Credit Policy Planning in Medium Scale Business

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Doi:10.5901/mjss.2017.v8n1p14

Abstract

In dealing with the factors affecting credit policy, a management should consider external and internal information before creating a policy. Internal factors include the structure and the amount of available bank assets and liabilities, and the type, state, and composition of available banking facilities and personnel. Meanwhile, external factors include the atmosphere of the business world in general and banking sector in particular, bank location, and others. The factors that need to be considered in credit policy cannot be separated from the problems that exist in banking activities. Since the factors affecting credit policy act as a guideline which influences credit management, it is important to analyze these factors. This research maps out some important factors in credit management and recommends certain practical steps that can be taken in credit management.

Keywords: Credit management, Internal factors, External factors, Credit policy

1. Background of the Study

The intermediary function of banking shows constant increase from year to year. The amount of banking loans granted in 2012 was 507.8 trillion Rupiah, which suggested a 16.9% increase from the sum of 434.3 trillion Rupiah in 2011 (Ikatan Bankir Indonesia, 2014). This growth indicates the importance of proper credit management to improve and increase economic growth. The credit grant process is a dynamic process that requires the consideration of prudence and loan segment characteristics. In terms of time, credit schemes can be categorized into long term, medium term, and short term schemes. Long-term planning normally takes more than five years; medium term three to five years; and short term one year. Credit planning determines how credit should be granted in the future in order to achieve the predetermined credit objectives. Hence, some of the most important factors in credit planning include macro economic and monetary conditions, capital market activities, and financial institutions. The purpose of this research is to analyze the factors affecting credit policy planning in medium scale enterprises.

2. Theoretical Review

2.1 Factors to consider in planning credit policy

As stated above, the creation function is one of the main functions of a bank. Consequently, the bank's success in managing credit determines its success in generating profit or maintaining sustainability. In determining credit policy, banks must consider several factors (Ikatan Bankir Indonesia, 2014): (1) Important factors in credit policy, which states that: (a) The credit policy must be in accordance with the vision, mission, corporate plan, and business plan of the bank; (b) In granting loans, the bank must be able to supervise credit portfolio as a whole, set a standard in individual loan grant, and set a standard for the stages of credit grant with the addition of internal supervision; (c) The credit policy is considered good when it covers the prudence principle in credit management, credit management and organization, credit approval policy, documentation and administration, credit supervision, and credit settlement; (d) The credit policy serves as a guideline, and should be reflected in the credit policy guideline used by every bank; (e) The credit policy must be submitted to and approved by the board of commissioners; and (f) Bank of Indonesia should supervise, monitor, and assess the implementation of credit policy in a bank; (2) The prudence principle in credit management, which consist of: (a) Main credit policies which regulate: (1) healthy credit procedures which include credit approval procedures, documentation and administration procedures, and credit supervision procedures; (2) credit with special treatment; (3) credit with capitalized interest; (4) non-performing loan settlement procedures, bad debt write-off procedures, and non-