

# Implementation Of Legal Lending Limits for Commercial Bank Credit as A Form of Implementation of Prudential Principles

K. Ambarwati<sup>1\*</sup>, Budi Santoso<sup>2</sup>, Siti Malikhatun Badriyah<sup>3</sup>

<sup>1,2,3</sup>Faculty of Law, Diponegoro University; E-mail: [ambarwatiundip@gmail.com](mailto:ambarwatiundip@gmail.com)

**Abstracts:** This research aims to find out how the Legal Lending Limit (LLL) is implemented for commercial banks. The method used in this research is a normative legal research method using a statutory approach. The research results show that the application of the Legal Lending Limit (LLL) is a form of application of the precautionary principle where regulations regarding LLL aim to minimize credit risks that may occur. If there is a violation or exceedance of the LLL, it must be handled immediately by making an action report and the bank must resolve the violation or exceedance of the LLL in accordance with the action plan within a predetermined time limit. The impact of violations or exceeding the LLL that are not resolved means that the person responsible for a bank can be subject to sanctions in the form of administrative sanctions and criminal sanctions, apart from that it can also have an impact on the continuity of the bank's existence if a credit failure occurs.

**Keywords:** Legal Lending Limit, Prudential Principles, Credit Risk, Credit Failure, Impact.

## 1. INTRODUCTION

Business finance role as bone back economy. Development something nation depending on exhibition business venture. Bank connect fund reserve And units venture economy. Reserve abundance public collected by bank And asset asset This directed to supporters finance. [1]

Regulations regarding banking in Indonesia are regulated by Law Number 10 of 1998 concerning Banking. Banks have 2 (two) main functions, namely collecting funds from the community and distributing funds to the community. The form of channeling funds by banks to the public is by using credit. Providing credit to customers is not done haphazardly, there are principles and rules that must be considered and obeyed so that a bank does not suffer losses due to the customer's failure to return credit [2].

One of the principles that must be adhered to in providing credit is the principle of prudence (*Prudential Banking Principles*) . Implementing the principle of prudence in the banking world is an obligation for banks. The aim of the precautionary principle is to ensure that banks are always healthy, liquid and solvent. This affects public trust, if the bank is in a healthy condition, it is hoped that the level of public trust in banking will remain high, so that people are willing and do not hesitate to save their funds in the bank [3].

One form of implementing the precautionary principle is by implementing policies on bank credit, one of which is the policy on bank credit, which regulates the Legal Lending Limit (LLL). In simple terms, the aim of the regulations regarding LLL is to minimize risk by spreading the risk so that credit risk is not only focused on one customer, so as to minimize the risk of major credit failures which pose a risk to the life of the banking institution itself [4].

The LLL rules between types of banks are not the same, the LLL for commercial banks and Rural Banks is different from one another, but the author's focus in this research is to examine the application of the LLL to commercial banks and the impacts that arise when LLL violations occur.

## 2. LITERATURE REVIEW

### 2.1. Minimum Limit for Granting Credit

Regulations regarding LLL were initially made by Bank Indonesia, but since the enactment of Law Number 21 of 2011 concerning the Financial Services Authority, the task of regulating and supervising financial institutions has been transferred to the OJK. The rules regarding LLL for commercial banks are contained in Financial Services Authority Regulation Number 38/POJK.03/2019 concerning Amendments to Financial Services Authority Regulation Number 32/POJK.03/2018 concerning Maximum Limits for Providing Credit and Providing Large Funds for Commercial Banks . In this regulation, the provision of funds is divided into 3 (three), namely the provision of funds to related parties, the provision of funds to non-related parties, and the provision of funds to BUMN.

#### a. Related parties

The classification of related parties related to the provision of funds is regulated in Article 9 of the Financial Services Authority Regulation Number 38/POJK.03/2019 . LLL for related parties is set at 10% of the Bank's capital

#### b. Unrelated Parties

Provision of funds for unrelated parties is determined at a maximum of 25% of the Bank's Core Capital ( *tier* 1). The classification of unrelated parties is divided into 2, namely one borrower other than related parties and one group of borrowers other than related parties. Regarding groups of borrowers, banks are obliged to classify anyone who is a group of borrowers other than related parties, where to determine this an analysis must be carried out based on ownership, management or financial relationships.

#### c. State-owned enterprises

The provision of funds for State-Owned Enterprises is determined at 30% if the State-Owned Enterprise carries out its business activities with the aim of development. Business entities included in this group are state-owned enterprises that have a controlling relationship with banks due to direct ownership by the central government or regional government. However, if it is between a bank and a state-owned enterprise or state-owned enterprise that has a controlling relationship but is not directly owned by the central government or regional government then it is not included in this group but is classified as a related party so that a maximum LLL applies of 10% of bank capital.

### 2.2. Credit

The etymological definition of credit originates from the Latin word "Creditus" which is the past participle of the word "credere" which means "to trust", this word can also be interpreted as "trust" [5]. Meanwhile, the juridical meaning according to Law Number 7 of 1992 Jo. Law Number 10 of 1998, namely "credit is the provision of money or the equivalent thereof, which is based on a loan agreement between the bank and another party which requires the borrower to pay off the debt after a certain period of time, where the bank for its services will receive interest ".

Credit is useful for the Bank to gain profits where the bank makes a profit through the interest charged to customers. A bank that provides credit to a debtor means that the bank entrusts the funds provided to the debtor. Of course, the granting of credit is carried out with previous analysis, taking into account the principles in granting credit. [6]

Several principles that must be adhered to and analyzed by banks before providing credit to debtors are: [7] :

a. Principle of trust

The creditor's trust in the credit benefits for the debtor at the same time creditor's belief that the debtor can repay the credit. Naturally To be able to fulfill this trust, the creditor must see whether the prospective debtor is meet various criteria that are usually applied to a grant credit.

b. Prudential Banking Principle

The precautionary principle is one of the principles of trust in providing credit. The Prudential Principle is a principle that requires banks to apply caution in carrying out their functions and business activities, with the aim of protecting funds from the public that have been entrusted to them.

c. Principle 5C

The 5Cs principle is an abbreviation of the elements of Character, Capacity, Capital, Conditions of Economy, and Collateral.

d. The 5 Ps Principle

The 5P principle is an abbreviation of *Party* , *Purpose* , *Payment* , *Profitability* , *Protection* .

e. The 3 Rs Principle

The 3R principle is an abbreviation of, *return* (Results obtained) , *repayment* (Repayment) , *risk bearing ability* (Ability to Bear Risk)

### 2.3. Risk Management

Management risk play role important in ensure security activity credit bank and contribute For minimize risk in activity banking [8] . The objectives of risk management are:

- a. Track sources of risk
- b. Provide risk information to the organization
- c. Minimize losses due to risks
- d. Provide a sense of security for *stakeholders*
- e. Maintain organizational stability and growth

One of the goals of risk management is to provide risk information to the organization so that the organization can make efforts to prevent the risk from occurring or reduce its impact. These efforts are called risk mitigation. Risk mitigation is an action aimed at reducing or maintaining the magnitude or level of the main risk until it reaches the expected residual risk, namely the smallest risk that can be achieved from reducing the magnitude of the main risk. To achieve this expected residual, mitigation or risk management measures are required. Risk management or mitigation is divided into 5 types, namely [9]:

- a. Reduce the possibility of risk occurring
- b. Reduce the impact of risks
- c. Sharing risks

- d. Avoid risks
- e. Accept the risk

### **3. METHODOLOGY**

This research uses normative juridical legal research methods or doctrinal research. This research was carried out by studying and researching secondary data consisting of primary legal materials, secondary legal materials and tertiary legal materials [10]

The research approach used uses a statutory approach. The statutory approach is an approach taken by examining all laws and regulations related to the legal issue being handled.

### **4. RESULTS AND DISCUSSION**

#### **4.1. Implementation of the Maximum Credit Limit in Commercial Banks as a Form of Implementation of the Prudential Principle**

The provisions regarding LLL are a manifestation of the application of the principles of prudence and risk management in carrying out banking business activities. The existence of this rule causes the provision of funds to the public to be adjusted to the bank's capital, so that the bank in carrying out its functions does not experience significant losses which could impact the sustainability of the bank itself.

In connection with risk management, determining LLL is included in risk mitigation efforts. Judging from the five types of risk mitigation mentioned above, the application of LLL is included in the type of risk sharing, this is because with LLL, banks do not give credit or provide funds to certain parties only, but banks distribute credit evenly according to the limits set. has been determined in the applicable regulations and in granting the amount of credit, the bank must be sure that the debtor can pay off his debt. The way banks gain this confidence is by analyzing customer capabilities through assessments using the 5c principles ( Character, Capacity, Capital, Conditions of Economy, and Collateral ). [11]

Determining the LLL can help banks implement one of the 5 C principles, namely capital, where in this principle the bank must carry out an analysis of the capital it has in each loan grant. With the LLL, banks can more easily set limits on funds that can be lent to debtors. With the LLL, it can function as a tool to prevent bad credit or credit failure by customers, so that the bank can avoid serious credit risks, so that if it experiences an incident in the form of a credit problem the bank can still continue to maintain the continuity of its business.

The existence of regulations regarding LLL does not mean that LLL rules can apply absolutely, in Financial Services Authority Regulation Number 38/POJK.03/2019 regulates exceptions to the application of LLL to certain parties. The criteria for a party not being subject to LLL if in providing funds the debtor obtains a guarantee from the Government of the Republic of Indonesia, providing export-oriented funds to financial institutions that meet certain requirements, providing funds guaranteed by certain collateral and meeting certain requirements, providing funds to debtors who have obtained guarantees from Prime Bank, the provision of funds has become a capital reduction factor.

#### **4.2. Impact of Violation of the Maximum Credit Limit Provisions**

The creation of regulations regarding LLL does not mean that banks cannot violate these regulations. There are times when the bank has to provide funds in excess of the specified limit which is due to circumstances that require the bank to do so or there is an intention on the part of the bank to violate the LLL. Conditions like this are called LLL exceedances and LLL violations. Violation and Exceeding LLL are something different. The definition of LLL Violations is contained in Article 1 number 8 of the Republic of Indonesia Financial Services Authority Regulation Number 38 /POJK.03/2019 concerning amendments to Financial Services Authority Regulation Number

32/POJK.03/2018 concerning Maximum Limits for Providing Credit and Providing Large Funds for Shareholders. Commercial Banks state that the LLL Violation is the excess difference between the specified LLL percentage and the percentage of Provision of Funds for Bank capital for Related Parties; or Core Capital ( *tier* 1) of the Bank for other than Related Parties, using the Capital position or Core Capital ( *tier* 1) of the last month before the realization of the Provision of Funds.

The definition of the LLL exceedance is in number 9 which states that the LLL Exceed is the excess difference between the specified LLL percentage and the percentage of Fund Provision for: a. Bank Capital for Related Parties; or b. Core Capital ( *tier* 1) of the Bank for other than Related Parties, at the time of the report and does not include LLL Violations. Violations and violations of the LLL are violations of the precautionary principle, if this continues, the risk of credit failure is very likely to occur. If this happens, it will have an impact on the continuity of the bank's business, which will ultimately result in bank liquidity.

Bank liquidation is an act of settling all bank rights and obligations as a result of revocation of business licenses and dissolution of the bank's legal entity. So bank liquidation is not just revocation of a business license and dissolution of the bank's legal entity, but is related to the process of resolving all the rights and obligations of a bank whose business license has been revoked . ([7] .

Bank liquidity is carried out to select banking activities in Indonesia so that only banks that are still healthy can carry out their business activities, while banks that are deemed unable to be maintained will be dissolved, this is related to the bank's very important position in supporting the national economy.

Violations and exceeding the LLL are different things, exceeding the LLL can occur due to certain conditions where these conditions are normal things in the banking business which result in banks having to provide funds in excess of the LLL. The conditions that cause a bank to exceed its LLL are caused by several factors, namely:

- 1) decrease in Capital or Core Capital ( *tier* 1) of the Bank;
- 2) changes in exchange rates;
- 3) changes in fair value;
- 4) business merger, change in ownership structure and/or change in management structure which causes changes in Related Parties and/or Borrower groups;
- 5) changes to provisions.

The consequence of a violation or exceeding the LLL is that the bank must immediately carry out a settlement before a loss occurs that threatens the safety of the bank's life, namely by preparing an action plan. The settlement is carried out within a certain time limit. In Article 50 paragraph 1, it is stated that the resolution time for LLL Violations is no later than 1 (one) month, while for LLL exceedances caused by a decrease in bank capital or core capital is set at no later than 9 (nine) months, then for LLL Exceedings caused by business mergers, changes in ownership structure and/or changes in management structure which cause changes in Related Parties and/or Borrower groups are determined no later than 12 (twelve) months; and/or. Then it is related to the LLL exceedance caused by changes to provisions are determined no later than 18 (eighteen) months. If it is not possible for a bank to complete the action plan within the specified time, the bank, with the approval of the Financial Services Authority (OJK), can prepare a new action plan in accordance with the time specified above.

Sanctions given to banks that exceed or violate LLL are subject to administrative sanctions. Administrative sanctions that can be imposed include written warnings, reducing the bank's soundness level, prohibition on expanding business activities, prohibition on opening office networks, freezing certain business activities, prohibition from being the main party of financial services institutions in accordance with the Financial Services Authority Regulation regarding reassessment of main parties. financial services institutions. Apart from administrative

sanctions, there is also the threat of criminal sanctions, these sanctions are imposed on banks that do not complete their action plans after being given warnings and written warnings.

## CONCLUSION

Determining LLL is one form of implementing the principle of prudence in carrying out banking business. LLL aims to limit banks from providing funds exceeding the capital they have so as to minimize risks that could affect the continuity of the bank's business. LLL divides credit risk so that the provision of funds is not concentrated on 1 (one) party, or certain parties, so that the risk of credit failure will not disrupt the continuity of the bank's business.

The impact of violating or exceeding the LLL is credit failure, if this cannot be overcome it will cause bank liquidity. When bank liquidity occurs, the bank's business license is revoked and its business is closed. The way to overcome this is to immediately make an action report within a predetermined time, so that you can overcome the risk of credit failure that might occur.

## REFERENCES

- [1] Dan, Nguyen Ha Bang, Nga Phan Thi Hang, Le Trung Dao. 2023. "ENVIRONMENTAL POLICY AFFECTING THE DEVELOPMENT OF GREEN BANKING AND GREEN ECONOMY : A CASE STUDY IN VIETNAM." *RGSA – Revista de Gestão Social e Ambiental* 17(4):1–15.
- [2] Dhanya B. K. dan V. P. Velmurugan. 2023. "CUSTOMER AWARENESS TOWARDS E-BANKING MANAGEMENT FOR MAINTAINING A SUSTAINABLE ENVIRONMENT." *RGSA – Revista de Gestão Social e Ambiental* 17(6):1–15.
- [3] Fuadi, Munir. 2002. *Hukum Perbankan Modern*. Bandung: PT. Citra Aditya Bakti.
- [4] Iskandar, Agus. 2008. "Penerapan Prinsip 5C's Dalam Perjanjian Kredit Perbankan Sebagai Dasar Prinsip Kehati-Hatian." *PRANATA HUKUM* 3(1).
- [5] Joey Allen Fure. 2016. "FUNGSI BANK SEBAGAI LEMBAGA KEUANGAN DI INDONESIA MENURUT UNDANG-UNDANG NOMOR 10 TAHUN 1998 TENTANG PERBANKAN." *Lex Crimen* V(4):390–92.
- [6] Jam, F. A., Singh, S. K. G., Ng, B., & Aziz, N. (2016). Interactive effects of Gender and Leadership Styles on Open Service Innovation: A Study of Malaysian Doctors, *International Journal of Economics Research*, 13(3), 1287-1304.
- [7] Kuku Galang Waluyo. 2022. "Manajemen Risiko : Tujuan, Kategori, Dan Mitigasi." *DITJEN PERBENDAHARAAN KEMENKEU*.
- [8] Kurniati, Herlina, Kuryani Saputra, and Fristia Berdian Tamza. 2022. "Analisis Pencabutan Izin Usaha Dan Likuidasi Bank Di Indonesia." *Asas* 13(2):44–58. doi: 10.24042/asas.v13i2.11278.
- [9] Mulyati, Ety. 2018. "The Implementation of Prudential Banking Principles to Prevent Debtor with Bad Faith." *PADJADJARAN Jurnal Ilmu Hukum (Journal of Law)* 5(1):89–108. doi: 10.22304/pjih.v5n1.a5.
- [10] Peter Mahmud Marzuki. 2021. *Penelitian Hukum*. Jakarta: Kencana.
- [11] Putriyanti, Erma Defiana. 2017. "Legal Status of Credit Bank Guarantee in Indonesia 's Legal Guarantee." *Sriwijaya Law Review* 1(2):128–41.
- [12] Sjoifan, Lindryani. 2015. "PRINSIP KEHATI-HATIAN (PRUDENTIAL BANKING PRINCIPLE) DALAM PEMBIAYAAN SYARIAH SEBAGAI UPAYA MENJAGA TINGKAT KESEHATAN BANK SYARIAH." *Pakuan Law Review* 1(2).

DOI: <https://doi.org/10.15379/ijmst.v10i4.2088>

This is an open access article licensed under the terms of the Creative Commons Attribution Non-Commercial License (<http://creativecommons.org/licenses/by-nc/3.0/>), which permits unrestricted, non-commercial use, distribution and reproduction in any medium, provided the work is properly cited.