Volume 6 Issue 2 (2023) Pages 563 - 581
YUME : Journal of Management
ISSN : 2614-851X (Online)

The Influence of Risk Management Policies, Risk Management Procedures on Credit Risk Levels Through Risk Management Limits (Case Study of Banks Credit in the South Sulawesi Province Region)

Mulyana[1]✉, Sobarsyah[2], Andi Ratna Sari Dewi[3].
[1]Student Master of Management Study Program, Faculty of Economics and Business, Hasanuddin University
[2]Lecturer of Management Study Program, Faculty of Economics and Business, Hasanuddin University
[3]Lecturer of Management Study Program, Faculty of Economics and Business, Hasanuddin University

Abstrac

Analysis of risk management policies, procedures, and limits on setting risk management limits, analysis of how these factors affect the degree of credit risk in BPRs, and analysis of how these factors affect the level of credit risk through risk management limits at BPRs in the South Sulawesi Province Region are the main objectives of this research. In order to accomplish this goal, a sample of 150 respondents management, executive officers, and staff members of rural banks in the South Sulawesi Province region were used. Data analysis techniques using SEM-Amos and questionnaires were used to collect the data. The study's findings demonstrate that risk management practices and rules actually affect how management boundaries are created. The degree of credit risk is then significantly impacted by risk management policies and practices. The degree of credit risk can be significantly impacted by the management limit settings. The mediation test's findings indicate that imposing risk management limitations can moderate the impact of risk management guidelines and practices on the degree of credit risk in BPRs in the province of South Sulawesi.

Keywords: *Risk management policy, risk management procedures, setting risk management limits and credit risk levels.*

✉ Corresponding author :
Email Address : mulvieira1979@gmail.com

INTRODUCTION

The public's desire for more quick, simple, and varied financial services, coupled with the information technology industry's explosive growth, has pushed BPRs to become more inventive and creative in enhancing the goods and services they offer to the general public. These circumstances will therefore contribute to the elevated hazards that BPRs encounter. More risk control measures must be implemented to counteract this rise in risk. Risk management, according to Smith (1990), is the process of locating, assessing, and managing the financial risks that pose a danger to a project's or company's assets and

revenue and might result in loss or harm to the latter. As for the Financial Services Authority Regulation (POJK) Number 13/POJK.03/2015 concerning the Implementation of Risk Management for Rural Banks, Article 1 Number 6 states that "Risk Management is a series of methodologies and procedures used to identify, measure, monitor and control Risk arising from all BPR business activities."

The Financial Services Authority (OJK), in its capacity as the regulator, has required that BPRs implement risk management in a correct and consistent manner through Financial Services Authority Regulation (POJK) Number 13/POJK.03/2015 and Financial Services Authority Circular Letter (SEOJK) Number 1/SEOJK.03/2019 concerning the Implementation of Risk Management for Rural Banks. The office network, core capital, total assets, and business activities carried out by the BPR are all taken into consideration when classifying the BPR and determining who is responsible for performing risk management. The implementation of risk management in BPR entails the following, as required by the Financial Services Authority (SEOJK) Circular Letter Number 1/SEOJK.03/2019 about the Implementation of Risk Management for Rural Banks:

1) Oversight of the Commissioners' and Directors' boards.
2) Sufficient policies, processes, and limitations, specifically:
    a. Risk Management Policy;
    b. Risk Management Processes; and
    c. Risk Limit Determination.
3) Sufficient systems and procedures, specifically:
    a. Information system for risk management; and
    b. procedures for risk identification, measurement, monitoring, and control.
4) Extensive internal control framework .

In order to maintain resilience in a variety of circumstances, including the Covid-19 Pandemic, which is one of the conditions that can increase risks for BPRs and can have a significant impact on the social and economic sectors in the world, including Indonesia, BPRs must implement risk management. This is necessary for BPRs to manage the risks they face, both in normal conditions and during a crisis.

Not all of the credit that BPR has given its clients is in compliance with the laws that apply to it. Current credit, Special Mention credit, substandard credit, doubtful credit, and bad credit are among the credit qualities that qualify as productive assets under POJK Number 33/POJK. 03/2018, which addresses productive asset quality and the establishment of allowance for productive asset losses of rural banks. The Non-Performing Loan Ratio (NPL) is a measure of credit performance that is used to assess the state of BPR credit quality. Subtracting the amount of non-current credit from the overall credit amount and multiplying the result by 100% is the NPL ratio formula. A healthy net loss ratio, as defined by the guidelines for evaluating bank health, is no more than 5%. Businesses who experience bankruptcy frequently have to deal with this difficulty, particularly if their NPL ratio is more than 5% and is still rising due to the COVID-19 epidemic. BPR has to have a unique approach to handling troubled loans.

The regulator is attempting to lessen the burden on BPRs from the threat of rising NPL ratios and expenses in the formation of allowances for losses on productive assets by issuing Financial Services Authority Regulation (POJK) Number 34/ POJK.03/2020 concerning Policies for Rural Banks and Sharia Rural Banks as an Impact of the Spread of the 2019 Coronavirus Disease. Naturally, attempts to keep BPR profitable during the COVID-19 pandemic crisis are anticipated to be impacted by this policy; yet, BPR continues to pay attention to compliance in the application of this policy.

LITERATURE REVIEW

Understanding Banks

A company that works in the financial industry is a bank. Financial entities often referred to as banks primarily engage in the acceptance of checking, savings, and other deposits. In addition, banks are renowned for being places where those in need may borrow money (credit), exchange money, send money, and receive all forms of deposits and payments (Dangnga and Haeruddin, 2018:15). According to Hery (2021:10), banks are classified as financial entities primarily engaged in the acceptance of deposits, savings accounts, and current accounts. Secondly, banks are recognized as locations where loans are made. In addition, banks are recognized as locations for money exchange, money transfers, and the acceptance of various deposits and payments, including those for taxes, utilities, phone, and other bills.

Rural Bank (BPR)

Law Number 10 of 1998 Governing Banking, as revised by Law No. 10 of 1998, states that a bank operating under BPR is one that does business either traditionally or in accordance with sharia principles, and whose operations do not involve the provision of payment traffic services.

It is forbidden for rural banks that operate according to sharia principles to engage in regular business. Likewise, sharia-based operations are not allowed to be carried out by Rural Banks that engage in traditional corporate operations.

The activities of rural banks (BPRs) are essentially the same as those of commercial banks; the main distinction is the somewhat smaller range of financial services that BPRs offer. BPRs are not as free-moving as commercial banks due to a variety of regulations. The goal of creating BPR itself is tied to the constraints of BPR operations (Putra and Saraswati, 2020:34) .

BPR business operations are primarily focused on supporting small enterprises, rural communities, and community banks, according to Prasetiyo (2019:3). Similar to banks, BPRs are entities that act as middlemen, gathering money from those who have extra to give to others who require it. But as time goes on, BPRs can also engage in other commercial endeavors, contingent upon the quantity of cash they possess.

Understanding Risk and BPR Risk Management

The state of the industrial sector affects a nation's economically. One sector that is crucial to promoting economic growth is the banking sector, which deals with the distribution and collection of money. In its operations, banking is always exposed to a variety of risks, and it is important to recognize that this is a risky business, particularly given that it deals with managing public funds and converting them into different types of investments, including credit, securities purchases, and other investments.

In order to facilitate the growth of risk management, Bank Indonesia began issuing guidelines in 2004. These guidelines must be adhered to by national banks. The creation of a risk management work unit and committee is one of them. Here, the risk management work unit makes sure the risk management procedure is implemented correctly and gives management a summary of the risk profile. All banks are required by Bank Indonesia laws to undertake risk management in compliance with the roadmap and recommendations that the bank has set.

If we wish to prevent losses in company, the risk management method is a need. The Bank's robust risk management governance framework serves as the foundation for assessing how to balance risk and rate of return in order to provide sustainable revenue, lower the likelihood of nonperforming loans, lessen swings in income, and boost shareholder value. Risk is characterized as an unfavorable outcome of a decision. In order to prevent problems from occurring in banking, risk management is crucial. The Bank will be healthier and better equipped to handle future threats with effective risk management (Harahap and Efendi, 2022:30) .

Most people associate risk with negative things like danger, loss, and other outcomes. These losses represent a type of uncertainty that the company has to recognize and properly manage as part of its strategy in order to turn it into additional value and help the company accomplish its objectives.

Most people associate risk with negative things like danger, loss, and other outcomes. These losses are a type of uncertainty that the company has to recognize and properly manage as part of its strategy in order to turn it into value addition and help the business accomplish its objectives.

According to ISO 31000:2018, a risky circumstance is one that might jeopardize an objective that has to be accomplished. Meanwhile, risk management is a set of techniques and methods used to identify, assess, monitor, and control risks originating from all BPR business operations. It is in compliance with Financial Services Authority Regulation no. 13/POJK.03/2015

In essence, risk management is the use of management techniques to control hazards, particularly those that affect families, communities, and businesses. Therefore, organizing, directing, coordinating, and overseeing risk management programs are all included in the field of risk management. A rational and methodical approach to detecting, measuring, assessing attitudes, developing solutions, and keeping track of and disclosing risks that arise in any action or process is known as risk management (Maralis and Triyono, 2019: 8) .

Credit and Credit Risk

The term "credit" is widely used in daily conversation in modern society. The term "credit" is not limited to individuals living in large cities; it is also widely used in rural regions. The Greek word "credere," which meaning "truth or faith," is where the word "credit" originates. Thus, trust is the cornerstone of credit. A person or organization who extends credit (creditor) has faith that the person receiving credit (debtor) will one day be able to keep all of their commitments. Promises may include products, cash, or services.

Thus, there are a variety of ways in which accomplishments and counter-achievements can occur, including: money against money, goods against money, services against money, services against goods, money against services, money in opposition to both commodities and services. It will be abundantly evident from getting counter-performance in the future that, in the context of economics, credit is the deferment of payment for accomplishments made today, whether in the form of products, cash, or services (Abdullah and Wahjusaputri, 2018: 112) .

One major reason for BPR failure might be credit risk. As a result, BPR's capacity to recognize, quantify, track, and manage credit risk as well as set aside enough cash for it, is crucial.In order to prevent BPR fund providing activities from being exposed to credit risk that might result in losses for the BPR, risk management is applied to credit risk. The scope, complexity, and nature of the business operations, as well as the amount of risk that the BPR can bear, all influence how risk management is implemented.
The portfolio of assets that is exposed to credit risk is:

1. Credit granted;

Generally speaking, credit granted makes up the biggest part of the BPR balance sheet and is the main source of credit risk, which can directly affect BPR capital.

2. Placement with another bank:

When a bank is placed with another bank, there is a chance that the other bank would be unable to pay its debts when they become due, which creates credit risk (Financial Services Authority, 2015) .

According to Hayati (2017: 80), credit risk arises when a corporation, organization, entity, or individual is unable to fulfill its commitments on time, both at maturity and beyond, while adhering to the established regulations and agreements. fits the bill. In the case of banking and non-banking entities, the interpretation of credit risk becomes even more specialized according to the nature of the business transactions. From a banking standpoint, credit risk is the probability that the counterparty may not fulfill its commitments to the bank at maturity, which might result in a loss for the bank.

Credit Quality and *Non-Performing Loan Ratio*

Not all of the credit that BPR has given its clients is in compliance with the laws that apply to it. Regarding the Quality of Productive Assets and the Establishment of Allowance for Losses on Productive Assets of Rural Banks, POJK Number 33/POJK.03/2018 concerning the Quality of Productive Assets and the Establishment of Allowance for Losses on Productive Assets of Rural Banks : Current Credit, Credit under Attention, Substandard

Credit, Doubtful Credit, and Bad Credit. The Non-Performing Loan Ratio (NPL) is a measure of credit performance that is used to assess the state of BPR credit quality. The formula for calculating the non-performing loan (NPL) ratio is as follows:

1. Credit is defined as funds extended to third parties (but not to other banks);
2. Problematic credit is defined as funds of inferior, dubious, or poor quality;
3. Non-performing loans are computed on a gross basis;
4. Non-annualized figures are calculated per position

A healthy net loss ratio, as defined by the guidelines for evaluating bank health, is no more than 5%. BPRs that have an NPL performance ratio that is already higher than 5% especially given the COVID-19 pandemic must deal with this difficulty as the percentage keeps rising. The non-performing loan ratio, also known as the NPL ratio, is a measure that demonstrates the management of the bank's capacity to oversee non-performing loans. A bank's troubles increase with its non-performing loan (NPL) ratio since it indicates a decline in the bank's credit quality, which in turn leads to an increase in the quantity of problem loans.A customer with problematic credit is one who is unable to pay the bank all or part of his agreed-upon payments, including interest. Djiwandono states in Pratamawati (2018:30) that there are both internal and external variables that contribute to poor credit. These aspects include.

1. Factors :
a. Debtor's business environment
b. Disaster (eg: natural disaster, extraordinary event) or business failure;
c. Unhealthy competition between banks
2. factors :
a. Unsupportive credit policies;
b. Weaknesses in credit assessment systems and procedures;
c. Providing and monitoring credit that deviates from procedures;
d. Bad faith from the owner, management and bank employees.

The NPL Ratio, which indicates the performance of banks, can be impacted by external circumstances like large-scale national disasters. One outside influence is the COVID-19 epidemic. The economics is only one of the many facets of life that have been significantly impacted by COVID-19. Many nations are working extremely hard to recover from the effects of the Covid-19 pandemic in order to address this issue. In addition to collaboration, crucial measures to curb the proliferation of the Covid-19 pandemic and address its socio-economic aftermath include: monitoring the production and distribution value chain to guarantee supply stability; guaranteeing that the pandemic won't impact income and job prospects; providing assistance to impacted businesses, particularly Small and Medium Enterprises (SMEs), cooperatives, and unofficial sector enterprises; assured availability and supply of food supplies. To swiftly limit the Covid-19 epidemic, we must work together to slow its spread and bolster the health service system's resilience.

Non-Performing Loan Ratio is calculated by comparing loans or financing that are substandard, doubtful and non-performing with the total loans or financing provided to the public. The formula used to measure *Non-Performing Loans* according to (Sugiarto, 2021) is as follows:

$$\text{NPL} = \frac{\text{Kredit bermasalah}}{\text{Total kredit yang diberikan}} \times 100\%$$

The higher the credit quality, the lower the NPL ratio figure. If one of the requirements is that the net non-performing loan ratio is greater than 5% (five percent) of total credit, the bank is deemed to have potential issues that might jeopardize its ability to continue in operation.

Conceptual Model

A conceptual framework is a relationship or link between one concept and other concepts of the problem to be researched. Sekaran (2017:116) defines the dependent variable as the one that the researcher is most interested in analyzing. Put another way, the dependent variable is the primary variable that is relevant to the study, whereas the independent variable, as defined by Sekaran (2017:117) is a variable that has an impact on the dependent variable, either favorably or unfavorably. Based on the theoretical review that has been explained as discussed above and to obtain a clearer picture, the author presents the conceptual framework chart in this research as follows:

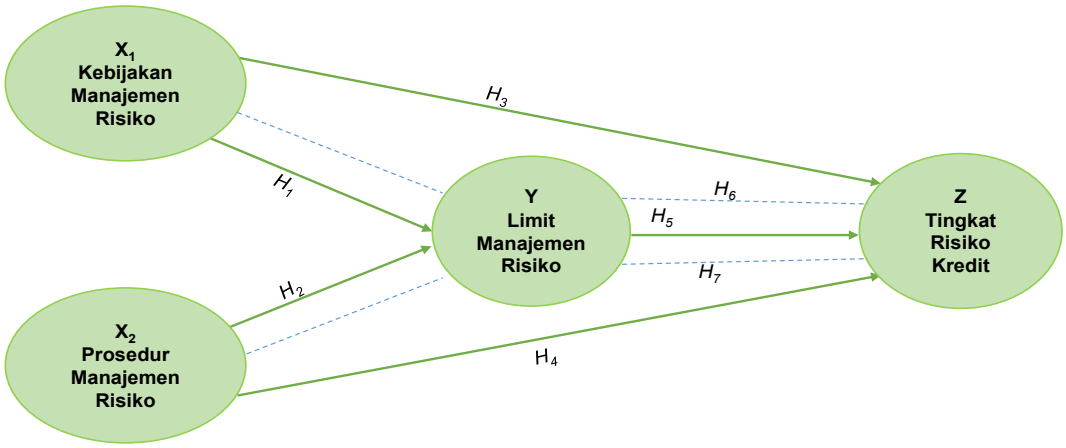

Figure 1. Conceptual Framework

The hypothesis statement in this research is an initial answer or estimate of a problem whose truth still needs to be proven.

H1: Risk Management Limits are significantly and favorably impacted by Risk Management Policy.
H2: Risk Management Limits are positively and significantly impacted by Risk Management Procedures.

H3: Credit Risk Levels are positively and significantly impacted by Risk Management Policy.
H4: Credit risk levels are positively and significantly impacted by risk management procedures.
H5: Credit Risk Levels are positively and significantly impacted by Risk Management Limits.
H6: Through Risk Management Limits, Risk Management Policy has a favorable and noteworthy impact on Credit Risk Levels.
H7: Through Risk Management Limits, Risk Management Procedures have a favorable and noteworthy impact on Credit Risk Levels.

RESEARCH METHODS

A quantitative research design was used for this investigation. Quantitative research methods requirements are meticulous, planned, and structured from the beginning to the development of the study design. Quantitative research methods, as defined by Sugiyono (2019:15), are "research methods based on the philosophy of positivism, used to research certain populations or samples, data collection using research instruments, quantitative/statistical data analysis, with the aim of testing that which has been determined." The impact of risk management practices and regulations on credit risk levels is the subject of this study, with risk limitations serving as a mediating variable.

This study design uses work motivation as a mediating variable to examine how flexible work hours affect employee performance. A quantitative method is used in this study's data collection and analysis. At PT PLN (Persero) UIP3B Sulawesi Jl. Urip Sumoharjo No. Km7, Tello Baru, Kec. Panakkukang, Makassar City, South Sulawesi, this study was carried out. The fact that PT PLN (Persero) UIP3B Sulawesi is an energy firm with unique industrial features is the justification for the location choice. Regarding businesses in the energy sector, employee performance may be greatly impacted by work schedule flexibility. Data and information required for study are more readily available. The quality of the study and analysis done can be supported by the availability of high-quality data. Assistance from PT PLN (Persero) UIP3B Sulawesi, which made the research process easier to manage. This assistance may encompass facility and data access as well as staff questionnaire distribution.Quantitative data, which can be quantified numerically, is the kind that is utilized in the following ways: (a) respondent profiles; (b) questionnaire answers on a scale of 1 to 5. The type of data is derived from data tabulation that happens after research questionnaires are distributed. Employee performance reports and questionnaires serve as the major and secondary data sources, respectively, for this study. Primary data, or research data gathered directly from original sources, is the sort of data used in this study. The primary data used in this study came from respondents' responses to questionnaires that were given to them. In addition, books and other material that are pertinent to the research issue also provided data for this study.

The study's population consisted of 1.343 individuals that worked for PT PLN (Persero) UIP3B Sulawesi. The sample represents a portion of the population's size and makeup. Additionally, the sample might reflect the complete population and is a component of the data. Sampling is intended to facilitate data collection for academics due

to the large population. The sample that is selected ought to be representative of the population and a reflection of it. The Slovin formulation is the sampling strategy employed in this study to calculate the number of samples drawn from a population. The margin of error for this investigation was established at ten percent. To reduce sampling error and non-sampling error, this number is frequently utilized. A sample of ninety-three individuals was obtained using a 10% margin of error with a population of 1,343 individuals. The accidental sampling methodology is a method for picking samples in line with the researcher's predetermined criteria by accident or by chance (workers eager to fill out a questionnaire). Path analysis with the AMOS software is the analytic technique that is employed. The shortest and most suitable route from an exogenous variable to an endogenous variable is displayed using path analysis.

EMPIRICAL RESULTS

Research Hypothesis Testing Analysis (Overall structural model)

The purpose of this study hypothesis testing investigation is to ascertain if risk management restrictions, processes, and policies directly impact credit risk levels. The impact of risk management processes and policies on the degree of credit risk may be mitigated in part by risk management limitations. But first, as you can see, we'll show you a picture of the research hypothesis testing model, which looks like this:

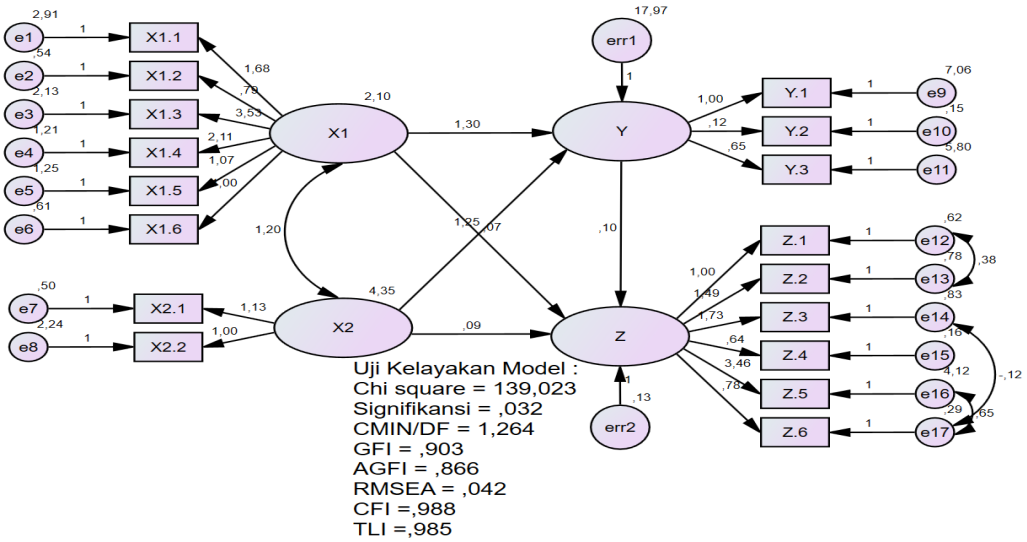

Figure 2. Research hypothesis testing model (Initial)

Figure 2 is the research hypothesis testing model (initial), then the results of the model testing (initial) can be presented based on the *goodness of fit indexes values* which can be shown in table 1, namely as follows:

Table 1
Initial Hypothesis Testing Model Test Results (*Overall Structural*).

No	*Goodness – of fit index*	*Cut off value*	Results	Conclusion
1.	*Chi square* (χ^2)	135,480*)	139,023	Bad
2.	*Significance Probability*	≥ *0.05*	0.032	Bad
3.	*DF*	> *0*	110	*Good fit*
4.	*GFI*	≥ *0.90*	0.903	*Good fit*
5.	*AGFI*	≥ *0.90*	0.866	Marginal
6.	*CFI*	≥ *0.95*	0.988	*Good fit*
7.	*TLI*	≥ *0.95*	0.985	*Good fit*
8.	*CMIN/DF*	≤ *2.0*	1,264	*Good fit*
9.	*RMSEA*	≤ *0.08*	0.042	*Good fit*

Source: Processed data, 2023

*) calculated with excel (0.05;110) = 135,480

Table 1, namely the research hypothesis testing model seen from the GOF value, still found chi square values and ρvalues that did not meet the requirements in the SEM-Amos analysis did not meet the requirements, so to obtain accurate prediction values it is necessary to improve the model by correlating error values based on MI values so that can increase the *chi square value* (χ^2), where the correlated error values are *e1-e2, e4-e5, e13-e15, e13-e17* , for more details the revised model of research hypothesis testing can be presented which can be seen in Figure 3, namely as following:

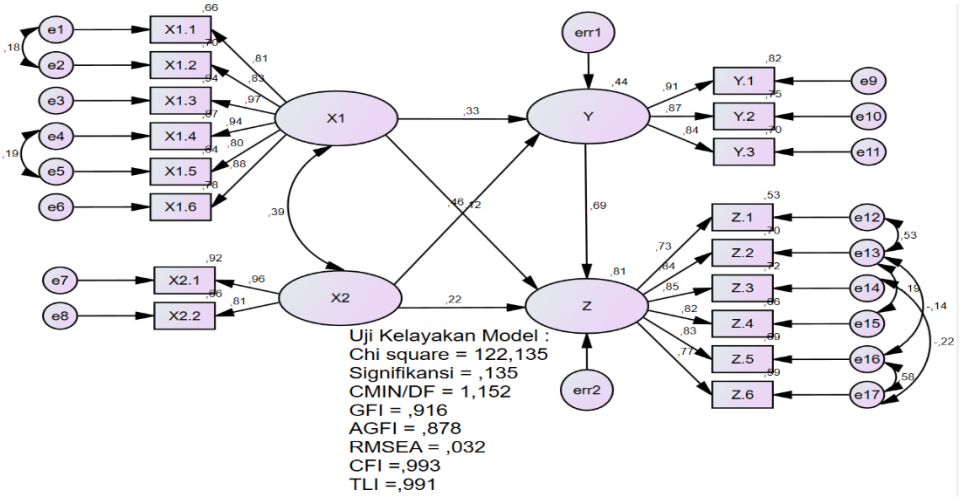

Figure 3. Results of Hypothesis Testing Model Improvements (Revised)

The following is an illustration of the goodness of index values in Table 2 based on Figure 3, which represents the outcomes of revisions made to the hypothesis testing model:

Table 2

The Value of *Goodness of Fit Indexes* After Model Improvement

No	*Goodness – of fit index*	*Cut off value*	Results	Conclusion
1.	*Chi square* (χ^2)	131,032*)	122.135	*Good fit*

2.	*Significance Probability*	≥ *0.05*	0.106	*Good fit*
3.	*DF*	> *0*	106	*Good fit*
4.	*GFI*	≥ *0.90*	0.916	*Good fit*
5.	*AGFI*	≥ *0.90*	0.878	Marginal
6.	*CFI*	≥ *0.95*	0.993	*Good fit*
7.	*TLI*	≥ *0.95*	0.991	*Good fit*
8.	*CMIN/DF*	≤ *2.0*	1,152	*Good fit*
9.	*RMSEA*	≤ *0.08*	0.032	*Good fit*

Source: Processed data, 2023

*) calculated with excel (0.05;106) = 131,032

Table 2 is the goodness of fit indexes value in the Amos SEM analysis which shows that the GOF value has met the requirements in the Amos SEM analysis, which indicates that the research hypothesis testing model can be said to have a fit model. So that the hypothesized direct and indirect effects can be tested.

Research Hypothesis Testing Analysis

Table 5.30 displays the regression weight values from the SEM Amos version 24 data processing findings, which may be provided before the outcomes of research hypothesis testing, including direct effects and indirect effects, are conducted.

Table 3

the Regression Weight Value in SEM Amos

No	Description	Estimate (*Standardized*)	S.E	CR	ρ
1.	Risk management policy regarding risk management limits	0.327	0.306	4,183	0,000
2.	Risk management procedures regarding risk management limits	0.463	0.225	5,594	0,000
3.	Risk management policy regarding the level of credit risk	0.117	0.034	2,021	0.043
4.	Risk management procedures for credit risk levels	0.217	0.027	3,236	0.001
5.	Risk management limits on credit risk levels	0.688	0.014	7,528	0,000

Source: Processed data, 2023

The table is the *regression value weight* in the Amos SEM analysis, an analysis of the direct influence (*Direct Effect*) and indirect influence (*Indirect Effect*) which has been hypothesized can be presented as follows :

Direct Influence

1. The impact of risk management guidelines on risk tolerance levels in rural banks in the province region of South Sulawesi

A coefficient value of 0.327 was found with a ρvalue of 0.000 < 0.05, based on the examination of the impact of risk management policies on risk management limits in rural banks located in the South Sulawesi Province Region. In the province of South Sulawesi, it can be claimed that risk management rules have a favorable and noteworthy impact on risk management limitations at people's credit institutions.

2. The impact of risk management practices on risk management thresholds at rural banks in the province region of South Sulawesi

Using SEM-Amos, the data analysis produced a coefficient value of 0.463 with a ρvalue of 0.000. It is clear from the aforementioned study that risk management methods and risk management limits have a beneficial relationship. These results suggest that Rural Banks (BPR) in the province of South Sulawesi will find it simpler to impose boundaries or limitations on the risks they encounter the better their risk management practices are. Setting limitations that are more accurate and compliant with BPR requirements is made possible by an effective approach.

3. The impact of risk management practices on the degree of credit risk in BPRs within the province region of South Sulawesi

A coefficient value of 0.117 with a ρvalue = 0.043 was found based on the SEM-Amos study results about the impact of risk management strategies on the degree of credit risk. This may be taken to mean that risk management practices have a positive impact on credit risk, indicating that BPRs in the South Sulawesi region will be able to manage or reduce their credit risks to some extent if they have effective risk management practices in place.

4. Risk management practices' impact on rural banks' credit risk levels in the South Sulawesi Province Region

A coefficient value of 0.117 with a ρvalue = 0.043 was found based on the SEM-Amos study results about the impact of risk management strategies on the degree of credit risk. This may be taken to mean that risk management practices have a positive impact on credit risk, indicating that BPRs in the South Sulawesi region will be able to manage or reduce their credit risks to some extent if they have effective risk management practices in place.

5. Risk management practices' impact on rural banks' credit risk levels in the South Sulawesi Province Region

The SEM-Amos analysis yielded a coefficient value of 0.688 with a value of ρvalue = 0.000, indicating that the constraints on risk management had an impact on the degree of credit risk in BPRs in the South Sulawesi Province region. The level of credit risk in BPRs, South Sulawesi Province, can be interpreted as being positively influenced by risk management limits. This suggests that the more effectively a BPR controls or limits the potential level of credit risk, the better or clearer the credit risk limits are set. Limits that are appropriate can be a very useful instrument for controlling credit risk.

Indirect influence (*Indirect Effect*)

Table 4
The value of the indirect influence of risk management policies and procedures on Credit Risk Levels through Risk Management Limits

No	Description	Coefficient value	ρvalue
1.	The influence of risk management policies on credit risk levels through risk management limits	0.225	0.010
2.	The influence of risk management procedures on the level of credit risk through risk management	0.318	0.010

Source: Processed data, 2023

Table 4 presents an examination of the indirect impact of the previously stated hypothesis through the bootstrapping procedure in SEM–Amos. The analysis may be summarized as follows:

1. The impact of risk management guidelines on credit risk as measured by risk management thresholds in BPRs in the province of South Sulawesi

The bootstrapping method in SEM Amos yielded findings for data analysis, and these included a coefficient value of 0.225 and a p value of 0.010. By using the risk management limit at BPRs in the South Sulawesi Province region as the mediating variable, the mediation test reveals an indirect relationship between the risk management policy and the degree of credit risk. The magnitude of the indirect impact of risk management policy on credit risk is demonstrated by the coefficient value of 0.225, which is mediated by risk management restrictions.

2. How risk management practices at rural banks in the South Sulawesi Region affect credit risk levels through risk management limitations

The results of the mediation test demonstrate that there is an indirect influence from risk management procedures on the level of credit risk through the mediating variable, namely risk management limits, at BPR in the South Sulawesi Province region. This is based on the data analysis results through the bootstrapping process in SEM Amos, where the coefficient value is 0.318 with a p value of 0.010. The coefficient value of 0.318, particularly in BPR South Sulawesi Province, indicates the extent to which risk management processes have an indirect impact on credit risk through the mediation of risk management limitations.

DISCUSSION OF RESEARCH RESULTS

1. The Influence of Risk Management Policy on Determining Risk Management Limits in BPRs in the South Sulawesi Province Region

The Board of Commissioners, Directors, and BPR Executive Officers at various Rural Banks in the South Sulawesi Province were given questionnaires, and the findings showed that their impression of the respondents' responses regarding risk management policies fell into the good category. Based on the analysis conducted using SEM Amos, empirical findings were obtained indicating that in several BPRs in the province of South Sulawesi, risk management procedures have a positive and significant effect on risk management limits; the more risk management procedures, the more they will influence the risk management limits. This supports the hypothesis advanced by Radiansyah et al. (2023:3), according to which risk processes aim to control risk in order to provide a chance for long-term financial success. The ability of risk management processes and techniques to be adequate is crucial to the bank's ability to maintain control over its business activities and keep them within acceptable and profitable boundaries.

2. The Influence of Risk Management Policy on the level of Credit Risk in BPRs in the South Sulawesi Province Region

Risk management strategies have been executed effectively, according to the findings of a study done on the relationship between credit risk in BPRs and the degree of risk in that region of South Sulawesi Province. According to the study's findings, management practices significantly and favorably impacted the degree of credit risk in a number of BPRs located in the province of South Sulawesi. This suggests that the degree of credit risk at BPRs in the province of South Sulawesi will be influenced by the effectiveness of risk management method implementation. This is consistent with the thesis advanced by Darmawi (2012), which holds that bank management must use sound risk management due to high credit risk in order to enhance the necessity of sound bank governance (strong corporate governance). The goal of risk management is to find, evaluate, and manage risks in all business operations in order to increase productivity and effectiveness. to improve the efficiency of credit provision, namely through the use of a sufficient accounting system. A sound accounting system demonstrates a cautious mindset within the banking industry when credit is extended (Effendi and Harahap, 2020). In addition, research by Yaniar Wineta Pratiwi, Dwiatmono, Maria Goretti Wi Endang NP (2016) and Hakim (2017) supports the idea that factors in the credit risk management process have an impact on non-performing loans.

3. The Effect of Determining Risk Management Limits on the level of Credit Risk in BPRs in the South Sulawesi Province Region

According to the findings of a study conducted through the distribution of questionnaires, determining risk management boundaries fell under the category of having been applied well. Setting risk management limitations had a favorable and significant impact on the degree of credit risk in BPRs in the South Sulawesi Province Region, according to empirical data derived from Amos' study. This suggests that the degree of credit risk will be influenced more by the quality of limit setting performed by BPRs in the province of South Sulawesi. According to the theory presented in Financial Services Authority Circular Letter Number 1 /SEOJK.03/2019 and Financial Services Authority Regulation (POJK) Number

13/POJK.03/2015, evaluating risk tolerance and risk limitations is done by taking into consideration the overall BPR strategy and the amount of risk to be taken. Establishing a risk management framework requires taking into account a number of factors, including rules, processes, and constraints. Prior studies that are pertinent to this one were carried out by Rudi (2017), Yaniar Wineta Pratiwi, Dwiatmono, Maria Goretti Wi Endang NP (2016), and Yaniar Wineta Pratiwi (2017), who discovered a relationship between credit risk management and non-performing loans (NPL).

4. The Influence of Risk Management Policy on Credit Risk Levels through Risk Management Limits in BPRs in the South Sulawesi Province Region

Empirical evidence that risk management limitations can mitigate the impact of risk management policies on the degree of credit risk in BPRs in the province of South Sulawesi was derived from the Sem Amos 24 analysis results. It can be concluded that a well-executed risk management strategy will assist BPRs in establishing suitable loan limits, which will lower the degree of credit risk in a number of BPRs in the South Sulawesi Province area. These results suggest that risk management policies have the ability to lower the degree of credit risk through installation or modifications to risk management limits at the BPR when they are implemented effectively, particularly at Rural Banks in the South Sulawesi Province Region. According to the theory presented in Financial Services Authority Circular Letter Number 1 /SEOJK.03/2019 and Regulation (POJK) Number 13/POJK.03/2015, a framework comprising management policies and procedures is necessary for the effective implementation of risk management. In keeping with the vision, purpose, and business plan of the BPR, risks and risk limitations are well-defined. The type and complexity of business activities, the risk profile, the amount of risk to be taken, the interrelationships between risks, government regulations, and/or prudent banking practices are all taken into consideration when creating risk management policies and procedures. Ample money and high-caliber human resources are also necessary to support the execution of BPR's risk management policies and procedures.

5. The Influence of Risk Management Procedures on the level of Credit Risk through Risk Management Limits in BPRs in the South Sulawesi Province Region

Empirical findings indicating that risk management limitations can mitigate the effect of risk management processes on the level of credit risk in numerous BPRs in the province of South Sulawesi were obtained based on the Sem Amos 24 analysis results. It may be concluded that a well-executed risk management strategy will assist BPRs in establishing suitable credit-granting limitations, hence lowering the degree of credit risk. These results suggest that risk management policies have the ability to lower the degree of credit risk through installation or modifications to risk management limits at the BPR when they are implemented effectively, particularly at Rural Banks in the South Sulawesi Province Region. This is in line with Financial Services Authority Circular No. /SEOJK.03/2018, which states that risk management protocols are modified based on the amount of risk to be assumed (i.e., risk appetite) for business product hazards. The amount of risk that must be assumed

takes into consideration the BPR's prior experience with the dangers associated with BPR commercial transactions.

CONCLUSIONS AND RECOMMENDATIONS

A number of conclusions can be drawn from the analysis and discussion of this research, one of which is the impact of risk management policies on risk management limits. This indicates that the more effectively each people's credit bank in the South Sulawesi Province region implements risk management policies, the more optimally they will be able to determine the limits on the risks that the BPR can accept. These results suggest that successful risk regulation may be greatly enhanced by well-executed risk management rules. The impact of risk management practices on risk management limitations in BPRs in South Sulawesi Province demonstrates that BPRs will be better able to set acceptable risk limits the more effective risk management practices are put in place. These results demonstrate how crucial it is to put in place efficient risk management procedures in order to enable the identification of suitable and adequate limitations for handling hazards in BPRs in the South Sulawesi Province region. The relationship between risk management policies and credit risk indicates that effective risk management strategies will improve credit risk management. These results suggest that BPRs can lower their exposure to credit risk by putting in place suitable rules that are easy to implement. This highlights how crucial it is to have precise procedures in place for risk assessment and measurement as part of South Sulawesi's BPR risk management program. The impact of risk management protocols on credit risk is that, in BPRs located in the South Sulawesi Province region, effective risk management protocols have a noteworthy and favorable effect on the degree of credit risk. These results suggest that putting in place the right processes will assist BPRs in the South Sulawesi Province region efficiently lower credit risk, enhance risk assessment and control, and increase risk management. The impact of risk management limitations on the degree of credit risk in BPRs in the South Sulawesi Province region suggests that BPRs can be more successful in limiting and controlling risk when the credit risk limits are explicit and unambiguous. Setting adequate risk management limits is crucial to ensuring improved credit risk management at BPRs in the South Sulawesi Province region. adequate limitations are an effective tool in controlling credit risk, while incorrect limits have the potential to raise credit risk. The study's mediation test results demonstrate that risk management limitations moderate this effects, suggesting that effective risk management rules might assist BPRs in establishing suitable credit limits and so lowering credit risk. Therefore, by establishing suitable lending restrictions, the application of effective risk management procedures may lower credit risk in regional BPRs. The mediation test results in this study indicate that risk management practices have an indirect impact on credit risk through the mediation of risk management limitations at BPRs in the province of South Sulawesi. this results suggest that risk management methods and credit risk levels play a mediating role in controlling credit risk in BPRs in South Sulawesi Province, and that risk management limitations play a mediating role in this relationship as well. Based on the findings, BPRs should make sure that the risk management policies they establish are thorough and understandable, outlining their approach to credit risk, their goals for risk management, and the roles and duties of different members of the BPR organization. Standard operating procedures for detecting, assessing, managing, and monitoring credit risk must be updated

on a regular basis by BPRs. These processes should comprise distinct stages, from first credit giving to continuing monitoring, and should be tailored to the intricacies of the BPR company and business changes. In line with the BPR risk profile and credit limitations for every portfolio segment, BPRs must set an adequate risk tolerance. This includes figuring out the acceptable amount of credit risk given the size, complexity, and makeup of the credit portfolio. Credit portfolios must be divided and diversified by BPRs according to the nature of the product, the industry, or the borrower. This facilitates the application of suitable risk management techniques for every section and aids in a more accurate risk assessment. Establishing a strong strategy for monitoring credit risk is crucial for BPRs. Periodic monitoring is required, with reports sent to relevant parties such as the board of directors and management. Credit risk must be taken into consideration while creating crisis and business continuity strategies for BPRs. This is crucial to make sure BPR can overcome any obstacles that may come up. It is imperative that BPR consistently enhances employee proficiency with respect to optimal approaches for executing risk mitigation. When employees understand the value of risk management, they may reduce the likelihood of fraud, mistakes, and higher losses when a risk materializes. Additionally, the author recommends that more research be done while taking into account the volume of business activities conducted in each BPR and keeping in mind that each BPR in South Sulawesi Province has somewhat different capacities, business capabilities, and organizational structure completeness.

THANK-YOU NOTE

The existence of Allah SWT is praised by the researchers. Researchers are able to finish this research and all of its phases and procedures because of His favor. The findings of this study represent actual work from a methodical scientific creation and analysis of the Thesis Scientific Work, which is the last project required to complete the Hasanuddin University Postgraduate program's Masters in Management degree. This thesis was completed with help from many people, so the researcher would like to take this opportunity to thank and appreciate everyone who helped, especially the supervisor, examiner, parents, family, college colleagues, and respondents. I hope that the resources provided will be valued, and hopefully this research will be helpful.

Reference

Abdullah, T., & Wahjusaputri, S. (2018). *Banks and Financial Institutions* . Jakarta: Mitra Discourse Media.

Dangnga, MT, & Haeruddin, MIM (2018). *Banking Financial Performance: Efforts to Create a Healthy Banking System* . Makassar: CV. Nur Lina.

Erdawati, L., & Mujamil, I. (2019). Analysis of Operational Risk Management at PT Bank Perkreditan Rakyat (BPR) Indosurya Daya Sukses. *Proceedings of the Multidisciplinary National Symposium (SinaMu)* , *1* , 1–10.

Hairul. (2020). *Risk management* . Yogyakarta: Deepublish.

Hakim, AR (2017). The Influence of Macroeconomic Conditions and Credit Risk Management Processes on Non-Performing Loans (Case Study at Bank X). *Profit : Journal of Business Administration* , *11* (2), 9–23.

Harahap, D., & Efendi, S. (2022). *Sharia Bank Risk Management* . Medan: Merdeka Kreasi

Group.
Hayati, S. (2017). *Risk Management for Rural Banks and Microfinance Institutions* . Yogyakarta: Andi Publishers.
Harry. (2021). *Banks and Other Financial Institutions* . Jakarta: Grasindo.
Hutabarat, F. (2021). *Company Financial Performance Analysis* . Serang: Desanta Publisher.
Indonesian Bankers Association. (2015). *Banking Credit Business,* . Jakarta: Gramedia.
ISO 31000:2018. (2018). *Risk Management-Guidelines* . Switzerland: BSI Standards Limited.
Cashmere. (2018). *Bank Marketing (5th Printing)* . Jakarta: Kencana.
Majib, Ali, 2006. Risk Management: Banking Strategy and the Business World Facing the Challenges of Business Globalization. Jakarta: PT. Raja Grafindo Persada.
Maralis, R., & Triyono, A. (2019). *Risk management* . Yogyakarta: Deepublish.
Maseke, B.F., & Swartz, E.M. (2021). Risk Management Impact on Non-Performing Loans and Profitability in the Namibian Banking Sector. *Open Access Library Journal* , *8* (6), 1–20.
Minto, W. (2017). *Easy, Fast, Precise Use of Amos Tools in Applications (SEM)* . East Java: Publisher UPN Veteran East Java.
Misra, I., Hakim, S., & Pramana, A. (2020). *Risk Management (Sharia Economic Business Approach)* . Yogyakarta: K-Media Publishers.
Financial Services Authority. (2015). *Financial Services Authority Regulation no. 13/POJK.03/2015 concerning Implementation of Risk Management for Rural Banks* .
Financial Services Authority. (2016). *Financial Services Authority Regulation No 12/POJK.03/2016 concerning Business Activities and Rural Bank Office Network Areas Based on Core Capital* .
Financial Services Authority. (2018). *Financial Services Authority Regulation Number 33/POJK.03/2018 concerning Quality of Productive Assets and Establishment of Allowance for Losses of Productive Assets of Rural Banks* .
Financial Services Authority. (2019). *Financial Services Authority Circular Number 1 /SEOJK.03/2019 concerning the Implementation of Risk Management for Rural Banks* .
Financial Services Authority. (2022). *Financial Services Authority Regulation Number 3/POJK.03/2022 concerning Assessment of the Soundness Level of Rural Banks and Sharia Rural Banks* .
Prasetiyo, E. (2019). *Having a BPR is Easy* . Yogyakarta: Deepublish.
Pratamawati, P. (2018). *Analysis of Factors that Influence Non-Performing Loans in State-Owned Commercial Banks 2012-2016* . Yogyakarta: Yogyakarta State University.
Pratiwi, Dwiatmono, & NP, MGWE (2016). Credit Risk Management Analysis to minimize Problematic Working Capital Credit. (Study at PT. Bank Rakyat Indonesia (Persero) Tbk Ponorogo Branch). *Journal of Business Administration, Brawijaya University Malang Vol.38.No.1 September 2016* .
Putra, AH, & Saraswati, D. (2020). *Banks and Other Financial Institutions* . Surabaya: CV. Jakad Media Publishing.
Radiansyah, A., Baroroh, N., Fatmah, Hulu, D., Syamil, A., Siswanto, A., Violin, V., Purnomo, IC, & Nugroho, F. (2023). *Enterprise Risk Management: Theory & Case Studies* . Jambi: PT. Sonpedia Publishing Indonesia.
Rudi. (2017). Rural Bank Risk Management and Its Influence on *Non-Performing Loans* (BPR Case Study in South Tangerang City). *Securities Journal* , *1* (1), 59–77.
Satriawan, DG (2021). Definition, Objectives and Functions of Risk Management. In *Book Chapter Risk Management (Theoretical and Practical Overview)* . Bandung: Widina Bhakti

Persada.
Sofyan, M. (2021). Performance of BPR and BPRS during the Covid-19 Pandemic. *The 2nd National Seminar on ADPI Serving the Country Community Service in the New Norm Era* , *2* (2),
Sugiarto, D. (2021). *Banks and Other Financial Institutions* . Cirebon: Insania Publishers.
Sugiyono. (2019). *Quantitative Research Methods* . Bandung: Alphabeta.
Supeno, W., & Hendarsih, I. (2020). Credit Performance on Bpr Profitability During the Covid-19 Pandemic. *CHAMPION FRIENDLY Journal* , *5* (4), 147–161.
Uma, S. (2017). *Research Methods for Business* (1st ed.). Jakarta : Salemba Empat.
Law Number 10 of 1998 concerning Banking .
Zain, I., & Akbar, YR (2020). *Banks and other financial institutions* . Yogyakarta: Deepublish.