

THE URGENCY OF APPLYING BANKING PRUDENTIAL PRINCIPLES IN THE ERA OF DISRUPTION TO MINIMIZE FINANCING RISKS

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Abstract: Market, liquidity, operational, and loan financing risks are common for banks. If the bank is unable to reclaim the primary credit it has extended or the money it is pursuing, financing risk will materialize. This kind of field study (field research) looks for and gathers data in areas where issues or phenomena arise of the application of the principle in muamalat financing, field research focuses on tracking down and examining already available materials in the field. The descriptive qualitative approach of data analysis is employed before being methodically assembled and analyzed. Using the 5C feasibility study in line with Law Number 21 of 2008 concerning Islamic Banking—Character, Capacity, Capital, Collateral, and Condition are fairly good—Bank Muamalat Indonesia is putting the Prudential Banking Principle into practice. Implementing repressive control of financing and taking action to resolve problematic financing by implementing 3R. Islamic banks must operate following Sharia principles, under the prudential concept stipulated in Article 2 of Law No. 7 of 1992, which governs Indonesian banking on the principles of economic democracy and prudence.

Abstrak: Risiko pasar, likuiditas, operasional, dan pembiayaan kredit adalah hal yang umum bagi bank. Jika bank tidak dapat memperoleh kembali kredit utama yang telah diberikan atau uang yang sedang diupayakannya, risiko pembiayaan akan muncul. Jenis penelitian lapangan (field research) mencari dan mengumpulkan data di daerah-daerah di mana timbul masalah atau fenomena penerapan prinsip dalam pembiayaan muamalat, penelitian lapangan menitikberatkan pada penelusuran dan penelaahan bahan-bahan yang sudah tersedia di lapangan. Pendekatan deskriptif kualitatif digunakan untuk menganalisis data sebelum dikumpulkan dan dianalisis secara metodis. Dengan menggunakan studi kelayakan 5C yang sejalan dengan Undang-Undang Nomor 21 Tahun 2008 tentang Perbankan Syariah—Character, Capacity, Capital, Collateral, dan Condition yang cukup baik—Bank Muamalat Indonesia telah menerapkan Prinsip Kehati-hatian. Menerapkan pengawasan pembiayaan secara represif dan melakukan tindakan penyelesaian pembiayaan bermasalah dengan menerapkan 3R. Bank syariah harus beroperasi sesuai dengan prinsip syariah, di bawah konsep kehati-hatian yang diatur dalam Pasal 2 UU No. 7 Tahun 1992, yang mengatur perbankan Indonesia dengan prinsip demokrasi ekonomi dan kehati-hatian.

Keywords: Non-Performing Financing, Prudential Principle, Risk Financing.

A. INTRODUCTION

Banks are necessary for communities in both developed and developing nations to conduct their financial operations. When it comes to doing different types of financial transactions, they view banks as secure financial entities. People in both developed and developing nations frequently engage in financial activities such as financing and fund channeling.¹ As per the Banking Law No. 10 of 1998, a bank is defined as a commercial organization that gathers savings from the general public and disburses them to the public in the form of credit or other means, intending to enhance the living standards of the average citizenry.

Sharia commercial banks and *Sharia* people financing banks are the two types of Islamic banks, as defined by Law No. 21 of 2008. Islamic banks do operations following *Sharia* principles. A *Sharia* business unit, furthermore, is defined by Law No. 21 of 2008 as a work unit from a conventional commercial bank head office that serves as the main office of an office or unit that conducts business by *Sharia* principles, or a work unit in a branch office of a bank with its domicile abroad that conducts conventional business activities that serve as the main office of the office that has financial matters as its primary business.²

Financing is a term used in banking. According to Law No. 10 of 1998 Article 8, financing is based on *Sharia* principles and is carried out based on an analysis using the precautionary principle so that debtors can repay their debts or return financing following the agreement, thereby avoiding the risk of failure or congestion in repayment. Nevertheless, non-performing finance, which is financing given to consumers that is not isolated from the danger of bad credit, may have an impact on these Islamic banks' overall profitability.³

One of the bank's main responsibilities is financing, which involves giving money to parties who lack units to satisfy their interests. In Islamic

¹ Octa Rizki Putri et al., "IMPLEMENTATION OF PRUDENTIAL PRINCIPLES IN IMBT CONTRACTS HOUSE FINANCE PRODUCTS IN BANK SYARIAH INDONESIA," *Indonesian Journal of Multidisciplinary Sciences (IJoMS)* Vol. 2 No. (2023): 148–156.

² Sry Lestari, Lilis Renfiana, and Fitri Arianti, "Prudential Banking Principle Implementation In Murabahah Financing On PT. Sumut Sharia Bank Branch Padangsidempuan," *Journal of Islamic Financial Technology* 1, no. 2 (2022): 91–103.

³ S Undararajan, "Prudential Supervision, Bank Restructuring, and Financial Sector Reform" (1995).

banking, finance is referred to technically as Earning Assets (Earning Assets).⁴ Earning Assets: capital in the form of financing derived from the leasing principle (*Ijarah, Ijarah Muntahiya bi al-Tamlik*), correspondence *Sharia* securities, and other funding; financing derived from the participation principle (*Musyarakah*); financing derived from the buying and selling principle (*Murabahah*); and financing derived from the principle of profit sharing (*Mudharabah*).⁵

There are several loans (finance), market, operational, and liquidity risks that banks often encounter. Financing risk develops when the bank is unable to reclaim the funds it is pursuing or the primary credit it has extended. The fact that banks have to employ extra cash to facilitate loan distribution and funding is a major contributing factor to financing risk. Consequently, loan assessments fail to take due caution in predicting the range of potential business risks that they fund.⁶

Financing provided without first undergoing management can put the bank in grave peril. In this instance, customers promptly give misleading information, making the lending application improper. Lastly, routed money, also known as jammed financing, will be difficult to collect if management makes mistakes. Even while poor management accounts for the majority of bad financing, this element is not the primary source of bad financing. Natural calamities that are beyond the control of customers may be another factor. Natural disasters like earthquakes or floods may be the result of poor management.⁷

The term prudential banking, which derives from the English word "prudence," which means "prudent" or "cautious," is another name for the precautionary banking concept. A concept known as "prudential banking" combines aspects of normal operating procedures, attitudes, and regulations with bank risk management strategies to prevent even the smallest negative effects that can affect stakeholders, particularly depositors, and the bank.

⁴ Putri et al., "IMPLEMENTATION OF PRUDENTIAL PRINCIPLES IN IMBT CONTRACTS HOUSE FINANCE PRODUCTS IN BANK SYARIAH INDONESIA."

⁵ Ahlem Selma Messai and Mohamed Imen Gallali, "Financial Leading Indicators of Banking Distress: A Micro Prudential Approach - Evidence from Europe," *Asian Social Science* 11, no. 21 (2015): 78–90.

⁶ Olivier Butzbach, "Systemic Risk, Macro-Prudential Regulation and Organizational Diversity in Banking," *Policy and Society* 35, no. 3 (2016): 239–251.

⁷ Putri et al., "IMPLEMENTATION OF PRUDENTIAL PRINCIPLES IN IMBT CONTRACTS HOUSE FINANCE PRODUCTS IN BANK SYARIAH INDONESIA."

Prudent banking, in another sense, refers to a set of guidelines that a bank follows in the course of performing its operations to protect both the interests of its clients and the bank itself, with the ultimate goal of maintaining the bank's health.⁸

Developing a sound, transparent, and efficient financial services sector is one of OJK's goals for bolstering sector supervision through 2027. Other objectives include enhancing public and consumer protection in the deepening market and boosting the stability and inclusion of the financial sector. To promote prudential principles, transparency, and integrated market behavior in this situation, regulations, oversight, and law enforcement should be strengthened. The goal of Bank Muamalat Indonesia is to provide financial services and banking products that meet the demands of its customers. It seeks to be the ideal financial planning option following *Sharia* law to fulfill ambitions for the future.⁹

According to the explanation given above, it is crucial to use the prudential principle while analyzing or carrying out financing. This is especially true when implementing Islamic finance, which Bank Muamalat also carries out. "How Critical is to Apply Prudential Banking Principles in the Disruption Era for Minimising Financing Risk?" is the title of the research paper that the author is interested in pouring it into.

B. THEORETICAL BASIS

One of the fundamental ideas in credit evaluation is the 5c concept. The reliability of the individuals who will be granted credit is contingent upon their nature or character, as evidenced by their work and personal backgrounds. Personal backgrounds may include details about their family dynamics, interests, way of life, and social status. The character serves as a gauge of consumers' propensity to repay debts.

Capacity, to determine the potential customer's creditworthiness, which is correlated with his company management skills and profitability. Capital, by calculating metrics like liquidity, solvency, and profitability, one may determine the efficient use of capital from the financial accounts.

⁸ Pedro Dias Quinaz and José Dias Curto, "Prudential Regulation in an Artificial Banking System," *Economics* 10 (2016): 1–55.

⁹ Ali Ashraf et al., "Prudential Regulatory Regimes, Accounting Standards, and Earnings Management in the Banking Industry," *Buletin Ekonomi Moneter dan Perbankan* 21, no. 3 (2019): 367–394.

collateral, both tangible and intangible, offered by potential clients. There should be more collateral than credit granted. The state, present, and future of the economy must be evaluated in light of each sector. It is also necessary to evaluate the commercial possibilities of the industry that the customer runs. Good prospects should be assessed for the business area that is being financed, reducing the likelihood that the credit would be troublesome.¹⁰

The personality component of the 7P credit principal analysis evaluates consumers based on their character or past and present behaviors. Customers' attitudes, feelings, behaviors, and ways of handling issues are also considered aspects of their personality. Gathering Specifically, putting clients into groups or classes according to factors like capital, loyalty, and character. The primary goal is to ascertain the client's motivation for requesting credit, including the kind of loan they desire. Taking credit can be done for a variety of reasons, including trading, productive, or consumptive ones.

Potential specifically to determine whether or not the customer's business will be lucrative in the future. Payment is a gauge for how the client returns the credit that was taken or where the money for the credit return comes from. Turnover to evaluate the clients' methods for turning a profit. Periodically, profitability is assessed to see if it will stay constant or grow as a result of new loans from banks or other lenders. Defense The objective is to preserve credit, whether it is provided by banks or not while providing protection. Insurance guarantees or collateral items can serve as forms of protection.¹¹

Law of the Republic of Indonesia Number 10 of 1998 addressing banking states that Islamic banks are commercial banks that do business by *Sharia* principles and offer payment traffic services as part of their operations. Based on *Sharia* principles, Islamic banks are defined as follows: *Sharia* Commercial Banks (BUS), *Sharia* Business Units (UUS), and *Sharia* Commercial Banks (BUS). This definition is reinforced by Law of the Republic of Indonesia Number 21 of 2008 concerning *Sharia*

¹⁰ Debora Damanik and Paramita Prananingtyas, "Prudential Banking Principles Dalam Pemberian Kredit Kepada Nasabah," *Notarius* 12 (2019): 718–730, <https://ejournal.undip.ac.id/index.php/notarius/article/view/29011>.

¹¹ Ibid.

Banking. of the *Sharia* People's Financing Bank (BPRS), *Sharia* Commercial Banks (BUS), and *Sharia* Business Units (UUS).¹²

Prudential Banking

Following the terms of Law Number 10 of 1998's Article 2, Indonesian banking operates under the tenet of economic democracy by using the prudential principle. In Indonesian banking practice, the prudential banking concept, also known as the principle of prudence, is so significant that banks are required to use it or adopt it to conduct business. The bank must adhere to the concept of prudence, which calls for constant observance of the rules and regulations governing the banking industry, based on professionalism and good faith. This means that the bank must constantly use caution when doing its business. The precautionary principle is defined as the idea of controlling risk by consistently adhering to relevant rules and regulations. The precautionary principle application aims to preserve the stability, security, and well-being of the financial system.

Prudential Banking Principle in Financing Distribution according to Syariah Banking Law

One application of the prudence principle that is frequently used in the banking industry is the principle of eligibility for the distribution of money, as stated in Article 23 of the *Sharia* Banking Law. Among other things, the 6C Principle—character, capacity, capital, economic condition, collateral, and constraints—is used to analyze a financing's viability.

The connection that has been developed between the *Sharia* Bank and/or UUS and the customer or prospective customer in question, as well as information gathered from other trustworthy sources, are the primary factors used in the assessment of the ability of potential facility recipient customers. An evaluation of the potential facility recipient customer's capability is necessary, and the bank in particular has to look into the potential customer's aptitude and/or commercial acumen. The prospective customer's management skill and/or business competence will help the facility recipient customer persuade the *Sharia* Bank and/or UUS that the firm being funded is being handled by the appropriate individual.

¹² Lukman Hakim Siregar and Mekar Meilisa Amalia, "Implementasi Dan Prinsip Kehati-Hatian (Prudential Banking Principle) Pembiayaan Mikro Bank Syariah Mandiri Cabang Medan Marelan," *Jurnal Warta* 59 (2019).

Evaluation of the capital that potential customers hold Facility Recipients, particularly *Sharia* Banks and/or UUS, are required to analyze the total financial status, both historically and projected going forward, to determine the potential facility recipient customer's capital capabilities. in the future to ensure that the potential facility recipient customer's money can support the financing of the project or business in question.

The goods, projects, or receivables financed by the relevant financing facility as well as other goods, securities, or risk guarantees added as additional collateral must be evaluated by the *Sharia* Bank and/or UUS to determine whether the collateral is sufficient to cover repayment of financing from the relevant *Sharia* Bank and/or UUS if the Facility Recipient Customer is subsequently unable to fulfill its obligations.

When evaluating the potential business project of the Facility Recipient Customer, the *Sharia* Bank must first assess the current and projected state of the domestic and international markets to determine the marketing prospects of the project or business that the prospective Customer wants to finance with the financing facility. A project's failure may result from social and psychological issues unique to a certain place or region, which are assessed as barriers or impediments to the business of potential customer recipient facilities and *Sharia* banks.

C. RESEARCH METHOD

This kind of field study (field research) looks for and gathers data in areas where issues or phenomena arise. To gather data or information on the application of the prudential banking principle, influencing variables, and the efficacy of the application of the principle in *muamalat* financing, field research focuses on tracking down and examining already available materials in the field. The descriptive qualitative approach of data analysis is employed; that is, information gathered from relevant parties either verbally or in writing as well as evident behavior will be scrutinized and investigated holistically before being methodically assembled and analysed. Qualitative investigation to make the issues under evaluation more understandable. The theoretical, empirical, and interpretative underpinnings of qualitative research are strengthened by the use of triangulation. Triangulation is also the practice of confirming information over time by utilizing a variety of methods.

D. DISCUSSION

Prudential banking, which is a concept that combines aspects of attitudes, principles, standard policies, and bank risk management techniques to avoid even the smallest consequences that could harm stakeholders, particularly customers, plays a significant role in Islamic banking. The researchers concluded that prudential banking has to be implemented in banks in the best possible way based on its function. Researchers talk about how prudential banking may be used in a business, thus it's important to know ahead of time how a product contract will be implemented. The process for introducing a finance product is as follows.¹³

Prudential Principles Being Implemented at Bank Muamalat

Indonesia's prosperity is greatly influenced by economic development; however, economic development that is solely dependent on market forces rarely results in advancement and the best possible employment opportunities for the good community in either developed or developing nations and it frequently falls short of achieving equitable income distribution and resolving social issues.¹⁴

As a growing nation, Indonesia is attempting to meet national goals compliant with the 1945 Constitution and Pancasila. Strong financial institutions are also necessary for Indonesia's economic growth. In particular, the expansion of the banking sector plays a major role in the economic growth of the nation; given that this sector is Indonesia's most valuable asset, banks are regarded as the backbone of the nation's present economy.

Islamic banks are described as commercial banks that operate on *Sharia* principles and offer payment services following RI Law No. 10 of 1998 addressing banking. The Republic of Indonesia *Sharia* Banking Law No. 21 of 2008 states that Islamic banks, which include Islamic Commercial Banks and Islamic People's Financing Banks, are defined as banks that do business under *Sharia* principles.

¹³ Putri et al., "IMPLEMENTATION OF PRUDENTIAL PRINCIPLES IN IMBT CONTRACTS HOUSE FINANCE PRODUCTS IN BANK SYARIAH INDONESIA."

¹⁴ Xiaofeng Hui and Aoran Zhang, "Construction and Empirical Research on the Dynamic Provisioning Model of China's Banking Sector under the Macro-Prudential Framework," *Sustainability (Switzerland)* 12, no. 20 (2020): 1–26.

Operating constraints apply to Islamic banks, just like they do to regular banks. If he is attempting, an unrestricted Islamic bank may jeopardize its existence, which might be detrimental to the interests of its clients. Managers of Islamic banks may face jail, fines, and civil penalties in addition to administrative consequences for violating these operating requirements. *Sharia* banks must abide by *Sharia* principles when collecting money, disbursing it, and rendering services. These principles are implemented by abiding by the fundamental rules of Islamic law, which include the bases of justice, balance, and benefit as well as the avoidance of *gharar*.¹⁵

Use prudential principles as outlined in Law No. 7 of 1992, paragraph 2, to carry out its *Sharia* banking operations. This law states that the nation's banking system functions on the principles of economic democracy and prudence. Banks are required under the Prudential Principle to use caution in carrying out their responsibilities and making attempts to preserve the public budget that has been entrusted to them, as well as the distribution of the budget that has been collected. A bank needs proof that the financing it has promised will be paid back before it would give it. Before granting funding, this trust is predicated on the findings of a customer analysis. When doing a finance analysis, a variety of preventive measures such as the 5C concept are also well-applied. The 5C concepts are:

1. Character

Evaluation Character or nature is represented in one's professional and personal history based on lifestyle, family dynamics, interests, and social interactions. To avoid complicating bank operations in the future, the purpose is to ascertain the sincerity and honesty of potential clients, as well as if the funding will be refunded.

2. Capacity

The goal of this evaluation is to determine the customer's ability to run their company profitably to repay the loan. Work experience and educational background have a role in this capacity.

3. Capital

¹⁵ Ashraf et al., "Prudential Regulatory Regimes, Accounting Standards, and Earnings Management in the Banking Industry."

To ascertain the customer's capital ability to sustain the financing of the firm in question, this examination examines the financial position holistically.

4. Condition

Along with the financial position, social issues and the state of present and future politics are evaluated while selecting funding. This company should have a strong valuation, meaning that funding obstacles should be minimal.

5. Collaterals

In the case of a funding bottleneck, this guarantee takes the shape of assets with a minimum value equivalent to the financing given to the bank.

3R Concepts

1. Return Principles

For the bank to meet its payment responsibilities, it is necessary to determine if the funding will result in increased revenue for the receiver.

2. Repayment Capacity

Based on this theory, banks must assess a loan recipient's ability to fulfill their responsibilities on time.

3. Risk Bearings

This approach compels the bank to calculate the level of business risk that the funding recipient would experience.

Prudential Banking Principles: Bank Muamalat Indonesia's Use in Funding

Following a sequence of steps for financing applications at Bank Muamalat Indonesia, the Bank will conduct a financing analysis to determine the extent of the customer's ability and willingness to repay the financing obligations they have made and pay *Ujroh*/Margin/Multipurpose

under the terms and nature of the financing contract before determining whether the financing is approved or denied.¹⁶

Prospective clients of Bank Muamalat Indonesia may apply for loans in the following ways:

1. Application and Documentation for Financing

Clients must first fill out a loan application and supply the necessary paperwork.

2. Verifying BI Checking

Before granting finance, nearly all Islamic financial institutions, including Bank Muamalat Indonesia, utilize BI Checking to verify a potential customer's eligibility. Find out if prospective purchasers who fit the description of current or problematic clients are included on the National Black List (DHN). It offers information on financing terms, including how much, when, and how collectible the loan is.

3. Central Directors' Choice Regarding Funding

The Head Office of Bank Muamalat Indonesia is the director with the authority to decide on funding. Regarding the execution of the financing contract and the assurance of funding, supporting offices and consumers will be verified.

A trustworthy third party's information is gathered, together with firsthand, real observations made in the field, to assess the character of potential clients. Analyzing features of potential clients' personalities involves many steps such as personal and then BI checking.

Before Bank Muamalat Indonesia accepts potential financing consumers as clients, it is necessary to assess their financial and economic capacities (capacity). To ascertain whether possible clients will have enough money to cover their obligations for the longest possible loan period. Since it is the primary source of money, the potential customer's financial and economic standing is crucial.¹⁷ Based on the findings of the

¹⁶ Ade Salamah, "PRINSIP KEHATI-HATIAN (PRUDENTIAL BANKING PRINCIPLES) DALAM PEMBIAYAAN SYARIAH UNTUK MENGURANGI RESIKO KREDIT MACET (NON- PERFORMING LOAN)" 9, no. 1 (2016): 1–23, <https://uia.e-journal.id/veritas/>.

¹⁷ Cep Jandi Anwar et al., "Investigating the Relationship between Monetary Policy, Macro-Prudential Policy and Credit Risk in Indonesia Banking Industry," *Heliyon* 9, no. 7 (2023): e18229, <https://doi.org/10.1016/j.heliyon.2023.e18229>.

interviews that the researchers performed, the following are some of the methods used to determine the capability or aptitude of Bank Muamalat's clients:

1. Finding the Cash Ratio for the Customer

At Bank Muamalat, the Cash Ratio is calculated at a maximum of 60% of the customer's overall financial situation.

2. Examine the customer's line of work or profession.

This is done to determine the extent of the customer's financial ability to meet the primary financing commitments.

As part of its application of the Prudential Banking principle, Bank Muamalat Indonesia performs a 5C analysis of potential clients by either meeting them in person or having them come straight to the office. In field practice, this approach is preferred because it allows for more flexible communication and direct observation conditions at the client's residence.¹⁸ Bank Muamalat Indonesia has implemented the prudential banking concept under Law Number 21 of 2008 about Islamic Banking, which states that Islamic banking in Indonesia is founded on economic democracy. This has been done accurately and appropriately. This aligns with the direction of OJK policy and the Transformation of OJK Supervision and Services, which aims to develop a sound, efficient, and honest financial services industry. It also strengthens consumer and public protection 77 in the context of market deepening, increasing the stability and inclusion of the financial sector.¹⁹

The Following Variables Affect How Bank Muamalat Indonesia Applies the Prudential Banking Concept to Financing

A finance risk is indicated by irregular payments of client financing installments, whether the quantity of installments is inappropriate or the payment is made beyond the due date. This happens as a result of a variety of customer-affecting events, including illnesses, agricultural failures, company failures, and disasters. If finance is involved, there are indications

¹⁸ Putri et al., "IMPLEMENTATION OF PRUDENTIAL PRINCIPLES IN IMBT CONTRACTS HOUSE FINANCE PRODUCTS IN BANK SYARIAH INDONESIA."

¹⁹ Mete Feridun and Hasan Güngör, "Climate-Related Prudential Risks in the Banking Sector: A Review of the Emerging Regulatory and Supervisory Practices," *Sustainability (Switzerland)* 12, no. 13 (2020).

that there may be a financial risk. One such indication is that the potential client has started to pay installment obligations irregularly, either by missing payments or by paying the monthly amount in whole. This can occur as a result of several events involving the potential client, such as a natural disaster, failed crops, company bankruptcy, illness, and more. The following variables have a significant impact on how the prudent banking concept is applied to financing such as in default, willfully breaking agreements or financial arrangements, or by purposefully not making payments on commitments. Resources for Humans, due to a shortage of HR staff members and an increase in financing clients, Bank Muamalat Indonesia's poor level of financing analysis is the result of mistakes made by HR staff members.²⁰

Challenges In Implementing the Precautionary Principle in Financing

There may be several challenges for society when the precautionary principle is applied in Islamic banking. The banking industry as a whole is impacted by the poor financing that results from this.²¹ Several circumstances, both internal to the bank and external to the finance receiver, may make it difficult to put this approach into practice. Several issues that may contribute to this factor include:

Factors Internal to the Bank

This element stems from the bank's role as an investor and causes issues with the precautionary principle's use in the banking industry. These internal components include the assignment of financing is Character; the bank may suffer if the financing manager's bad character violates *Sharia* law. For instance, the dishonesty of those who bribe clients to hurt the management. And Ability, Financing issues may arise from potential clients' insufficient skill sets. This is because the analysis that was done was flawed. Managers must possess a wide range of expertise, particularly

²⁰ Chekani Nkwaira and Huibrecht Margaretha Van der Poll, "Anticipating the Unforeseen and Expecting the Unexpected: Effectiveness of Macro-Prudential Policies in Curbing the Impact of Stranded Assets in the Banking Sector," *Risks* 11, no. 5 (2023).

²¹ Butzbach, "Systemic Risk, Macro-Prudential Regulation and Organizational Diversity in Banking."

concerning comprehending the 5C principles and being aware of the type of business that the beneficiary of the finance opens.²²

System the Bank, Distribution, without careful consideration or supervision, transferring money to a customer's business might lead to issues that could affect the Bank's Health Level. Observation, the absence of a finance monitoring system will result in significant losses for the bank as a result of troublesome financing. Redemption: Inaccurate payment methods can result in defaults, and a lack of oversight can cause monetary issues. Banks must provide their clients with accurate and up-to-date information on the financing terms, including the exact date and amount of payment.

Management of the Bank, Committee on Finance, A committee's permission must be obtained before funding can be supplied, since careful calculations can help banks avoid problem lending. Supervisor, Due to their violations of relevant legislation, policies created by managers who lack discipline may also lead to funding issues. The execution of a procedure Finance issues may arise from practices that breach current restrictions.

Factors External to the Bank

Elements from outside sources, such as the environment and clients getting funding. A factor in this issue is: Nature (escaping from duty), These kinds of customers are highly harmful to the bank because they are not incapable of making payments, they just refuse to. Profits from the bank are also concealed by other issues, such as clients misusing cash intended for other uses. The bank should steer clear of clients with this type of nature. enterprise (unable to pay), The customer's declining financial situation may result in a decreased ability to pay for financing, which might result in losses for the bank.²³

The Prudential Banking Principle's Effectiveness in Bank Muamalat Indonesia's Financing Implementation

The proportion of NPF (Non-Performing Financing), or problem financing, indicates how the Prudential Banking concept has affected Bank

²² Anwar et al., "Investigating the Relationship between Monetary Policy, Macro-Prudential Policy and Credit Risk in Indonesia Banking Industry."

²³ Ashraf et al., "Prudential Regulatory Regimes, Accounting Standards, and Earnings Management in the Banking Industry."

Muamalat Indonesia's funding. The following is Bank Muamalat Indonesia's approach strategy: Preventive control over funding is the process of taking preventive action before there are issues or roadblocks in the financing.²⁴ Calculation of the Financing Ceiling or Cash Ratio: Bank Muamalat calculates the cash ratio to be 60% of the total financing, tracking of clients who get funding. Repressive Control of Financing: This approach lowers the risks associated with billing or settlement measures that are taken after financing becomes problematic. Three strategies are used by Bank Muamalat Indonesia to address financial issues: restructuring, reconditioning, and rescheduling.

E. CONCLUSION

Using the 5C feasibility study in line with Law Number 21 of 2008 concerning Islamic Banking—Character, Capacity, Capital, Collateral, and Condition are fairly good—Bank Muamalat Indonesia is putting the Prudential Banking Principle into practice. Implementing repressive control of financing, which entails examining the root causes of problematic financing and taking action to resolve problematic financing by implementing 3R, as well as preventive control financing, which entails prevention before the financing becomes stuck or problematic, are additional methods of carrying out financing risk mitigation measures.

In obtaining money, allocating, and rendering services. Islamic banks must operate according to Sharia principles, which are based on Islamic law. These rules include the concepts of fairness, balance, and benefit and exclude *usury*, *gharar*, and *maysir*. Islamic banking functions under the prudential concept as stipulated in Article 2 of Law No. 7 of 1992, which governs Indonesian banking on the principles of economic democracy and prudence. The recommendations made for the firm, Bank Muamalat Indonesia, with its focus on microcredit, should be carried out in compliance with the established protocols to avoid any financial difficulties during implementation.

²⁴ Feridun and Güngör, “Climate-Related Prudential Risks in the Banking Sector: A Review of the Emerging Regulatory and Supervisory Practices.”

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