Reconstrucuting Gearing Ratio and Digital Base Service Rates to Mitigate Financial Risk for the Indonesian Credit Guarantee Industry's Sustainability

Hari Tohar Muljono
Universitas 17 Agustus 1945 Surabaya, Email: haritohar@gmail.com
Tri Ratnawati
Universitas 17 Agustus 1945 Surabaya, Email: triratnawati@untag-sby.ac.id
Author Name
Universitas 17 Agustus 1945 Surabaya, Email: shihab@untag-sby.ac.id

Abstract

This research examines the role of the credit guarantee industry in supporting the growth of MSMEs in Indonesia through guarantee programs that aim to reduce information asymmetry between banks and MSMEs. Using structured interview methods and data triangulation techniques from various sources, this study analyzes the management of gearing ratios and tariff risks that significantly impact the financial stability of guarantee institutions. The analysis results with NVIVO 12 reveal digital transformation's importance in efficiency and transparency in risk management. This research also produces a digitalization design for the Program Gearing Ratio (PGR) and offers practical solutions through SWOT analysis to improve the guarantee capacity and sustainability of the industry. The findings contribute to the literature by proposing an integrated internal audit approach for financial risk mitigation in the credit guarantee industry.

Keywords: credir guarantee, MSMEs, gearing ratio, digitalization, risk management

Introduction

One of the macro instruments that have been developed to help the financial sector to boost the economy is the guarantee industry. This is very important for the growth of MSMEs (Micro, Small, and Medium Enterprises), which are significant business entities in terms of number and capacity to employ people (Oberman et al., 2012; Wijaya et al., 2022). To make it easier for small and medium-sized enterprises (SMEs) to get financing, the government offers a credit guarantee program that guarantees a percentage of bank loans to SMEs. The level of demand by SMEs is higher than the total amount of loans to SMEs, indicating an information imbalance between banks and SMEs (Ardic et al., 2011). Banks and SMEs will lend more money to each other in this scenario because of the guarantee offered by the guarantee agency. This will reduce the information asymmetry between SMEs and banks, so the amount of loans to SMEs will increase (Yoshino & Taghizadeh-Hesary, 2019). For SMEs traditionally, collateral has served as a foundation of trust (Wijaya et al., 2022).

Along with the growing demand for MSMEs to finance and diversify into other areas, such infrastructure and exports, the guarantee sector is expanding (Junaidi, 2023). Some assurance agencies have started the process of digital transformation in order to increase transparency and efficiency. Innovation and competitiveness are altered by digitalization, particularly in a more developed digital economy. In the digital age, standardization and innovation are the main factors that drive a company's competitiveness (Yang et al., 2023). But there are also a lot of challenges with this advancement, particularly in risk management. Preserving the financial stability of guarantee institutions by keeping adequate capital reserves to handle risks related to liquidity and solvency; defaults, which frequently happen to MSMEs with a high risk profile, are a critical threat (Hadiantini & Retnowati, 2022). Adapting to regulatory changes is important because regulatory uncertainty can affect a guarantee institution's operations and strategy.

Technology advancements have made guarantee agencies more vulnerable to operational concerns in addition to default risk. Cyberattacks and system malfunctions are among these dangers, which could interfere with the guarantee procedure and erode customer confidence (Kaur et al., 2021). Since trust is a vital commodity in this industry, reputational risk is also a significant worry. Guarantee agencies need to work closely with financial institutions and be tightly supervised by regulators in order to manage these diverse risks and maintain the guarantee sector's sustainability (Gualandri et al., 2024; Seal et al., 2021).

In order to determine how much credit is guaranteed in relation to the equity possessed, the gearing ratio compares the guarantee company's overall guarantee to its equity. A finance company's gearing ratio can be no more than 40 times, divided into 20 times for productive credit and 20 times for non-productive credit, according to Financial Services Authority (OJK) regulation Number 35 / POJK.05 / 2018 concerning the Implementation of the Financing Company Business. Because guarantee companies with high gearing ratios can be perceived as being in worse financial health than guarantee companies with low gearing ratios, assuming that the gearing ratio limit is an appropriate category, gearing ratios do not significantly affect risk disclosure (Tunji et al., 2015).

The performance of tariff risk and gearing ratio risk is heavily influenced by the risk management practices of credit guarantee businesses. In the event that these companies are unable to effectively manage their risks, their performance is likely to decline over time. This pledge is to be fulfilled by the Financial Services Authority (OJK) through the sustainable finance initiative. Guarantee institutions must maintain their financial health conditions, wherein they are required to maintain gearing ratios for credit guarantees, in order to support institutions that implement sustainable finance principles in accordance with OJK regulation number 18/SEOJK.05/2018 concerning the Financial Health of Guarantee Institutions.

The goal of this research is to increase guarantee capacity and income (Guarantee Service Incentives) and increase the ability of guarantee firms to carry credit risk in order to address the issues facing Indonesia's credit guarantee industry. This research is unusual since it uses integrated internal auditing to reduce financial risk.

Methodology

In order to determine whether the findings are consistent across these sources (the credit guarantee company, the bank that grants credit, and the credit recipient customers) the field study carried out by this research employs a structured interview method with triangulated data. These sources include the following information:

Table 1. Interviewee

No	Interviewee
1	PT. Jamkrida Jatim
2	PT. Jamkrida Jateng
3	PT. Jamkrida Jabar
4	PT. Jamkrida Jakarta
5	Bank Jatim Malang Branch
6	BPR Jatim Kediri Branch
7	BPR Jatim Kepanjen Branch
8	Client Surety Bond Malang
9	Client Surety Bond Mojokerto
10	Client Surety Bond Tuban

Following that, NVIVO 12 will be used to process the interview data with these parties in order to generate theme findings, which will be used to identify, arrange, and evaluate the key themes or patterns that show up in qualitative data like the interviews done for this study. As a result of this analysis, a PGR (Program Gearing Ratio) digitalization design will be created, with the goal of using digital technology to manage gearing ratios in businesses, particularly in the credit guarantee sector. Additionally, strategies utilizing SWOT analysis (Strengths, Weakness, Opportunities, and Threats) in conjunction with EFAS (External Factor Analysis Summary) and IFAS (Internal Factor Analysis Summary) will be implemented as follow-up measures to ensure the credit guarantee industry performs sustainably.

Results and Discussion

In comparison to equity, the gearing ratio indicates how much credit a corporation can guarantee. The gearing ratio gives a broad picture of the company's stability and financial risk in the credit guarantee sector. A low ratio suggests that the guarantee company has not been able to maximize its equity capacity, whereas a high ratio reflects the level of risk guaranteed. Assurance institutions should think about diversifying their sources of funding, including looking for additional equity sources, in order to control gearing ratios. As an illustration, as of the end of June 2024, PT Jamkrida Jatim's gearing ratio was 34 times, which is quite near to the 40 times maximum that OJK had established. This indicates that while the business is still doing well, there is still opportunity for development or modification. PT Jamkrida Jatim is putting in more applications to the East Java Provincial Government and other possible investors in order to expand its capacity as guarantors.

The amount of money that the guarantee firm receives from the guarantee in the context of guarantee operations is known as the guarantee fee tariff (IJP). The Financial Services Authority has regulated the limits of permissible and not allowed services, although the present IJP price is still based on market rates that overlap with insurance rates. In order to establish a guarantee ecosystem that is sustainable, the Financial Services Authority must control the tariff limit for the guarantee industry, as this tariff does not yet provide sufficient coverage of claims.

The study's findings encompass research methodology, fieldwork, and information gathering through interviews with knowledgeable individuals within the credit guarantee sector. Following that, the information gathered from the interviews with ten connected persons was examined in multiple steps as follows:

Analysis with NVIVO 12

Figure 1. Word Cloud Result by NVIVO 12

The results of data analysis using NVIVO 12 produced a Word Cloud that illustrates Jamkrida's primary focus on credit guarantee services. Words such as "jamkrida," "guarantee," "tariff," "jatim," and "risk" emerged as critical elements, showing attention to tariff and risk management in the guarantee process. Digitalization and technology are also central themes, as the words "digital," "digitalization," and "technology" appear frequently. This indicates the significant role of digital innovation in modernizing and improving the efficiency of the credit guarantee process. In addition, this word cloud also highlights sustainability, regulation, and cost management as essential components in the credit guarantee industry. Sustainability is a significant concern, showing the importance of maintaining business continuity in facing various challenges, especially financial risks. The role of financial institutions such as banks and insurance is also touched upon, signallingan essential collaboration in supporting the credit guarantee process. As such, this word cloud reflects the complex credit guarantee ecosystem, where digitalization, risk management, and regulatory policies play an essential role in the sustainability and efficiency of operations.

SWOT Analysis

By using IFAS (Internal Factor Analysis Summary) to analyze and summarize the internal factors that affect the organization, namely strengths and weaknesses, and EFAS (External Factor Analysis Summary) to analyze and summarize the external factors that affect the organization, namely opportunities and threats, SWOT analysis can be used to further explore the results of data processing with AHP and the existence of PGR digitization design. An summary of the organization's internal and external position is given by the overall score, which is based on the influence of each contributing aspect.

	Internal Factor Evaluation (IFE)						
	Strengths		weight	rating	TOTAL		
1	The Guarantee Industry has managed to maintain its gearing ratio at 34 times, which is within the healthy range and below the maximum limit set by OJK, which is 40 times.	7.5	0.08	8	0.60		
2	The Guarantee Industry has successfully increased investor and shareholder confidence through improved capital efficiency.	4	0.04	5	0.20		
3	Competitive guarantee service rates The average guarantee service rate in Indonesia ranges from 0.5% - 2.5% of the loan value.	5	0.05	6	0.30		
4	Flexibility in Pricing according to risk level	7	0.07	8	0.56		
5	Strengthen relationships with financial institutions and investors	10	0.10	8	0.80		
6	Ensure long-term operational sustainability	5	0.05	7	0.35		
7	Speed up the assurance and decision-making process	5	0.05	8	0.40		
8	Enable early risk detection with advanced analytics technology	5	0.05	6	0.30		
9	Ensure long-term operational sustainability of the company	5	0.05	8	0.40		
10	Enhance reputation as a socially and environmentally responsible company	2	0.02	4	0.08	3.99	x=(3,99-2,90)
						x=	1.09
	Weaknesses						
1	Reliance on Additional Capital	10	0.10	8	0.80		
2	Dependence on Debt	2	0.02	4	0.08		
3	Uncertainty in Tariff Determination leads to customer confusion and dissatisfaction	7.5	0.08	8	0.60		
4	Less transparent tariffs can reduce customer trust.	3	0.03	6	0.18		
5	Data Limitations for Risk Analysis, especially for the MSME segment that does not have a long credit track record.	5	0.05	6	0.30		
6	High cost of implementing a comprehensive mitigation strategy.	3	0.03	5	0.15		
7	Requires new skills and training for the workforce.	3	0.03	4	0.12		
8	Reliance on technology can be a risk in the event of technical glitches.	3	0.03	5	0.15		
9	Implementation of sustainability strategies can require a large initial investment	3	0.03	4	0.12		
10	Dividend Distribution and Restricted Reserves:	5	0.05	8	0.40	2.90	
		100	1.00				
	External Factor Evaluation (EFE)						
	Opportunities						
1	Increased demand for credit guarantees especially in the MSME sector and infrastructure projects, there are opportunities for credit guarantee companies to increase the scale of operations and use a higher gearing ratio.	10	0.1000	8	0.80		
2	Service Development with Other Banks	7	0.0700	8	0.56		
3	Opportunity to develop new underwriting products with more competitive rates	7	0.0700	7	0.49		
4	Strengthening customer relationships through tariff transparency	5	0.0500	4	0.20		
5	Enable the development of new, more secure underwriting products	5	0.0500	6	0.30		
6	Opportunity for safer investment portfolio diversification	5	0.0500	3	0.15		
7	Government support for digitalization	3	0.0300	5	0.15		
8	Opportunity to become a market leader in digital innovation in the guarantee sector	7	0.0700	4	0.28		
9	Opportunity to attract environmentally conscious investors and customers	2	0.0200	3	0.06		
10	Potential to develop sustainable and innovative products and services	4	0.0400	5	0.20		
					3.19	3.19	(Y=(3,19-2,70)
	Threats					Y=	0.49
1	New regulations that may affect the implementation of stricter ratios	3	0.0300	4	0.12		
2	Economic Uncertainty and Credit Risk	7	0.0700	8	0.56		
3	Competition from other companies offering lower rates	7	0.0700	8	0.56		
4	Possible regulatory interventions that limit the company's ability to adjust tariffs	2	0.0200	2	0.04		
5	Global economic crisis that may increase overall risk	5	0.0500	6	0.3		
6	Competition from other companies that are more aggressive in taking risks	7	0.0700	8	0.56		
7	Cybersecurity threats and potential data breaches.	3	0.0300	4	0.12		
8	Risk of technology failure that could disrupt operations	2	0.0200	4	0.08		
9	Competition from other companies that are more advanced in sustainability initiatives	5	0.0500	4	0.2		
10	Reputational risk if the company fails to meet expected sustainability standards.	4	0.0400	4	0.16	2.70	
		100	1.00		2.70		

Figure 3. IFAS and EFAS SWOT Analysis

Conclusion

This study emphasizes the role that the credit guarantee sector plays in fostering the expansion of MSMEs in Indonesia, particularly through credit guarantee initiatives that work to lessen the information asymmetry that exists between banks and SMEs. Adequate financing and risk management are becoming more and more necessary as the credit guarantee industry grows and diversifies into other industries like exports and infrastructure. While agencies have made great strides in increasing efficiency and transparency through digital transformation and the use of big data, these developments also bring new risks, including reputational and operational concerns.

The gearing ratio is a crucial metric for evaluating the stability of guarantee organizations' finances. Its ideal ratio is no more than 40 times, and its calculation strategy requires careful consideration, taking guarantee risk quality into account.

In order to prevent a tariff war from negatively affecting the credit guarantee industry's performance, the Financial Services Authority of Indonesia must control Guarantee Fee Rates (IJP) with reference to the quantity of guarantee rates. The performance of credit guarantee institutions is significantly impacted by tariff risk management and gearing ratios, which, if improperly handled, can have a negative short- and long-term impact on performance.

Through interviews with numerous pertinent stakeholders, this research uses NVIVO 12 to evaluate the data and identify crucial themes including risk management, digitalization, and sustainability. The next stage of SWOT analysis, which makes use of IFAS and EFAS, offers a more thorough understanding of the possibilities, threats, weaknesses, and strengths of credit guarantee institutions. The study indicates that good cooperation with financial regulators and other financial institutions, efficient risk management, and digital transformation can all contribute to the financial sustainability and stability of credit guarantee companies.

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