losses in the future. In addition, from the side of government, collateral credit organization can be considered as an option to increase the awareness of regional economic improvement.

PT. Jamkrida (Perseroda) Sulsel has an organization consisting of President Commissioner, Board of Commissioners (Independent), and Board of Directors as their top management level. Under the BoD, internal auditors, collateral expert staffs, and department managers are responsible for the middle management.

In 2020, PT. Jamkrida (Perseroda) Sulsel has faced significant growth for its customers, especially for the collateral credit products it has issued. An increase of 200% from 2019, indicating that there were significant customers who have known PT. Jamkrida (Perseroda) Sulsel functions in increasing business funding. Therefore, the objective of this paper includes (a) to determine the business process of collateral credit organization; (b) to identify its management application risk (c) to determine the internal and external analysis of the business in order to achieve public awareness regarding collateral credit.

II. METHODOLOGY

The research questions include the following:

1. How is the business process of PT. Jamkrida (Perseroda) Sulsel?
2. How is PT. Jamkrida (Perseroda) Sulsel overcome its risk management?
3. What are the elements of PT. Jamkrida (Perseroda) Sulsel in developing its business?

This paper uses qualitative research by exploring a case study phenomenon of collateral credit, particularly in PT. Jamkrida (Perseroda) Sulsel. The primary data was collected from the interview with board of commissioners and the collateral credit manager.

III. RESULTS

Business Process of PT. Jamkrida (Perseroda) Sulsel

The business process of PT. Jamkrida (Perseroda) Sulsel is started from the agreement with business partner, such as Bank, Rural Bank, Revolving Fund Management Institution, Coop, Reinsurance or Re-warranty, Project Owners, Contractors, etc. There are three products offered to its customer, which are collateral credit, surety bond, and counter bank guarantee. Each product has different business process in issuing the collateral certificates.

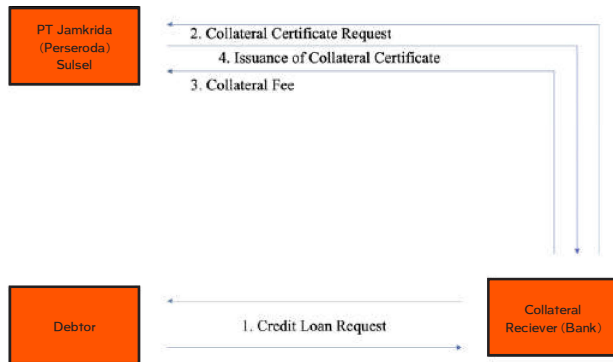


Fig. 1. Collateral Credit Certificate Issuance Process

Fig. 1 shows the certificate issuance process for collateral credit products. There are two systems in the collateral credit certificate issuance, which are automatic cover, and case by case. Automatic cover is a credit guarantee provided automatically based on the agreement if the collateral value is low or small. On the other hand, case by case, a guarantee is provided based on submission by collateral receiver (Bank) if the collateral value is high or large. The debtor will apply credit loan to the bank, and bank as the recipient of collateral letter will do the first screening for the debtor's eligibility for credit loan to secure the credit acquisition that will be given to the debtor. Bank will pay the collateral fee to PT. Jamkrida (Perseroda) Sulsel before the issuance of the collateral certificate. There are three types of credit that can be guaranteed, which are consumptive, productive, and constructive.

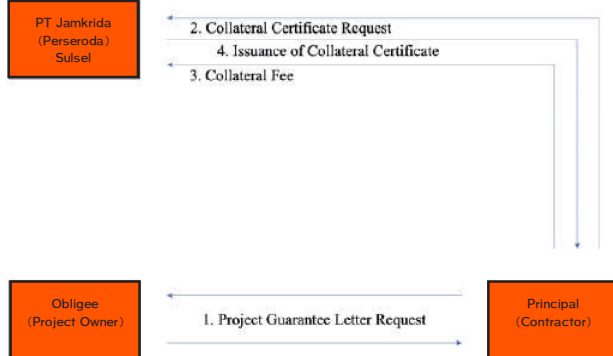


Fig. 2. Surety Bond Issuance

Fig. 2 shows the surety bond issuance process. Surety bond means a bond that guarantees the performance of the principal (contractor) and obligee (project owner). The warranties given to the principal (contractor) for project-related activities that are provided or to be provided by the obligee (project owner). There are four types of surety bonds issued, which are bid bonds, performance bonds, advance payment bonds, and maintenance bonds.

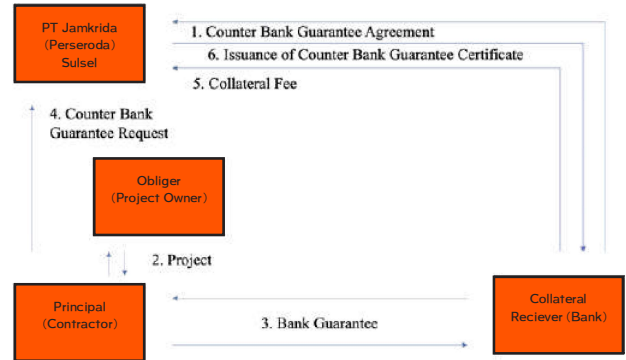


Fig. 3. Counter Bank Guarantee Agreement

Fig. 3 shows Counter Bank Guarantee Agreement. Counter Bank Guarantee Agreement is a bank guarantee provided that is issued by the bank against the guarantee of the work performance of principal (contractor). The type of counter bank guarantee issued are the same as surety bond. The bank will request for counter bank guarantee agreement with PT. Jamkrida (Perseroda) Sulsel, while the principal and obligee are working on a project agreement. The principal will request a bank guarantee for Bank and PT. Jamkrida (Perseroda) Sulsel. Before issuing, the counter bank guarantee certificate to the recipient of collateral, bank must pay a collateral fee to PT. Jamkrida (Perseroda) Sulsel.



Fig. 3. Counter Bank Guarantee Agreement

Fig. 4 shows the reinsurance process, a guarantee on collateral provided by PT. Jamkrida (Perseroda) Sulsel against the debtor or contractor. The collateral was made by PT. Jamkrida (Perseroda) Sulsel will be re-guaranteed to the re-warranty or reinsurance company, which will be assumed that the risk is getting smaller. However, the guaranteed fee will also be decreased. It is usually done

for large projects that involve a large value of collateral credit to avoid high risk of failed-to-pay and result in credit claims by collateral recipients.

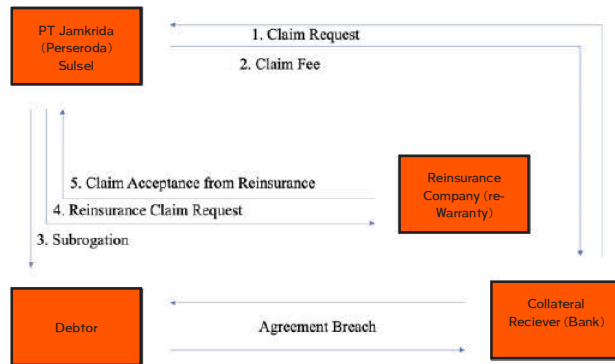


Fig. 5. Claim Process

Compensation to guarantee recipients (such as Banks and Revolving Fund Management Institution) that caused failed-to-pay (debtor) for previously guaranteed credit agreements. The claims will be requested by collateral recipients (in this case Banks) towards PT. Jamkrida (Perseroda) Sulsel, then they will pay the claim according to the agreement. There will be transition of rights to collectives from guarantee benefits to guarantee companies, known as subrogation. After the subrogation process is complete, PT. Jamkrida (Perseroda) Sulsel will submit a reinsurance claim to the reinsurance company. The reinsurance company will accept the request and pay for the claim made by the collateral recipient.

IV. DISCUSSION

Risk Management

Credit risk is the danger when counterparts or borrowers of formal financial institutions cannot fulfil their commitments in line with predetermined terms, which may result in a risk of borrower default [4]. However, according to Angelucci et al., credit helps business expand, by providing (potential) borrowers confidence in their decision-making, and helps families manage risk and financial flows (liquidity) [5]. Credit taking by start-up or MSMEs is considered moderate to high risk as the business performance information given to the financial institution business performance will not be enough to be understood and analyzed in the short period. Formal financial institutions are particularly keen in lending money to SME owners who can provide some of the initial money or collateral that is valuable enough to secure the loan [6]. In addition, by giving low-income families access to financing, it will help promote self-reliance and improve their economic well-being. Therefore, the collateral credit is considered to be able to support the MSMEs and contribute to the regional economic development, which is in line with PT. Jamkrida (Perseroda) Sulsel company's objectives.

There is a positive relationship between credit loan risk and collateral [7]. Risk is linear to volatility, uncertainty, complexity, and ambiguity. The turbulence and dynamics of change in the volatility lead to visionary plan as a way to reduce risk. PT. Jamkrida (Perseroda) Sulsel use the strategy of reinsurance, or re-warranty to share high risk. Re-warranty business model is unfamiliar to the local business environment, however, PT. Jamkrida (Perseroda) Sulsel understand that the higher risk, the higher return the company will get. To avoid uncertainty of the outcome, a deep understanding can reduce the risk of unpredictable outcomes. PT. Jamkrida (Perseroda) Sulsel faced numerous complexities in their business due to multiple interdependencies among business competition. The product offered by PT. Jamkrida (Perseroda) Sulsel has clear targeted customer. Clarity is the right approach to address the complexity of the risk. In addition, risk happens because of ambiguity, some unclear perspectives of the scenarios lead to asymmetric information [8], which in the case of PT. Jamkrida (Perseroda) Sulsel will be harmed the organization. Agility, the ability to adapt faster in any situation and scenario might reduce the risk that could harm PT. Jamkrida (Perseroda) Sulsel.

TOWS Analysis

Table 1 - TOWS STRATEGY ANALYSIS

		Strengths	Weakness
Internal Factor Analysis	S1 - High number of 'consumptive' collateral credit customer		W1 - Small amount cashflow
	S2 - Readiness of the cap/constrain budgeting		W2 - As market challenger only in district area
	S3 - Clear targeted customer		W3 - Fluctuative achievement realization
External Factor Analysis		SO Strategies	WO Strategies
O1 - Growth Market	SO1: Recruiting Business Development and Planning Talent		WO1: Improving capabilities of human capital, specially towards business development.
O2 - Rebound economy post covid-crisis	SO2: Focus on improving brand awareness through product differentiation.		WO2: Strengthen business partnership with Bank Sulselbar
O3 - Low number of similar business			
Threats		ST Strategies	WT Strategies
T1 - Uncertain condition of mikro business	ST1: Rate stabilization for inflation's value of money protection.		WT1: Reducing insolvency trend by tighten screening process
T2 - Rising inflation (2022)			
T3 - Insolvency trend in crisis			

Table 1 shows PT. Jamkrida (Perseroda) Sulsel's SWOT analysis along with the recommended strategy to develop its business. Since the business model of PT. Jamkrida (Perseroda) Sulsel is unique, it has clear target customer by offering its product. It has high number of 'consumptive' collateral credit customers which guarantees the multifunction collateral. On the other hand, due to the payment cycle of PT. Jamkrida (Perseroda) Sulsel, it has small amount of cashflow which is considered not beneficial for them. Besides, the target achievement fluctuates every month. From the threat side, the trend of failed-to-pay or agreement breach remains the core threat of PT. Jamkrida (Perseroda) Sulsel. However, since it has low number of similar business models, the market growth is the opportunities as it could lead to dominate the regional market in Sulawesi Selatan.

In collateral credit risk, understanding the information profoundly is essential to avoid the uncertainty of risk. Based on the 2020 annual report of PT. Jamkrida (Perseroda), the human capital consists of collateral, marketing, and financing department. Meanwhile, recruiting business development and planning talent for PT. Jamkrida (Perseroda) will benefit them because they must do research and eventually forcing them to understand its business environment. In addition, PT. Jamkrida (Perseroda) Sulsel should focus on their product differentiation as the product offers focus on issuing collateral credit certificates.

Based on the 2022 Sulawesi Selatan Regional's Economy Report, the inflation rate of Sulawesi Selatan is 2.40% which is in the range of the national limit (3.1%) of the inflation rate. The setting of interest rate of credit loan in Sulawesi Selatan decrease to 10.12%. for working capital in government's bank [9]. As the objective of PT. Jamkrida (Perseroda) Sulsel to develop regional economy by supporting working capital for MSMEs, the strengthening of working capital is need to be supported by the regional policy to set the interest rate so that the rising of inflation will not be the challenge to PT. Jamkrida (Perseroda) Sulsel [10].

Based on Yoshino and Taghizadeh-Hesary's research stated that the limitation of credit loan for small firms usually has high interest rate with complex requirement procedures that need collateral to receive the loan [11]. Therefore, in the perspective of collateral credit provider company, tight screening process of the potential customer is needed to avoid agreement breach. It will avoid failed-to-pay company to the financial institutions, or in surety bond case, the principal violates its term, and vice versa. The screening process of the potential customer should be tightened by requesting and analyzing the business before issuing collateral certificates. As risk is in line with uncertainty, it needs deep understanding to predict the potential outcomes.

V. CONCLUSION

The principle of risk stated the higher the risk, the higher the return. Risk happened because of the volatility, uncertainty, complexity, and ambiguity of a certain situation. PT. Jamkrida (Perseroda) Sulsel has different business model which helps the organization to overcome its risk. PT. Jamkrida (Perseroda) Sulsel tends to share its risk to reinsurance company even the return is low. The strategy used by PT. Jamkrida (Perseroda) Sulsel is to receive a stable income with stable risk. In addition, to develop its business, it is recommended that PT. Jamkrida (Perseroda) Sulsel to recruit and create a business development and planning department for organization's future prospect.

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