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ANALYSIS OF THE IMPACT OF CREDIT RESTRUCTURING POLICY DURING COVID-19 ON INDONESIAN COMMERCIAL BANKS' CREDIT RISK

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Abstract

This research is a study of credit activities at commercial banks in Indonesia. The main objective of quantitative research is to examine the influence of Credit Restructuring Policy on Credit Risk and Compliance to Regulation of commercial banks in Indonesia. This research approach is a confirmative quantitative approach, with analysis techniques using the SEM method which is processed using WarpPLS 6.0. The novelty of this research is the credit restructuring policy variable that was issued during the Covid-19 Pandemic, the role of Internal Control as moderating the influence of the Credit Risk Management Process on Credit Risk, and the measurement of credit risk which is based on respondents' perceptions, not based on financial ratios. Research data was obtained through a questionnaire regarding the perceptions of one hundred respondents of commercial bank officials regarding credit activities, internal control and credit risk. Research findings show that the Credit Restructuring Policy has a positive effect on the Credit Risk Management Process but does not have a direct effect on Credit Risk. Compliance to Regulation has no effect on the Credit Risk Management Process and Credit Risk. The Credit Risk Management Process influences Credit Risk. Meanwhile, Internal Control weakens the relationship between the Credit Risk Management Process and Credit Risk.

Keywords: Credit Risk Management, Compliance to Regulation, Credit Restructuring Policy, Internal Control, Credit Risk, Covid-19 Pandemic

BACKGROUND

The COVID-19 pandemic has had a negative impact on the global economy and the economy in Indonesia, both in the macroeconomic and microeconomic sectors, especially in the banking industry. Times like this in the banking industry can be categorized as extraordinary times. The Great Depression in the 1930s, the wave of banking failures in the 1980s, and the 2018 monetary crisis were also extraordinary times in the modern era (Darayseh & Chazi, 2018). Generally, extraordinary times are marked by the occurrence of an economic recession, which is generally characterized by systematic risk in the banking industry.

To respond to the economic recession due to the COVID-19 pandemic, the Indonesian Financial Services Authority (OJK) has established new regulations, namely POJK No. 11/POJK.03/2020 concerning National Economic Stimulus as a Countercyclical Policy Impact on the Impact of the Spread of Coronavirus Diseases. The Financial Services Authority (POJK) regulation is known as the credit restructuring policy. The aim of this credit restructuring policy is to support economic growth, maintain financial system stability, and encourage the performance of commercial banks. In implementing the credit restructuring policy, banks are required to continue to apply the principle of prudence in its implementation to avoid misuse,

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bearing in mind that the assessment of asset quality in accordance with this credit restructuring policy is only based on the accuracy of principal and interest payments only. This policy aims to prevent the potential for a significant increase in credit risk in commercial banks. The most fundamental change in this credit restructuring policy is the change in the use of asset quality assessment standards into 3 pillars, namely financial performance, business prospects and ability to pay debtors to just 1 pillar, which is only based on the accuracy of principal and interest payments. The aim of this policy is that commercial banks can maintain the quality of their assets in supporting the Indonesian economy from recession. On the other hand, credit restructuring policies also have a direct influence on commercial bank credit activities, especially in the implementation of the Risk Management Process in order to mitigate the level of credit risk.

In the traditional resource allocation model, Arrow–Debreu (1954) states that the role of companies and households in interacting with markets and financial institutions in intermediation is weak. When markets are perfect and complete, resource allocation is Pareto efficient and there is no room for intermediaries to increase welfare. Moreover, the Modigliani–Miller theorem applied in this context asserts that financial structure does not matter, households can build portfolios that offset any positions taken by intermediaries and intermediaries cannot create value (Fama, 1980).

A criticism of the traditional theory is that large amounts of securities are required to maintain the intermediation function except in special cases. However, the development of option pricing modeling techniques and the extension of these ideas to general equilibrium theory anticipated this criticism. Dynamic trading strategies allow the market to be effectively complete even though there is still a limited number of securities.

The view that financial markets allow efficient allocation and intermediaries have no role to play is clearly at odds with what is observed in practice. Historically, banks and insurance companies have played a central role. This seems to be true in almost all economies except developing ones. Even here, the development of financial intermediaries tends to lead the development of financial markets themselves (McKinnon, 1973).

The role of banking institutions that have existed since ancient times is as intermediaries in taking savings from households/communities and providing loans to economic actors who need capital. Insurance, especially marine insurance, also has a very long history. In contrast, financial markets have only become important recently, and only play a role in a few countries, most notably the United Kingdom and the United States. In this country, banks and insurance companies also play a major role in transforming savings from the household sector into investment in real assets.

Evaluation of the credit performance of commercial banks in Indonesia during the pandemic shows that the average NPL was 3.16% but was still below the NPL ratio threshold of 3.50%. This NPL level indicates that OJK's policy in providing leeway in assessing credit quality has helped commercial banks carry out their risk management processes in the form of identifying, measuring, monitoring and controlling risks so as to reduce their credit risk levels. This gives

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rise to indications that credit policy is quite effective in reducing the level of Commercial Bank Credit Risk.

This research aims to examine how the Credit Restructuring Policy and Compliance to Regulations influence the Credit Risk Management Process and Credit Risk with Internal Control as moderation in commercial banks in Indonesia. Researchers replicated several previous studies regarding the relationship between the Credit Risk Management Process and Credit Risk. The three novelties of this research are the analysis of the relationship between Credit Restructuring Policy and the Credit Risk Management Process and Credit Risk; Internal Control moderation in the influence of the Credit Risk Management Process on Credit Risk; and Credit Risk measurement is based on respondents' perceptions (scoring), not financial ratios.

THEORETICAL FOUNDATION

Markets Development and Intermediation Functions

It is widely acknowledged that there has been a number of unprecedented financial innovations in recent years (Miller, 1986). However, financial innovation has occurred over the centuries albeit at a slower pace. Allen & Gale (1994) offer a detailed historical account of financial innovation. They show that various types of instruments were developed over time but relatively few survive. By the 1930s what might be called traditional financial instruments had been developed and had demonstrated their resilience.

Current intermediation theory focuses on transaction costs and asymmetric information. These factors can explain traditional intermediation but are less satisfactory in explaining the developments outlined in the previous section. In addition, they cannot satisfactorily explain the amount of risk management carried out by intermediation institutions. In this section it is necessary to consider the reasons for the proven importance of risk management in the market. While these theories have been explained above in addition to basic optimization models, it is worth reviewing the understanding of why intermediary customers have a need to trade and manage risk. This is especially important given the fact that risk trading appears to have become central to the role of intermediation.

Bank Risk Management

According to Crosse & Hempel (1973), a bank is an organization that combines human efforts and financial resources to carry out bank functions in order to serve the needs of society and for the benefit of its owners. According to Law of the Republic of Indonesia no. 10 of 1998 concerning Banking, banks are business entities that collect funds from the public in the form of savings and distribute them to the public in the form of credit funds or other forms in order to improve people's welfare. Standard of living.

Kountur (2006: 3) defines "risk" as the possibility of an adverse event. Benston (2007) defines risk as a combination of the level of probability of an event occurring along with the consequences (impact) of that event on the bank. Every activity contains the potential for an

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event to occur or not occur with consequences/impacts that provide opportunities for profit (upside) or threaten success (downside). Bank Indonesia defines risk as the potential for an event to occur that could cause losses to the Bank (Bank Indonesia: 2003).

According to the OJK, the types of risks include 8 risks, namely: Market Risk, Strategic Risk, Operational Risk, Liquidity Risk, Credit Risk, Legal Risk, Reputational Risk and Compliance Risk. Among the 8 types of risk exposed in banking business activities, credit risk is one of the risks that receives the main attention of the banking industry. OJK defines risk management as a series of procedures and methodologies used to identify, measure, monitor and control risks arising from bank business activities. Specifically, Tampubolon (2004:21) describes that bank risk is a combination of the level of probability of an event occurring along with the impact of that event on the bank.

Literally, risk is the potential for something to happen that has a bad impact, either for oneself or a business entity. In a business context, risk management is an effort to avoid risks by monitoring risk sources, tracking them, and carrying out a series of efforts so that the impact of risks can be minimized. According to Regan (2006), the meaning of risk management is the application of various policies and procedures to minimize events that reduce the company's work capacity and quality. Meanwhile, according to Noshworthy (2000), the definition of risk management is an effort to reduce risk in the process of technical implementation and business decision making. Bank Indonesia (2003) defines risk management as a series of procedures and methodologies used to identify, measure, monitor and control risks that arise in bank business activities. OJK in Financial Services Authority Regulation (POJK) Number 18 /POJK.03/2016 concerning Implementation of Risk Management for Commercial Banks, in article 2 point (1) has required every commercial bank to implement risk management effectively, both for individual banks and for bank on a consolidated basis with subsidiary companies.

Credit Restructuring Policy

The COVID-19 pandemic has had a major impact on the global economy and finance. The government and central bank provided stimulus to deal with the negative consequences of the crisis. Data shows that banks are more affected than non-bank financial institutions. To reduce systemic risk, regulation and ownership structure are needed. Public policy is an action created and implemented by a government agency to respond to a concrete problem or need with a specific purpose and has justification by government actors. OJK in POJK Number 11/POJK.03/2020 has established a stimulus policy consisting of: 1) Assessment of the quality of credit/financing/other fund provision based only on the accuracy of principal and/or interest payments for credit/financing/other fund provision with a ceiling of up to Rp. 10 billion; and 2) Improvement in credit/financing quality becomes smooth after restructuring during the POJK validity period. Banks can apply these restructuring provisions without looking at credit/financing ceiling limits or type of debtor. In China, Internal Risk Governance & External Capital regulations help banks increase profitability. Public policy is an action created and implemented by a government agency to respond to a concrete problem or need with a specific purpose and has justification by government actors. Zhang et al, (2021) explained that in China,

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capital regulations have a strong influence on credit risk governance and reduce bank risk-taking behavior.

H_1: The Credit Restructuring Policy influences Indonesian commercial banks' Credit Risk Management Process during the COVID-19 pandemic.

H_2: The Credit Restructuring Policy influences Indonesian commercial banks' Credit Risk during the COVID-19 pandemic.

Compliance to Regulation

Compliance is one of the important issues discussed by experts in international law and international relations. Losiewicz-Dniestrzanska (2015) stated that bank compliance increased after the 2008 monetary crisis. Chayes & Chayes (1995, 1998) define compliance as behavior that is in accordance with predetermined rules, while non-compliance is caused by ambiguity in regulations, limited capacity. To comply with regulations, changing circumstances, and so on. Increasing compliance in organizations can be done through transparency, reporting, dispute resolution and capacity building. Compliance is important to maintain the reputation and effectiveness of regulations in organizational systems, such as implementing the Basel Committee on Banking Suprvision (BCBS) standard 239. The risk of non-compliance can result in legal sanctions, financial losses and bad reputation. However, in Indonesia, there is still a stigma that the compliance function is considered an obstacle to the competitiveness of bank businesses and operations. To overcome this, an appropriate corporate governance strategy and Compliance to the Risk Reporting Practices established by the Basel Committee on Banking Supervision are needed. OJK in POJK Number 46/POJK.03/2017 provides an understanding of the compliance function as a series of preventive (ex-ante) actions or steps to ensure that policies, provisions, systems and procedures, as well as business activities carried out by banks has complied with OJK provisions and statutory regulations, including sharia principles for sharia commercial banks and sharia business units, as well as ensuring the bank's Compliance to commitments made by the bank to the OJK and/or other competent supervisory authorities. Kelman (1958) measures the quality of compliance or adherence to rules through indicators of the Bank's Compliance Guidelines and the Implementation of the Compliance Function.

H_3: Indonesian commercial banks' Compliance to regulation influences the Credit Risk Management Process during the COVID-19 pandemic.

H_4: Indonesian commercial banks' Compliance to regulation influences the Credit Risk during the COVID-19 pandemic.

Credit Risk Management Process

Risks in bank management can hurt bank income and capital, whether predictable or not. Therefore, Bank Indonesia implements a credit risk management process consisting of identification, measurement, monitoring, and control. This procedure is designed to anticipate credit risks inherent in bank functional activities. Banks must have an internal risk rating system and carry out stress testing to assess potential problems and the bank's ability to survive.

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The Basel Committee Guidelines on Credit Risk Management offer a more comprehensive process for assessing credit risk. Banks must have a system to monitor individual credit conditions and the credit portfolio as a whole and be able to measure individual and portfolio exposures, as well as carry out stress testing. This process provides sufficient information to accurately assess credit risk and take necessary actions to avoid undesirable risks. Having an effective and comprehensive credit risk management process can help banks minimize risks and increase security and stability in their business operations.

Previous research has proven that effective credit risk management can reduce credit risk. Several researchers such as Jacobson & Roszbach (2003), Pratiwi et. al., (2016), Savitri et. al., (2014), and Tengor et.al., (2015) researched several banks and showed that implementing good credit risk management can reduce the number of problem loans and the percentage of Non-Performing Loans (NPL). In addition, research by Piatti & Ringelli (2019) shows that monitoring quality is also positively and significantly related to the NPL ratio. Therefore, the conclusion is that good credit risk management can reduce credit risk and NPL.

H_5: The Credit Risk Management influences Indonesian commercial banks' Credit Risk during the COVID-19 pandemic.

Credit Risk

Tampubolon (2004:21) believes that bank risk is a combination of the level of probability of an event occurring along with the impact of that event on the bank. Credit risk is the risk associated with unexpected changes in the quality of credit extended to debtors. Credit risk can occur in credit, treasury and investment activities, as well as trade financing. Credit risk results in a decrease in bank income due to borrowers defaulting. Banks and financial departments face credit risks from counterparties that do not fulfill their debt obligations. Business competition drives banks to implement better risk management practices, while sector concentration in the lending market drives credit portfolio modeling.

Credit risk is the potential for financial loss due to unexpected changes in a counterparty's credit quality. According to Bank Indonesia (2003), credit risk is the risk that occurs due to the failure of a counterparty to fulfill its obligations, while another definition states that credit risk is the debtor's inability to fulfill part or all of the contents of a credit agreement. Credit risk can result in loss of assets and a decrease in bank profits (Basel, 1999; Giesecke, 2004).

The potential credit risk loss variable in this study uses 3 indicators used by Bank Indonesia (2003), namely non-performing loans, Credit Productive Asset Reserves (PPAP), Indicators of Adequate Fulfillment of Credit Impairment Losses Reserves (CKPN).

Internal Control

Internal control is a process for achieving company goals effectively and efficiently and minimizing losses that may occur. In banks, internal control is important to ensure that all activities run according to established policies and to overcome the risks faced. One model that is often used is COSO. The definition of internal control according to the AICPA (American Institute of Certified Public Accountants) is an organizational plan and all coordinated

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measures and methods implemented within a company to protect assets, maintain the accuracy and reliability of accounting data, increase efficiency, and increase Compliance to management policies.

The internal control system is a form of risk management to reduce the risk of not achieving company goals. This involves organizational structures, methods, and measures that are coordinated to safeguard company assets, check the accuracy and reliability of accounting data, promote efficiency, and ensure Compliance to applicable laws and regulations. Internal control is also a form of control that supports risk management. The relationship between risk management and internal control is interconnected and supports each other in achieving company goals.

H_6: Internal Control moderates the influence of Indonesia commercial banks' Credit Risk Management Process on Credit Risk during the COVID-19 pandemic.

RESEARCH METHOD

This research is quantitative research with a confirmative approach to confirm credit activity management factors and their influence on credit risk losses at Commercial Banks in Indonesia. The population of this research is 107 commercial banks throughout Indonesia. Data collection uses a questionnaire distributed in the form of a Google Form. The respondent responses obtained were 100 respondents, consisting of the Head of the Credit Division, Head of the Operations Division, Head of the Risk Management Work Unit Division, and Head of Branches. The respondent's answer data was then tested using WarpPLS software version 6.0

RESULTS & DISCUSSION

The results of hypothesis testing using WarpPLS found the following results:

Table 1: Hypothesis test results

	Correlation	Original Sample	p-value	Results
H_1	Credit Restructuring Policy → Credit Risk Management Process	0,340	< 0,001	Positive Significant
H_2	Credit Restructuring Policy → Credit Risk	0,146	0,066	Insignificant
H_3	Compliance to Regulation → Credit Risk Management Process	0,044	0,330	Insignificant
H_4	Compliance to Regulation → Credit Risk	-0,078	0,215	Insignificant
H_5	Credit Risk Management Process → Credit Risk	0,160	0,049	Positive Significant
H_6	Credit Restructuring Policy → Credit Risk Management Process → Credit Risk	0,239	<0,001	Positive Significant
H_7	Compliance to Regulation → Credit Risk Management Process → Credit Risk	-0,035	0,319	Insignificant
H_8	Credit Risk Management Process + Internal Control → Credit Risk	-0,163	0,046	Negative Significant

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Credit Restructuring Policy influence on Credit Risk Management Process

The results of hypothesis testing using WarpPLS found that the Credit Restructuring Policy has a significantly positive influence on the Credit Risk Management Process. So the findings indicate that Credit Restructuring Policy increasing the Credit Risk Management Process significantly. Based on the significant finding, hypothesis 1 is accepted.

This credit restructuring policy not only helps banks reduce the potential for increased credit risk but also helps encourage economic growth stimulus. Commercial banks that will implement POJK No. 48/POJK.03/2020 are obliged to implement risk management in the form of internal policies, including policies for debtors affected by the spread of COVID-19, including MSME debtors, as well as policies related to bank liquidity and capital. This positive result can be a useful reference for commercial banks in implementing this policy. In this way, it is hoped that it can help banks reduce the potential for increased credit risk and maintain financial system stability.

Most respondents expressed their agreement regarding the Credit Restructuring Policy. The lowest perception occurs in the credit quality monitoring criteria which assessed based on the credit restructuring policy, while the highest perception obtained by the quality of credit application assessment criteria by POJK 11/POJK.03/2020 JO POJK 17/POJK.03/2021 concerning credit restructuring during the COVID-19 pandemic.

The results of this research are the latest because there has never been previous research that has examined the relationship between economic policy during extraordinary times and the credit risk management process.

Credit Restructuring Policy influence on Credit Risk

The results of hypothesis testing using WarpPLS found that the Credit Restructuring Policy has an insignificant positive influence on Credit Risk. Since we measure Credit Risk based on respondents' perceptions (scoring) -not financial ratios, the readings are the opposite. This means that a high perception (higher score) actually indicates low credit risk, and vice versa. This means that Credit Restructuring Policy slightly lower bank's credit risk. Based on the insignificant finding, hypothesis 2 is rejected.

The Credit Restructuring Policy in Indonesia simplifies the principle of 3 pillars into 1 pillar in the Credit Risk Management Process with the aim of reducing the potential for debtor default, despite the risk of increasing credit risk in general. This difficult choice must be made by the Indonesian financial services authority because banks as intermediary institutions play an important role, so that money continues to circulate and creates economic resilience.

This research highlights the importance of considering the impact of credit restructuring policies on credit risk. The results of this research show that credit restructuring policy does not have a direct effect on credit risk, although the impact is positive. However, in hypothesis 6 it was found that the new credit restructuring policy has an effect on credit risk if it goes through a credit risk management process.

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The results of this research are the latest, because there has never been previous research that has examined the relationship between economic policy during extraordinary times and credit risk.

Compliance to Regulation influence on Credit Risk Management Process

The results of hypothesis testing using WarpPLS found that the Compliance to Regulation has an insignificantly positive influence on the Credit Risk Management Process. This result commercial bank compliant with banking regulations slightly increase the quality of the credit risk management process. The Credit Restructuring Policy referred in this regulation compliance gives freedom for commercial banks whether to implement Credit Restructuring Policies or not. Based on the insignificant finding, we concluded that hypothesis 3 is rejected.

In terms of the implementation of the credit risk management process carried out by the banks studied, it is good, and has even implemented higher standards than recommended. When viewed from the perspective of Mitchell's Compliance Theory, the freedom to implement or not the Credit Relaxation Policy by the OJK makes the nature of compliance carried out by banks in Indonesia more likely to be "compliance as interdependence self-interest" where compliance is a felt moral effect. That obedience must be carried out collectively for the collective good; which will ultimately benefit each individual's interests as well.

Respondents provided responses regarding the Compliance Guidelines. The majority agreed that the Compliance Rules were in accordance with the Guidelines. However, there were two respondents who expressed disagreement with the implementation of the Compliance Function in the context of measuring credit risk. The highest perception occurs in the Compliance Function Implementation criteria in order to identify credit risk. This shows that, even though there are problems in several criteria, the majority of respondents still agree with the Compliance to Regulations that have been implemented.

The results of this research are the latest, because there has never been previous research examining the relationship between Compliance to Regulation and the credit risk management process. Even though it is not significant, Compliance to regulations is still an important aspect for banks in Indonesia to pay attention to.

Compliance to Regulation influence on Credit Risk

The results of hypothesis testing using WarpPLS found that the Compliance to Regulation has an insignificantly positive influence on the Credit Risk. This means that commercial bank compliant with banking regulations slightly decrease their credit risk. Based on the insignificant finding, conclude that hypothesis 4 is rejected.

The COVID-19 pandemic has had a significant impact on the financial system, especially Indonesian banking. Systemic risk or undiversifiable risk faced by banks has an impact on creditors. Bank Indonesia and the OJK have established regulations to handle this problem, namely screening good creditors and bad creditors. The results of this research indicate that the higher a bank's level of Compliance to banking regulations has an impact on respondents' negative perceptions of credit risk, although this negative impact is not significant. This

indicates that even though banks have followed the rules set by Bank Indonesia and OJK, there is still credit risk that they have to bear. In response to this situation, banks must take steps to reduce credit risk, such as screening good creditors and bad creditors.

The results of this research are also in line with the findings of Fanani & Alvaribi (2016), who concluded that the level of bank compliance has a significant positive influence on credit risk.

Credit Risk Management Process influence on Credit Risk

The results of hypothesis testing using WarpPLS found that Credit Risk Management Process significantly influence the Credit Risk. This result means that the better the Credit Risk Management Process done, the lower the bank's Credit Risk will be, Based on the significant finding, hypothesis 5 is accepted.

To keep banks' credit risk within tolerance limits, the credit risk management process must done correctly. The stages of the credit risk management process include identification, measurement, monitoring, and control of credit risk, where data obtained that the credit risk identification stage had the highest respondent perception scores.

The Credit Risk Management processes involve identifying, measuring, monitoring, and controlling credit risk. Most respondents expressed their approval of this process, although there were some disagreements with certain criteria. Credit risk identification for treasury/investment activities received the lowest perception, while weekly credit risk measurement for credit activities had one respondent disagree. Credit risk monitoring received a high perception, although the report on credit risk measurement in credit activities had one respondent disagree. Credit risk control gets a high perception, but the criterion "in the event of an excess of the credit risk limit, the Branch Head asks the Internal Audit Work Unit to carry out an inspection" gets the lowest perception.

The survey results show that the majority of respondents expressed their agreement regarding Credit Risk, especially regarding Non-Performing Loans (NPL), Provisions for Productive Assets, and the Adequacy of Fulfilling Reserves for Credit Impairment Losses. However, there is the lowest perception regarding the criteria for decreasing trends in the NPL, PPAP, and CKPN Credit ratios formed over the last 6 months. This shows that strict monitoring and risk control are needed so that the level of non-performing loans, productive asset reserves, and reserves for credit impairment losses remain healthy.

The research results regarding the relationship between the credit risk management process and credit risk are in line with the research conclusions of Jacobson & Roszbach (2003) and Tengor et.al., (2015) which explain that an effective credit risk management process can minimize credit risk. Savitri et.al. (2014) provided evidence through their research findings at Bank Jatim Mojokerto Branch, where an effective credit risk management process was able to maintain NPL within tolerable limits. Pratiwi et.al (2016) also found similar results on BRI during the 2013-2015 period. Piatti & Ringelli (2019) in their findings emphasize that improving the quality of monitoring has a positive impact on the NPL ratio.

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Mediation of the Credit Risk Management Process on the Effect of Credit Restructuring Policy on Credit Risk

The results of hypothesis testing using WarpPLS found that Credit Risk Management Process mediates the effect of Credit Restructuring Policy on Credit Risk. This result indicates that through a good credit risk management process, the credit restructuring policy lowering credit risk significantly.

Direct effect findings in this research also support this, such as that the Credit Restructuring Policy influences the credit risk management process (Hypothesis 1) and influence insignificantly on credit risk (Hypothesis 2). The result of this hypothesis confirms the combination of hypothesis 1 and hypothesis 2.

The process of assessing credit risk in credit activities uses three pillars, namely the debtor's business prospects, the debtor's financial performance, and the smoothness of the debtor's installment payments. However, during the COVID-19 pandemic, through POJK, regulators (BI and OJK) issued a Credit Restructuring Policy which simplified the principle of 3 pillars into 1 pillar in the Credit Risk Management Process to reduce potential Credit Risk. Based on this provision, if a debtor's business prospects are assessed as tending to decline in business, then the credit can be rated lower in the sense that it can be categorized as non-current credit or non-performing credit.

Likewise, an assessment of the condition of the debtor's financial performance is used in assessing credit collectability. During the Covid-19 pandemic, the Financial Services Authority (OJK) has implemented a credit restructuring policy. In this regulation, the OJK provides leeway in assessing the credit quality of a debtor, which was originally based on three assessment pillars to just one assessment pillar, which is only based on the smooth payment of credit installments. So banks are allowed to assess the debtor's credit collectability based only on the smoothness of installment payments and can ignore the debtor's business prospects and the debtor's financial performance.

For example, if a bank has debtors from the hotel sector, then this debtor's business prospects during the COVID-19 pandemic will decline as a result of limited community mobility. If it is based on an assessment of business prospects, then all debtors in the hotel sector should be categorized as non-current credit, however, with the OJK's credit restructuring policy, this assessment of business prospects can be ignored by banks. To obtain leniency in this credit risk assessment, banks are required to implement an adequate credit risk management process. The results of this research provide evidence that the credit restructuring policy issued by the OJK and followed by changes to the credit risk management process by commercial banks has been able to reduce the number of non-performing loans in commercial banks.

This finding is novel because no other research has tested and analyzed the effect of this kind of mediation.

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Mediation of the Credit Risk Management Process on the Effect of Compliance to Regulation on Credit Risk

The results of hypothesis testing using WarpPLS found that Credit Risk Management Process negatively mediates the effect of Compliance to Regulation on Credit Risk. This result indicates that with a good credit risk management process, commercial bank's compliant increasing the bank's credit risk significantly. Respondent's perception of Compliance to Regulation is Compliance to credit risk assessments before the enactment of POJK (3 Pillars in assessing debtor Credit Quality). Meanwhile, respondents' perceptions regarding the Credit Risk Management Process are by the Credit Restructuring Policy (1 Pillar by POJK Restructuring), thus the Risk Management Process is unable to mediate Compliance to Regulation with Credit Risk. Regardless of respondents' perceptions, the Credit Risk Management Process and regulatory compliance have a close relationship because both are related to risk mitigation in banking activities. However, the credit risk management process and regulatory compliance are two different things. The credit risk management process aims to identify, evaluate, and manage credit risks faced by banks. This includes analyzing the borrower's credit risk profile, identifying possible repayment defaults, and determining the level of credit risk acceptable to the bank. Meanwhile, regulatory compliance is the process of ensuring that banks comply with the regulations and standards imposed by regulators. These regulations cover a variety of matters, including minimum capital requirements, financial reporting requirements, and anti-money laundering provisions.

Although the two are different, credit risk management processes and regulatory compliance are interrelated. Banks must ensure that their credit activities comply with the regulations and standards set by the regulator. At the same time, the credit risk management process can help banks ensure that their credit risks are managed effectively and by regulations. However, the credit risk management process does not mediate the relationship between compliance and regulation on credit risk because this is not the main objective of credit risk management. Credit risk management aims to identify and manage credit risks effectively, while regulatory compliance aims to ensure that banks comply with applicable regulations. Therefore, banks need to have separate and complementary credit risk management and regulatory compliance systems. This finding is novel because no other research has tested and analyzed the effect of this kind of mediation.

Internal Control Moderation in the Influence of Credit Risk Management Process on Credit Risk

The research results show that the Internal Control negatively moderates the effect of credit risk management process on credit risk. This shows that the implementation of internal control in the credit risk management process at commercial banks in Indonesia during the COVID-19 pandemic did not improve the relationship between these two variables. Internal control in commercial banks includes two aspects of control, namely the control environment and the implementation of control. The control environment takes the form of commitment from all parties to integrity and ethical values, as well as supervision by the board of directors on the development and performance of internal control. The implementation of internal control

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usually consists of preventive control and corrective control. Preventive control is a step in implementing control before a problem arises, while corrective control is a step in implementing control after a problem arises. However, during the COVID-19 pandemic, corrective control became less effective because selling collateral became unattractive to the public due to weak purchasing power, so the step that had to be taken was to establish PPAP and CKPN reserves which increased credit risk. Respondents gave their approval to the Internal Control Environment, especially to the Board of Directors supervision criteria regarding development and performance. However, the lowest agreement was given to the criterion of implementing the control function to detect problems that have arisen in the last 1 year. The results of this research indicate that there is still room to improve the implementation of Internal Control.

CONCLUSION

The Credit Risk Management Process plays an important role in mediating factors such as Credit Risk Management Strategy, Use of Credit Information Technology, Compliance and implementation of Credit Risk Policy, because the Credit Risk Management Process is the main activity of these four things which are conceptual in nature. This means that no matter how good the existing concepts or regulations are, they must be implemented properly and correctly to maintain bank credit risk. Internal Control does not moderate the influence of the Credit Risk Management Process on Credit Risk because Internal Control has fixed norms with the aim of maintaining bank stability. In the case of extraordinary times with special treatment in maintaining a balance between the national economy and commercial bank credit risk, Internal Control should also be adjusted.

IMPLICATION

Theoretical Implications

The results of this research provide theoretical implications for banking management science as follows:

1) This is a new finding for the development of banking financial management science, especially in the analysis of the relationship between Credit Restructuring Policy and Compliance to Regulation on the Credit Risk Management Process and Credit Risk in commercial banks in Indonesia and the mediating influence of the Credit Risk Management Process and the moderation of Internal Control.
2) This research uses variable measurements based on respondents' perceptions, which provides a new and different perspective from measurements using secondary data.
3) To maintain economic growth in the extraordinary period, regulators need to make policy adjustments regarding general Banking Risk Management Theory, especially regarding Credit Risk.

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Practical Implications

The results of this research provide practical implications, especially for banking financial institutions:

1) The Credit Restructuring Policy that has been issued by the OJK in the banking sector during the Covid-19 pandemic has been implemented effectively in accordance with the expected objectives.
2) The implementation of the credit risk management process must be carried out consistently and in accordance with the guidelines and criteria set by the regulator to reduce credit risk. A good credit risk management strategy, use of credit information technology and credit restructuring policies during the COVID-19 pandemic must be followed by a credit risk management process to reduce credit risk.
3) Banks need to implement preventive control measures in internal control and not only rely on corrective control measures, especially during the Covid-19 pandemic. The existence of preventive control will be able to prevent banks from experiencing difficulties when credit risk increases.

RECOMMENDATION

For academics:

1) There are research limitations in the form of not yet covering foreign banks and Sharia banks as research objects, which could be the object of further research. Also, similar research can be carried out for other countries by the policies applicable in that country.
2) Banking Risk Management Theory, especially Credit Risk, needs to be adjusted, especially about Regulatory policies during the pandemic to maintain economic growth

For Banking Regulators

1) Increase monitoring and supervision of the implementation of the Credit Restructuring Policy by applicable regulations, bearing in mind that the implementation of the Credit Restructuring Policy carried out by the banking industry is prone to potential moral hazard.
2) Considering that the impact of credit restructuring policies is very large for banks in Indonesia, policy normalization must be carried out carefully so as not to cause a cliff effect or shock on the banking industry, the potential for a credit crunch, and hamper economic recovery and economic growth.

For the banking industry:

1) The bank's Credit Risk Management Strategy must be synchronized with the credit restructuring policy by applicable regulations.
2) Banks are expected to increase Compliance to credit restructuring policies by applicable regulations consistently

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3) Because it has been proven how important the role of information technology is in the banking industry, especially in making credit decisions to reduce the level of credit risk, maintenance, upgrades and updates of information technology are factors that need to be considered.
4) The Credit Risk Management process plays a very important role in controlling credit risk, so it must be implemented consistently and includes 4 stages, namely identification, measurement, monitoring, and control of credit risk.
5) Banks need to prioritize preventive control measures in internal control and not only rely on Corrective Control measures which have proven to be ineffective during the COVID-19 pandemic. Preventive control will be able to prevent banks from experiencing difficulties when credit risk increases.

Limitation

The limitation of this research is that it does not examine the responses from the respondent group of foreign banks and Islamic banks operating in Indonesia.

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