

**THE RESTRUCTURING OF NON-PERFORMING FINANCING  
AT ISLAMIC BANK**

**(A Case Study at BANK BRI SYARIAH MALANG)**

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# **THE RESTRUCTURING OF NON-PERFORMING FINANCING AT ISLAMIC BANKS**

**(A Case Study at BRI SYARIAH Malang)**

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## **ABSTRACT**

The number of Islamic banks has increased between 1992 and 2016. This does not guarantee there is an improvement in the performance of Islamic bank. Similar to conventional banks, Islamic banks have the same problem, which is non-performing financing (NPF). Bank Indonesia has issued a regulation related to non-performing financing. The main goal is to maintain the quality of financing. This study aims to investigate and analyze whether the BRI Syariah Malang has complied with Bank Indonesia regulations or it has made an adjustments related to Bank Indonesia Regulation No. 13/9 / PBI / 2011 concerning with the Bank Indonesia Regulation No. 10/18 / PBI / 2008 on Restructuring Financing for Islamic Banks and Sharia Business Units. This study uses a qualitative method. The results show that non-performing financing was dominated by *Murabahah* financing caused by the economic flow in Malang. The policy of Bank BRI Syariah Malang related to restructuring non-performing financing has complied and it has made an adjustment related to the Bank Indonesia regulation No. 13/9/PBI/2011 in terms of the implementation of restructuring non-performing financing, the Standard Operating Procedure (SOP), and the involvement of *Dewan Pengawas Syariah* (DPS) in bank daily activities.

**Keywords: Restructuring, Islamic banks, non-performing financing, BRI Syariah Malang.**

## **A. INTRODUCTION**

The development of Islamic banks in Indonesia began since the government issued the Act. No. 7 year 1992 related to banking, which has opened an opportunity for sharia banking. The Act. No. 7 year 1992, Section 13 subsection (c) states Islamic bank give the financing to customers based on the principle of profit sharing accordance with government regulation; this provision symbolizes the beginning of dual banking system in Indonesia, commercial banking and sharia banking system.

Since the government has issued an Act. No. 7 year 1992 related to banking, it was a starting point of sharia banking development indicated by the establishment of Bank Muamalat Indonesia (BMI) in 1992, Bank Syariah Mandiri (BSM) in 1999, and Bank Syariah Mega Indonesia (BSMI) in 2004. The number of Islamic banks in Indonesia has reached twelve sharia business units as presented in the following table:

Tabel 2 : Jaringan Kantor Individual Perbankan Syariah - Juni 2015 (Individual Islamic Banking Network - June 2015)				
Kelompok Bank	BPJ/BC branch	BPJ/BC subsidiary	SK CA	Group of Banks
Bank umum syariah	450 <sup>a</sup>	1.482 <sup>a</sup>	201 <sup>a</sup>	Islamic commercial bank
1 PT. Bank Muamalat Indonesia	51	541	153	1 PT. Bank Muamalat Indonesia
2 PT. Bank Victoria Syariah	9	6	-	2 PT. Bank Victoria Syariah
3 Bank BSI Syariah	53	205	10	3 Bank BSI Syariah
4 B.P.D. Jawa Barat Banten Syariah	9	56	1	4 B.P.D. Jawa Barat Banten Syariah
5 Bank SBI Syariah	67	165	17	5 Bank SBI Syariah
6 Bank Syariah Mandiri	157	510	63	6 Bank Syariah Mandiri
7 Bank Syariah Mega Indonesia	55	257	1	7 Bank Syariah Mega Indonesia
8 Bank Paniah Syariah	5	5	-	8 Bank Paniah Syariah
9 PT. Bank Syariah Sukopin	10	7	4	9 PT. Bank Syariah Sukopin
10 PT. BCA Syariah	9	4	-	10 PT. BCA Syariah
11 PT. Maybank Syariah Indonesia	1	-	-	11 PT. Maybank Syariah Indonesia
12 PT Bank Tabungan Pensiunan Nasional Syariah	26	4	-	12 PT Bank Tabungan Pensiunan Nasional Syariah
Unit usaha syariah	145 <sup>b</sup>	149 <sup>b</sup>	44 <sup>b</sup>	Islamic business unit
13 PT Bank Danamon Indonesia Tbk	25	20	-	13 PT Bank Danamon Indonesia Tbk
14 PT Bank Permata Tbk	11	3	-	14 PT Bank Permata Tbk
15 PT Bank Internasional Indonesia Tbk	7	1	-	15 PT Bank Internasional Indonesia Tbk
16 PT Bank CIMB Niaga, Tbk	7	-	-	16 PT Bank CIMB Niaga, Tbk
17 PT Bank UOB Niaga, Tbk	8	-	-	17 PT Bank UOB Niaga, Tbk
18 PT BPD Bnd	3	11	6	18 PT BPD Bnd
19 BPD Yogyakarta	1	2	5	19 BPD Yogyakarta
20 PT Bank Pembangunan Daerah Jawa Tengah	4	6	4	20 PT Bank Pembangunan Daerah Jawa Tengah
21 PT BPD Jawa Timur	3	7	-	21 PT BPD Jawa Timur
22 PT BPD Jambi	1	-	-	22 PT BPD Jambi
23 PT Bank Bpd Aceh	2	15	-	23 PT Bank Bpd Aceh
24 PT Bpd Sumatera Utara	3	17	-	24 PT Bpd Sumatera Utara
25 BPD Sumatera Barat	8	6	-	25 BPD Sumatera Barat
26 PT Bank Pembangunan Daerah Riau	2	8	-	26 PT Bank Pembangunan Daerah Riau
27 PT BPD Sumatera Selatan dan Bangka Belitung	5	1	5	27 PT BPD Sumatera Selatan dan Bangka Belitung
28 PT BPD Kalimantan Selatan	2	9	1	28 PT BPD Kalimantan Selatan
29 PT BPD Kalimantan Barat	-	3	4	29 PT BPD Kalimantan Barat
30 BPD Kalimantan Timur	2	12	-	30 BPD Kalimantan Timur
31 PT BPD Sulawesi Selatan dan Sulawesi Barat	3	-	1	31 PT BPD Sulawesi Selatan dan Sulawesi Barat
32 PT BPD Nusa Tenggara Barat	2	6	1	32 PT BPD Nusa Tenggara Barat
33 PT Bank Siantan	28	-	10	33 PT Bank Siantan
34 PT Bank Tabungan Negara (Persero) Tbk	21	20	7	34 PT Bank Tabungan Negara (Persero) Tbk
Bank Pembiayaan Rakyat Syariah	90	-	182	Islamic Rural Bank
TOTAL	699	1.622	427	TOTAL

Source: Otoritas Jasa Keuangan, Islamic Bank Statistic, 2015

The number of Islamic banks has increased between 1992 and 2016. However, this does not guarantee there is an improvement in the performance of financing in Islamic banks. Similar to conventional banks, Islamic banks have the same problem, which is non-performing financing that higher than performing financing in certain period of time.

However, Bank Indonesia has issued a regulation related to non-performing financing for Islamic Banks and sharia business units. The main goal is to maintain the quality of Islamic Banks and sharia business units in order to avoid non-performing financing. It was originally contained in Bank Indonesia Regulation No. 10/18/PBI/2008, then Bank Indonesia has issued a new regulation related to non-performing financing restructuring which is Bank Indonesia Regulation No. 13/9/PBI/2011. The new regulation, Bank Indonesia Regulation No. 13/9/PBI/2011, has several new regulations to restructure non-performing

financing using universal principles in banking restructuring. It is expected to support growth and development of sharia banking according to sharia principles.

## **B. LITERATURE REVIEW**

### **Islamic Bank**

In Indonesia, the official term is "Islamic bank" or "bank based on Islamic principles" (Kashmir, 2002). Meanwhile, according to Perwataatmadja and Antonio (1997), Islamic Bank or Sharia Banking is a bank that the operation is in accordance with Islamic principles and the procedures for providing the financing have complied to the provisions of the Qur'an and the Hadith.

The banking law No. 10 year 1998 states that the definition of financing is fund based on agreements between banks and other parties. Antonio (2001) states that the financing is the facility to fulfill the needs of customer business.

Basically, the financing provided by Islamic banks to customers is a trust. It means there is an accomplishment given by banks to customers to return the financing under the terms and conditions agreed by both parties.

The purpose of financing can be classified into two groups which is macro financing and micro financing (Rivaan Arifin, 2010): 1. Macro financing, 2. Micro financing.

According to Mahmoeddin (2010), to ensure trusts given by banks to customers before giving funds, banks should consider several factors namely 5C's of Credit, as follows: 1. Character, 2. Capacity, 3. Capital, 4. Condition of Economy, 5. Collateral

According to Antonio (2001), financing is one of the bank's main task and also to provide facilities of funds to fulfill the needs of customers. According to the nature of use, financing can be divided into two, namely: 1. Productive financing, 2. Consumer financing. According to the needs, productive financing can be divided into two: 1. Working capital financing is to fulfill the needs of customer's business, 2. Investment financing is to fulfill the needs of capital goods and facilities which are closely related to the investment.

BRI Syariah has several products to fulfill the needs of funds of its customer business. It can be seen in:

Product of Bank BRI Syairah			
Consumer Banking	Saving	Tabungan Faedah BRI Syariah <i>B</i>	
		Tabungan Haji BRI Syariah <i>B</i>	
		Tabungan Haji Valas BRIS yariahi <i>B</i>	
		Tabungan ImpianSyariahi <i>B</i>	
		Tabungan <i>Ku</i>	
		SimpananPelajar (SimPel) BRI Syariah <i>B</i>	
		Giro BRI Syariah <i>B</i>	
		Deposito BRI Syariah <i>B</i>	
	Financing	QardhBeragunEmas BRI Syariah <i>B (d.hGadai)</i>	
		KKB BRI Syariah <i>B</i>	
		KPR BRI Syariah <i>B</i>	
		KMG BRI Syariah <i>B</i>	
		PembiayaanUmrah BRI Syariah <i>B</i>	
Business Banking	Commercial Product	Corporate Funding	
		Corporate Financing	Pembiayaan Modal Kerja
			PembiayaanInvestasi
		Treasury	
		SME & Linkage	Koperasi
			Auto
			Pembiayaan SME
		PembiayaanMikro	

Non-performing financing can be seen and measured using the financing classification System. It is stated in the Bank Indonesia Regulation Number 14/15/PBI/2012 about asset quality appraisal for Commercial Banks. Based on Bank Indonesia Regulation, there are five criteria of financing classification, as follows (Muhammad, 2010): 1. Current, 2. Especially mentioned, 3. Substandard, 4. Doubtful, 5. Loss

Based on Bank Indonesia Regulation Number 14/15/PBI/2012 Section 1, Subsection 26, the restructuring of financing aims to improve business activities for customers who find difficulties to meet repayment obligation. The aims of restructuring of financing are (Untung, 2005): 1. To avoid a loss for the banks, 2. To help customers' financing; 3. To avoid financing restructuring by the legal institutions

The legal basis for restructuring is regulated in Bank Indonesia Regulation Number: 10/18/PBI/2008 about restructuring of financing for Islamic banks and sharia business units also in *Surat Edaran Bank Indonesia* Number 10/34/DPbs/2008 about restructuring of financing for Islamic banks and sharia business units.

Bank Indonesia has issued regulations on restructuring of financing at Islamic banks are to strengthen sharia banking in Indonesia. With these regulations, it is expected that Islamic banks will be able to compete in giving financing to the customers.

There are several reasons why Bank Indonesia has issued a policy of Restructuring Financing for Islamic Banks and Sharia Business Units: 1. To Maintain Business, 2. To Maintain the Quality of Financing, 3. To Supports

Growth and Development of Sharia Banking Industry, 4. To Minimize Risk of Losses

### **C. RESEARCH METHOD**

Based on the formulation of problem and research objectives, this study uses qualitative methods. According to Miles and Huberman (2002), the case study is a research strategy that focuses on understanding the dynamic in a single setting. The case studies can involve either single or double case.

In the terms of the data collection techniques, this research is a descriptive case study. Therefore, the type of this research is qualitative descriptive.

This research is conducted by describing and also explaining the implementation of Bank Indonesia Regulation No. 13/9/PBI/2011 concerning with the changes of Bank Indonesia Regulation No. 10/18/PBI/2008 regarding the restructuring of financing for Islamic banks and sharia business at Bank Syariah BRI Syariah Malang.

The data in this research was collected from: 1. Interview (interview with semi - structured), 2. Documentation, 3. Observations

The data analysis technique used in this study is qualitative data analysis. According to Bogdan and Biklen (in Moleong, 2011) is the effort made by working with the data, organize data, sorted them into a unit that can be managed, synthesize, search and find patterns, find what is important and what is learned , and decide what can be told to others.

Data described in descriptive and interpret it in accordance with the purpose and the facts that occurred in the field. Furthermore, the research done by



analyzing the data that focus of research and drawn final conclusions about the object under study.

## **D. RESEARCH RESULT AND DISCUSSION**

### **PT. Bank BRI Syariah Malang's History**

It started from the acquisition of PT. Bank Rakyat Indonesia (Persero), Tbk., from Bank Jasa Arta on December 19, 2007. After it has obtained the permission from Bank Indonesia on October 16, 2008 through a letter no.10/67/KEP.GBI/DpG/2008, on 17 November 2008 PT. BRI Syariah officially operates. After two years, PT. BRI Syariah becomes a leading modern retail bank with excellent services and offers a range of products that fit customer expectations in accordance with the Islamic principles.

The banking operation of PT. BRI Syariah has been stronger after December 19<sup>th</sup>, 2008, it signed the deed of separation between PT. BRI Syariah and PT. Rakyat Bank Indonesia (Persero), Tbk., to assimilate into the PT. Bank BRI Syariah (in spin off process) which took an effect on Januari 1st, 2009. The agreement was signed by Mr. Sofyan Basir as President Director of PT. Rakyat Bank Indonesia (Persero) Tbk., And Mr. Ventje Rahardjo as President Director of PT. BRI Syariah.

Currently, PT. Bank BRI Syariah becomes the third-largest Islamic banks in Indonesia. It grows rapidly both in terms of assets, the amount of financing and the acquisition of third party funds. By focusing on the lower middle segment, PT. Bank Syariah BRI aims to be the leading modern retail bank with a wide range of banking products and services.

## **The Approval of Financing in Bank BRI Syariah Malang**

*Murabaha* is one of the products in BRI Syariah Malang that has higher customer's demands. To obtain this product, based on an interview on February 10, 2016, there are a few steps that customers must do: a. The customers applies for financing in the form of Financing Request Form, b. After the clients apply for financing, the bank will check on Bank Indonesia to find the record of the clients whether they have a good reputation in term of repayment of financing or not, c. The field survey is to find out the authenticity of the requirements that has been given to the bank, confirming its presence of customer businesses, d. The bank will make an approval of financing, e. The bank will confirm the authenticity of the certificate of guarantee or collateral to the notary and perform a legal binding before giving the financing, f. Making a *murabahah* approval agreement, g. Reporting the financing that already given from BRI Syariah to Syariah Supervisory Board (*Dewan Pengawas Syariah*) by Financing Administration (*Administrasi Pembiayaan*).

## **The Factors Affecting Non-Performing Financing**

To support the trust given by the bank to customers before giving the financing, BRI Syariah use 5C's of Credit even though there is no guarantee that non-performing financing will not occure. When the bank find out one or some clients who not suitable with 5C's of credit, the bank will cancel the request for financing that already submitted by the customer, for example, the business as an object of financing is operated by other people (i.e manager) but owned by the customers who apply for financing in micro financing, then the bank will cancel

the request for financing that already submitted by the customer. The bank only provides a financing to customers who own and operates their-own businesses.

### **The Suitability Policy of Bank BRI Syariah Malang on Financing Restructuring with Bank Indonesia Regulation No. 13/9/PBI/2011**

Based on Bank Indonesia Regulation No. 13/9/PBI/2011 concerning with the changes of Bank Indonesia Regulation No. 10/18/PBI/2008 regarding the restructuring of financing for Islamic banks and sharia business units of Section 1, Subsection 7, point (b), the implementation of reconditioning is a change in some or all of financing requirements without adding the remaining financing that includes: 1. Changing the payment schedule, 2. Changing the repayment obligation, 3. Changing the period, 4. Changing the ratio of *mudharabah* financing or *musharaka*, 5. Changing the projections of profit sharing in *mudharabah* financing or *musharaka*; and/or, 6. Giving a discount. BRI Syariah Malang will perform reconditioning based on points (a) to (c) because micro financing in Bank BRI Syariah provides *murabahah*, so it does not need to make changes in ratio of financing or *musharaka*.

Based on Bank Indonesia Regulation No. 13/9/PBI/2011 concerning with the changes of Bank Indonesia Regulation No. 10/18/PBI/2008 regarding the restructuring of financing for Islamic banks and sharia business units of Section 1, Subsection 7, points (c), the implementation of the restructuring or realignment is the change in financing terms that include: 1. Adding a financing fund, 2. Changing the financing agreement, 3. Changing the financing agreement into medium term securities financing sharia; and / or, 4. Changing the financing into

an equity financing. Bank Syariah Malang does not add funds but divides the remainder of the sale price based time of period agreed, as well as restructuring associated with the conversion of financing into equity only by BRI (the parent company) as BRI Syariah Malang is only a subsidiary companies.

Based on Bank Indonesia Regulation No. 13/9/PBI/2011 concerning with the changes of Bank Indonesia Regulation No. 10/18/PBI/2008 regarding the restructuring of financing for Islamic banks and Sharia business units of Section 5, Subsection 1, a financing restructuring can be made to customers who fulfill the criteria: 1. Customer has decreasing an ability to repay the debt, 2. Customer has good prospects of his or her business and is able to fulfill the requirement after the restructuring of financing. BRI Syariah Malang has a micro-financing that concentrates on productive financing. So, when there are signs that customers' business decreases an ability to repay the financing then BRI Syariah Malang will process the request of restructuring that already submitted and the bank will restructure the financing in accordance with Bank Indonesia Regulation number: 13/9/PBI/2011, Section 5, Subsection 1.

Based on Bank Indonesia Regulation No. 13/9/PBI/2011 concerning with the changes of Bank Indonesia Regulation No. 10/18/PBI/2008 regarding the restructuring of financing for Islamic banks and Sharia business units of Section 5, Subsection 2, restructuring consumer's financing plan when the customers fulfill the following aspects: 1. Customers experience a decreased ability to repay the financing, 2. There is a clear source of obligation repayment and is able to fulfill after the restructuring has been done. BRI Syariah Malang would provide a financing for customers who still maintain their business productivity. The

percentage of consumer financing is up to 50% from the productive financing that has been proposed. BRI Syariah Malang will restructure consumer financing in accordance with Bank Indonesia Regulation Number: 13/9/PBI/2011 Section 5, Subsection 2.

Based on Bank Indonesia Regulation No. 13/9/PBI/2011 concerning with the changes of Bank Indonesia Regulation No. 10/18/PBI/2008 regarding the restructuring of financing for Islamic banks and Sharia business units of Section 5, Subsection 3, a financing restructuring must be supported by sufficient evidence and well documented. BRI Syariah Malang will prepare a report according to non-performing finance based on financial statements or cash flows of customers and statements of restructuring request made by the customer.

Based on Bank Indonesia Regulation No. 13/9/PBI/2011 concerning with the changes of Bank Indonesia Regulation No. 10/18/PBI/2008 regarding the restructuring of financing for Islamic banks and Sharia business units of Section 6, Subsection 1, to restructure a financing, the quality of financing stated to be current or is considered as especially mentioned and can only be done once. BRI Syariah Malang only restructure financing which has the quality of financing stated to be current and especially mentioned in accordance with Bank Indonesia Regulation No. 13/9/PBI/2011, Section 6, Subsection 1.

Based on Bank Indonesia Regulation No. 13/9/PBI/2011 concerning with the changes of Bank Indonesia Regulation No. 10/18/PBI/2008 regarding the restructuring of financing for Islamic banks and Sharia business units of Section 6, Subsection 2, restrictions on the restructuring of financing referred to in

Subsection 1, the bank does not apply for restructuring in the form of reconditioning in the changes ratio and/or changes the projection on *mudharabah* or *musharaka*. BRI Syariah Malang makes an adjustment to the restructuring of financing according to Bank Indonesia Regulation No. 13/9/PBI/2011 Section 6, Subsection 2 with *murabahah* financing. BRI Syariah Malang does not conduct the reconditioning on profit sharing in *mudharabah* or *musyarakah*.

Based on Bank Indonesia Regulation No. 13/9/PBI/2011 concerning with the changes of Bank Indonesia Regulation No. 10/18/PBI/2008 regarding the restructuring of financing for Islamic banks and Sharia business units of Section 10, Subsection1, banks are required to have policies and Standard Operating Procedure regarding a financing restructuring. BRI Syariah Malang has a Standard Operating Procedure (SOP) for the financing restructuring as attached.

Based on Bank Indonesia Regulation No. 13/9/PBI/2011 concerning with the changes of Bank Indonesia Regulation No. 10/18/PBI/2008 regarding the restructuring of financing for Islamic banks and Sharia business units of Section 10, Subsection 1a, policies and Standard Operating Procedure (SOP) as referred to in Subsection 1, including setting the maximum amount of restructuring. It can be classified as the quality of classification stated to be substandard, the quality of financing stated to be doubtful or the quality of financing stated to be loss. Bank BRI Syariah Malang has a Standard Operating Procedure (SOP) in accordance with Bank Indonesia Regulation No. 13/9/PBI/2011 Section 10, Subsection 1a and Section 12, Subsection (1), states the quality of non-performing financing is substandard if the restructuring is more than once for current or especially mentioned. Section 12, Subsection (2), states the quality of non-performing

financing is loss up to performing financing if the restructuring more than the amount that already assigned by Bank BRI Syariah Malang for substandard, doubtful, and loss.

Based on Bank Indonesia Regulation No. 13/9/PBI/2011 concerning with the changes of Bank Indonesia Regulation No. 10/18/PBI/2008 regarding the restructuring of financing for Islamic banks and Sharia business units of Section 11, Subsection 1, after restructuring the financing, the quality of financing changes as follows: 1. The maximum classification after restructuring, for the quality of financing stated to be Doubtful or Loss for is the quality of financing stated to be substandard, 2. There is no change for the quality of financing stated to be Current, Especially mentioned, or Substandard after restructuring. BRI Syariah Malang has restructuring financing in accordance to Bank Indonesia Regulation Section1, Subsection1.

Based on Bank Indonesia Regulation No. 13/9/PBI/2011 concerning with the changes of Bank Indonesia Regulation No. 10/18/PBI/2008 regarding the restructuring of financing for Islamic banks and Sharia business units of Section 20 A, the restructuring of financing must be reported (online) as referred in Section 20 to Bank Indonesia regulation. BRI Syariah Malang always submits the report of financing and the restructuring of financing to Bank Indonesia through the financing administration since 2010.

Based on the National Sharia Board Fatwa Number: 74/DSN-MUI/I/2009 on collateral of sharia, the collateral of financing established the Second Decision and Sixth Decision No. 1: 1) Second Decision: Law: The collateral of sharia is

allowed by conditions as stipulated in this fatwa, 2) Sixth Decision: Ending Provisions: If there is a conflict between the customer and the bank, the settlement is based on the Act of the Republic of Indonesia and in accordance to the sharia principles. BRI Syariah Malang always attaches a guarantee agreement on the beginning of the contract, which will be approved by the customer.