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The Indonesian Government's Efforts in Overcoming the Negative Consequences of Rent Bank Practices in Giving Credit to Customers

Hari Wibisono¹, Dwi Tatak Subagiyo²

^{1,2} Universitas Wijaya Kusuma Surabaya

ABSTRACT: The competition in the banking industry is tighter, as well as the existence of rent banks. Financial institutions are segmented into formal and informal financial institutions. Informal financial institutions are prevalent in rural communities and among small entrepreneurs. This study focuses on disclosing the strategy of Indonesian banks in responding to the existence of rent banks. The research method used is empirical legal research. The data obtained were analyzed using deductive methods, namely processing data from primary and secondary data sets. The study results indicate that Rent Bank is a financial institution that serves as a temporary buffer for families with a weak economy even though the interest charged is very high. In responding, there is a need for stimulation and assistance for efforts to revitalize and strengthen traditions that reduce poverty and problems arising from the existence of rent banks. One way is to carry out cultural management that is inherently community and government assistance to traditions and traditional institutions that can reduce poverty.

KEYWORDS: Government of Indonesia, Rent bank, Small business

INTRODUCTION

Fierce competition from financial institutions, including rent banks, is increasingly felt. Financial institutions are the most numerous and most accessible to find in the small business community. These financial institutions are segmented into formal and informal financial institutions. Informal financial institutions are prevalent in rural and urban communities (for small entrepreneurs) because they function according to social customs (Djumhana, 2008). The main characteristics of this institution include simple procedures for obtaining loans without any collateral, based on interpersonal relationships. Informal financial institutions in some small communities include rent banks, informal pawnshops, commission loans, landlord loans, friend loans, relatives loans, and so on. The second financial institution is formal institutions such as Mandiri (People's Business Partners), BRI, KUD, and Pegadaian Official (Chattaramadjid, 2012).

Local economic activity at the community level of small entrepreneurs is one of the informal financial institutions based on the reality of the people's financial strength that has been proven to survive and has the potential to provide significant job opportunities and income in people's lives. However, according to Fuady (2008), the small business community has many weaknesses, including:

1. Limited capital factors.
2. The lack of knowledge of small entrepreneurs.
3. Lack of skills in business management.

In increasing the role of small and medium-sized enterprises, banks and non-bank financial institutions provide access to low-interest loan funds to the public and reach the lower middle class. However, in reality, banks are less easily accessible to the public than non-bank financial institutions. It is because the transactions are too small but in many business units, causing very high transaction costs. (Listyaningsih, 2004). Therefore, Non-Bank Financial Institutions are a choice to provide aid funds to the lower middle class.

It is not only the micro and small business sector that requires loan funds; the household sector also often requires loans to meet their daily needs. Because Non-Formal Financial Institutions and banks apply conditions that are not easy to fulfill, micro-enterprises and poor households seek loan funds from Non-Bank Informal Financial Institutions either through moneylenders or rent banks (Abdulkadir, 2007).



A bank is a financial institution with a significant and strategic role in supporting national development. The main activity of banking is to collect funds from the public in the form of deposits or savings and channel them back to the community in the form of a credit to improve people's living standards.

As a business entity that involves all aspects of people's lives, not only financial aspects but also social, cultural, economic, legal, political security aspects, and so on. Banks have different characteristics from other business entities because their primary roles and functions are related to public funds.

Banks are formed with safe provisions, a structured organization, and shareholders who own ownership from both the internal and external sectors. From the internal institutional sector, the Bank must be domiciled in the territory of the Republic of Indonesia, and its business entity is a legal entity that has been determined by the provisions of the Banking Law, including Limited Liability Companies, Cooperatives, or Regional Companies. Forms of business entities outside of these provisions are not recognized as financial institutions and constitute a violation of the Banking Law (Nugroho, 2001).

According to Subekti (2004), besides achieving and maintaining stability in the value of the rupiah, the objectives of Bank Indonesia are:

1. establish and implement monetary policy;
2. regulate and maintain the smooth running of the payment system;
3. regulate and supervise the Bank.

Rent Bank is an Individual Business Entity engaged in micro-level loans with reasonably high-interest rates, usually in the form of daily loans. The rise of rent bank operations in the community from an economic aspect is very burdensome for small entrepreneurs' money circulation (Winardi, 2005). However, they are very proactive and attractive because they have tied small entrepreneurs with accessible loan offers and a cultural approach even though the interest rates are very high, namely 15% to 20% per month. Flexibility is essential to maintain the relationship between rent banks and small entrepreneurs, for example, by sometimes providing opportunities to delay debt payments. In addition, Rent Bank avoids legal matters in selecting prospective customers. Rent Bank only digs up various information from people to find out the reputation of small entrepreneurs who are potential customers. On this basis, both parties carry out transactions based on trust (Soekanto, 1986).

METHODS

The research method used is empirical legal research. The data were obtained through analyzing Indonesian law and regulations concerning banking. The data obtained were analyzed using deductive methods, namely processing data from primary and secondary data sets.

RESULTS AND DISCUSSION

Based on research results, Bank Indonesia's Settlement Strategy for Rent bank performance is carried out by individuals who have sufficient capital and are self-managed. The principle used for the operation of this rent bank is straightforward. Firstly, looking for micro traders and small entrepreneurs who need money. Secondly, they then assess potential customers with the 5C principle. In banking, customers who meet the 5C criteria are the perfect people to get financing. The 5C tenets are:

1. Characters. The personality of the prospective customer such as personal characteristics, habits, way of life, circumstances, and family background and hobbies. This principle is to find out whether the prospective customer is honest in trying and has a willingness to pay.
2. Capacity. The ability of prospective customers to manage their business can be seen from their education and experience in managing their business (a business record). This capacity is a measure of the ability to pay.
3. Capital. The condition of wealth owned by the company it manages. It can be seen from the balance sheet, income statement, capital structure, and profit ratios such as return on equity and investment. From the above conditions, it can be assessed whether it is appropriate for the prospective customer to be given financing, and most financing ceilings are feasible.
4. Collaterals. Guarantees that may be confiscated if it turns out that the prospective customer really cannot fulfill his obligations.



5. Conditions. The financing provided also needs to consider the economic conditions associated with the prospective customers' business prospects. There is a business that is very dependent on economic conditions. Therefore it is necessary to link financial situations with the company of prospective customers.

Rent Bank is one of the economic institutions that can overcome the problem of meeting the community's needs. Rent Bank refers to a system of debts that uses an interest-bearing installment payment mechanism (rent). The payment period is agreed upon between the debtor and the creditor or credit institution. The time limit can be set based on the day or week the agreement is soothed with the coupon in installments, paid in small increments. Reducing that amount is an easy way to pay off someone's debt. With a predetermined number, the lender or financial institution will seek profit. The debtor's return coupon must be exhausted according to the calculation of the loan.

Many people do not understand and do not realize that the interest offered by Rent Bank is very oppressive. It is evident from the public's interest in extending and increasing their debt to the Rent Bank, either because it is already wet or because the situation is pressing. In comparison, the interest offered by legal banks is in accordance with the policies set by Bank Indonesia. Therefore, there is a need for public understanding of the actions of moneylenders that continue to haunt the community. Thus, the government must educate the public that moneylenders are illegal, loan sharks, and very detrimental to the community.

Rent banks do not use the provisions that already exist in banking law; the reasons are too complicated to apply in lending money to people who need it (Chattaramadjid, 2012). In practice, rent bank is always detrimental to society and the State. People are increasingly dependent on moneylenders and can fall into poverty if they cannot pay relatively high-interest rates. For the State, this is one of the slowly eroding of the economy, especially in the lower classes of society (Djumhana, 2008). Therefore, the government, as the protector of the community, must overcome this because:

1. From a positive legal perspective, Rent banks violates at least two laws concerning banking. Based on Article 1 paragraph (1) of Law no. 10 of 1998 concerning Amendments to Law no. 7 of 1992 concerning Banking:

"That banking has an understanding as everything related to banks, including institutions, business activities, as well as methods and processes in carrying out their business activities."

A Bank, based on the definition of Article 1 paragraph (2) of the Banking Law, is a business entity that collects funds from the public in the form of savings and distributes them to the public in the form of credit and or other structures to improve the standard of living of the people at large. It means that other banks and non-bank financial institutions (such as cooperatives, insurance companies, securities companies, and financing institutions permitted by laws and regulations) are prohibited from collecting funds and lending funds to the public to make a profit.

2. Based on Law no. 3 of 2004 concerning Amendments to Law no. 23 of 1999 concerning Bank Indonesia, it is explained that one of the tasks of Bank Indonesia (BI) is to regulate and supervise Banks within the scope of Indonesia, and in that context Article 26 of the BI Law affirms that:

Bank Indonesia is authorized to a) grant and revoke a Bank's business license; b) grant licenses for opening, closing and relocating Bank offices; c) give approval on the ownership and management of the Bank; d) grant permission to the Bank to carry out certain business activities.

The implication is that all community activities that collect and lend funds to the public for commercial purposes must obtain a permit from Bank Indonesia. If it is not licensed, it means that the illegal Bank is illegal or against the law and the government has the right to dissolve it.

Given the rampant practice of Rent Bank, which is very detrimental to the community, the government's job is to minimize the impact of these practices that can harm society. One way that can be applied is to make and enforce local regulations governing the operation of rent banks. The function of the Regional Regulation is to carry out government functions in the region (Abdulkadir, 2007). At the same time, it can also be an implementing regulation of higher laws and regulations. In other words, the existence of a Regional Regulation that regulates the presence of Rent Bank is expected to make it easier for government officials in the regions and law enforcers in the areas to carry out their duties and authorities as public servants. The Banking Law and the Bank Indonesia Law, which are the sources of positive law, do not condone the practice of moneylenders or illegal banks. But this provision is almost certainly understood only by those who understand the language of the law. At the implementing level in the field, it is



necessary to refer to legal rules that are clearer and firmer and can bridge the community's needs and accommodate the cultural practices of the people in each region.

The need for a Regional Regulation to prohibit the practice of Rent Bank is based on philosophical reasons. Regional regulations are a product of the legislative function, a standard form of public policy. As a general policy, the substance of regional regulations is to contain provisions relating to the interests of the community associated with the regulated material. In addition, establishing regional regulations is part of the development of national law, particularly the development of legal materials (Nugroho, 2001). Therefore, the making of regional regulations must be based on a strong vision and commitment to developing responsive legal materials that encourage national development, whether political, economic, social, or cultural, involving all components of society in each region.

The important thing that needs to be considered in making Regional Regulations is the scope. The scope of the regulation is intended so that the content of the rules does not overlap with other regulations, or certain parts are entirely regulated, thus creating a legal vacuum. Therefore, an in-depth study of the relevant laws and regulations, both horizontally and vertically, must be carried out.

From the aspect of its formation, the suitability of the type and material of the load is essential. The incompatibility between the substances will impact the emergence of laws and regulations that overlap and contradict each other. Regional regulations must also consider philosophical aspects concerning the basic idea of justice for the community related to the material regulated in Regional Regulations (Winardi, 2005).

The sociological aspect reflects the problems and social realities faced by society. Regional Regulations formed are indeed a necessity, and their presence is expected to be able to solve the issues that are being faced by the community, in this case, Rent Banks. Finally, the juridical aspect describes legal matters. In this case, no statutory regulations that regulate or existing regulations are no longer in accordance with the development and needs of the community.

CONCLUSIONS

Rent Bank is part of a traditional institution in the community that can be a temporary buffer for families when experiencing economic limitations or weak economic conditions. The external causes of poverty among weak financial groups can actually be overcome by managing the community and massive culture. That is, the will and the common interest must be put forward to jointly support and maintain citizens' lives, especially those categorized as poor.

Regional Regulations is a policy instrument to carry out government functions in the regions. However, at the same time, it can also be an implementation regulation of higher laws and regulations. In other words, for practical reasons, a Regional Regulation regulating the existence of Rent Banks is expected to make it easier for government officials in the regions and law enforcers in the areas to carry out their duties and authorities as public servants.

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