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Revolutionizing Credit Dispute Resolution: Balancing Creditors and Debtors Interests for Greater Efficiency

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ABSTRACT

Non-performing loans (NPLs) strain creditor-debtor relationships, jeopardizing economic stability. Traditional dispute resolution methods are costly, time-consuming, and often fail to meet the needs of both parties. This paper introduces a novel, efficiency-based approach to NPL dispute resolution, grounded in economic analysis of law. By optimizing resource allocation, it minimizes transaction costs and resolution time, benefiting both creditors and debtors. Using a qualitative and normative methodology, the study explores the application of efficiency principles in Indonesia. The findings highlight that an efficient dispute resolution paradigm can enhance outcomes, foster trust in the banking system, and provide economic benefits. The paper advocates for legal reforms to promote mediation and arbitration, ensuring faster, cost-effective, and sustainable solutions to NPL disputes.

Keywords: non-Performing Loans (NPLs); Efficiency Approach; Dispute Resolution



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INTRODUCTION

Non-performing loans (NPLs) are a major concern for the banking system in Indonesia. The financial performance of banking institutions is affected by this problem, which also significantly affects national economic stability. The NPLs are caused by debtors who are unable to fulfill their obligations to creditors according to agreed agreements, either the debtor's business continuity is affected by financial inability or external conditions. As the number of NPLs in a financial system increases, the risk that banks face increases, resulting in economic instability. It is important to pay attention to dispute resolution over NPLs, not just individual problems, yet also safeguard the financial system as a whole. A mechanism must be fast, efficient, and able to provide fair solutions for both parties to guarantee that the relationship between creditors and debtors is sustainable.¹

When assessed based on current conditions, one of the causes of this increase in bad debts is the lack of knowledge of the public or customers about the credit systematics itself. People fulfill their needs by paying through credit cards without fully understanding the rules and consequences of using these credit cards. Another cause of this bad credit problem is the imbalance between the number of customer services and the increasing number of customers so that there are customers who are not equipped with sufficient knowledge about the credit card products they have. Then, there are also various public complaints related to this credit problem, such as bills that suddenly jumped up, very high interest rates, collection by debt collectors who are considered less humane, and so on. In addition, from the bank's side, the bank is considered to be too pursuing lending targets, causing the bank to ignore aspects of credit analysis, such as poor information management, ineffective policies in granting credit, and poor credit analysis standard operational procedures. As a result,

¹ Dwi Rahayu, *Manajemen Risiko Perbankan: Perspektif Hukum dan Praktik* (Jakarta: Kencana, 2018), hlm. 121

NPLs are still a major threat to banks that have not been resolved until now.²

The factors that cause bad credit are complemented by the non-optimal regulation of the institution for resolving problematic credit disputes regulated in Indonesian regulations, which should have been maximized starting from upstream, for example by taking steps during the credit granting process, where at this stage the bank really pays attention and analyzes the customer's credit application, whether it is feasible or otherwise to grant the credit application. If at or during the process there are no indications of NPLs, then the bank must make monitoring efforts during the post-disbursement process, and (possibly) NPLs, up to the upstream, namely with the final path taken through the fiat execution of the district court in accordance with the provisions of Article 224 *Herzien Inlandsch Reglement* (HIR)³ or 258 *Rechtreglement voor de Buitengewesten* (RBG). Where the court only examines the formal requirements, and fiat execution can be carried out on certain agency decisions and documents with *grosse acta*, and *irah-irah*: "For the Sake of Justice Based on the Almighty God".⁴

In this context, dispute resolution mechanisms for NPLs in Indonesia often face complex challenges. One of the main challenges is that the resolution process is often protracted and costly, especially if pursued through litigation in court. The banking industry requires efficient dispute resolution to maintain trust and reduce systemic risk. Although the litigation process provides legal certainty in court decisions, in practice it is often considered inefficient because it takes a long time and is costly. Furthermore, it is rarely taken into account

² Elsa Maryanti, Analisis Permasalahan Kredit Macet dalam Bidang Perbankan di Indonesia, artikel diakses dari <https://bbs.binus.ac.id/management/2020/01/analisis-permasalahan-kredit-macet-dalam-bidang-perbankan-di-indonesia/>, pada 15 Januari 2024

³ Togar S.M. Sijabat, Hukum Online: Perbedaan antar HIR dan RBG via <https://www.hukumonline.com/klinik/a/perbedaan-antara-hir-dan-rbg-lt54dc318596a4d/>, pada Oktober 2024

⁴ Munir Fuadi, Hukum Bisnis Dalam Teori dan Praktek, Citra Aditya Bakti, Bandung, 1994 hal. 64

by the courts whether the debtor and the creditor will maintain their relationship after the issue has been settled. Litigation is therefore not always the best option, particularly for NPLs, which typically require quick and adaptable remedies.

Besides the issues on the litigation process, another challenge is the general lack of awareness and application of the efficiency approach in the NPLs disputes settlement. Law and economics thinking: Toward efficiency –Get maximum result from limited resources It is a model that evaluates dispute resolution mechanisms based on how successful they are at reducing transactional costs, time and adverse consequences to the parties concerned. However, regarding NPLs, the efficiency approach can be one solution to these challenges, reducing litigation burden costs, reducing settlement time, and achieving "win-win" solutions between creditors and debtors. The efficiency approach to dispute resolution aims to reduce transaction costs and settlement time, which are often the main obstacles in formal justice system.⁵

As lenders, creditors frequently suffer significant losses if NPLs are not promptly repaid. This loss includes the possibility of losing the principal amount that was provided to the debtor in addition to the loss of interest revenue from the loan. As lenders, creditors frequently suffer significant losses if NPLs are not promptly repaid. This loss includes the possibility of losing the principal amount that was provided to the debtor in addition to the loss of interest revenue from the loan. An ineffective strategy can exacerbate these circumstances by placing a greater financial, social, and psychological strain on borrowers. As a result, developing a dispute resolution process that is both effective and equitable for all parties is crucial.

The economic analysis of law provides a strong conceptual foundation for understanding the importance of efficiency in the resolution of NPLs disputes and provides a new perspective in

⁵ Fahmi Hakim, *Analisis Ekonomi terhadap Hukum: Teori dan Implementasi* (Bandung: Refika Aditama, 2020), hlm. 87

designing a more effective and efficient dispute resolution system.⁶ According to this theory, the law should be designed in such a way that it creates maximum economic benefits for society. Efficiency-focused dispute resolution is essential to meet the challenges of financial disputes while minimizing the waste of resources.⁷ In the context of NPLs, this means that dispute resolution mechanisms should be able to reduce unnecessary transaction costs, such as high litigation costs and time wasted during the resolution process. In addition, the law should also ensure that the solutions offered create incentives for creditors and debtors to resolve their disputes amicably and efficiently, without having to rely on protracted court intervention.

The application of the efficiency approach is also relevant to the Indonesian government's efforts to encourage the use of alternative dispute resolution mechanisms, such as mediation, arbitration, and conciliation. These alternative mechanisms offer more flexible, speedy, and cost-effective solutions compared to traditional litigation processes. In recent years, the government and banking institutions in Indonesia have endeavored to increase the use of these alternative mechanisms, especially in dealing with NPLs. However, despite the existence of regulations that support the use of alternative mechanisms, their implementation still faces various obstacles, including a lack of understanding among legal practitioners and banks, as well as a lack of infrastructure that supports mediation and arbitration processes.

In a broader perspective, efficient resolution of NPLs disputes can also support the Sustainable Development Goals (SDGs), particularly in achieving inclusive and sustainable economic growth. When NPLs disputes are resolved in an efficient manner, it can promote financial stability, increase public confidence in banking

⁶ Ahmad Maulana, *Ekonomi dan Hukum: Sebuah Pendekatan Terpadu* (Jakarta: Rajawali Pers, 2020), hlm. 53.

⁷ David Green, "The Role of Efficiency in Financial Dispute Resolution," *Global Financial Law Review*, Vol. 15, No. 3 (2019): 310.

institutions, and create a business environment conducive to economic growth. In addition, efficiency in dispute resolution can also help reduce social injustice, especially for small and medium-sized debtors who often do not have sufficient access to defend themselves in litigation.

However, the application of the efficiency approach in resolving NPLs disputes cannot be done instantly. Strategic steps are needed to create a legal and policy framework that supports the practical application of efficiency. One important step is to strengthen regulations governing the use of alternative dispute resolution mechanisms, including providing incentives for banking institutions to utilize these mechanisms in handling NPLs. For example, mediation as an alternative dispute resolution offers great flexibility, but must be supported by a solid legal framework in order to produce optimal efficiency.⁸ In addition, there is a need for human resource capacity building, including training for mediators, arbitrators, and legal practitioners, to ensure that they have an adequate understanding of efficiency approaches and economic analysis of the law.

On the other hand, banking institutions also need to adopt an efficiency approach in their credit risk management. This can be done by implementing an early warning system to detect potential NPLs early on, so that preventive measures can be taken before the problem becomes more serious. NPLs not only cause financial losses for banks, but also create reputational risks that can have long-term impacts.⁹ In addition, banks also need to strengthen communication with debtors to create a transparent and mutually beneficial relationship.

In conclusion, resolving NPLs disputes with an efficiency approach is not only a practical necessity, but also a strategic step to improve the sustainability of the financial system in Indonesia. By

⁸ Ratna Dewi, *Alternatif Penyelesaian Sengketa: Mediasi dan Arbitrase* (Yogyakarta: Gadjah Mada University Press, 2017), hlm. 156

⁹ Hendra Kusuma, *Manajemen Kredit Perbankan di Indonesia* (Jakarta: Gramedia Pustaka Utama, 2019), hlm. 65

prioritizing efficiency in every stage of dispute resolution, whether through litigation or alternative mechanisms, Indonesia can create a dispute resolution system that is faster, cost-effective, and able to create win-win solutions for all parties involved. This approach can also make a significant contribution to creating greater economic justice and strengthening the foundations of national economic development..

EVALUATING THE EFFICIENCY OF NON-PERFORMING LOAN DISPUTE RESOLUTION

Resolving NPLs disputes efficiently is key to a stable financial system. It determines the system's success. Quickly resolving NPLs disputes boosts trust in banks and stabilizes the economy.¹⁰ The NPLs, caused by debtors' inability to pay, challenge banks. The NPLs hurt creditors' finances and can stunt economic growth. Here, efficiency analysis seeks to find the best way to resolve disputes. It should be cost-, time-, and resource-efficient. It must also be fair to both parties.

Economic analysis of law emphasizes efficiency as a key criterion in designing a legal framework for dispute resolution.¹¹ The efficiency approach refers to a dispute resolution process that minimizes friction and costs without compromising the quality of the resolution. In the traditional system, resolving disputes over NPLs often leads to lengthy litigation, bureaucratic red tape and high legal fees. This poses a major challenge to the efficiency of the financial system.

One of the main obstacles in achieving efficiency is the high complexity of the legal process in resolving NPLs. The legal system often operates with strict and time-consuming procedures, resulting

¹⁰ Arief Rahman, *Hukum Perbankan dan Stabilitas Keuangan* (Surabaya: Airlangga University Press, 2021), hlm. 102

¹¹ Sandra Lee, "Economic Analysis and Legal Efficiency," *Journal of Legal Studies*, Vol. 42, No. 1 (2017): 128.

in high costs for both creditors and debtors. Creditors, as lenders, face the risk of losing capital if disputes are not promptly resolved. On the other hand, debtors are often burdened with increasing financial pressure due to the lengthy settlement process.

It is important to note that efficiency in dispute resolution does not only include aspects of cost and time, but also includes ease of access and transparency of the process. An efficiency approach to legal dispute resolution not only reduces litigation costs, but also expands access to justice for disputing parties.¹² One approach that can be used to improve efficiency is the introduction of alternative dispute resolution mechanisms, such as mediation and arbitration. In mediation, a neutral mediator helps both parties reach an agreement on a voluntary basis. This process tends to be faster and more cost-effective than traditional litigation. Arbitration, on the other hand, involves a third party rendering a binding decision. Although it entails a cost, arbitration is usually faster compared to courts.

This research also highlights the importance of technology in improving efficiency. With the development of digital technology, dispute resolution can be done online through technology-based platforms. This system allows communication between creditors and debtors to be direct and transparent, without having to go through lengthy physical procedures. An example of a relevant technology implementation is the use of blockchain to record credit transactions and track payment status. Blockchain provides high transparency, thus minimizing potential disputes due to unclear information or data manipulation.

Efficiency can also be improved through efforts to prevent NPLs in the first place. A more rigorous credit assessment process, including in-depth risk analysis, can help reduce the likelihood of NPLs. In addition, educating debtors on good financial management and payment obligations also contributes to prevention. In this

¹² James Smith, "Economic Efficiency in Legal Dispute Resolution," *Journal of Law and Economics*, Vol. 61, No. 2 (2018): 234.

regard, efficiency is not only about how disputes are resolved, but also how disputes can be avoided.

In the regulatory context, governments and financial authorities have an important role to play in creating a legal framework that supports efficiency. Regulations that encourage mandatory mediation before litigation, for example, have proven effective in reducing the burden on courts and speeding up the dispute resolution process. In addition, incentivizing banks to use alternative mechanisms can also be a strategic move. Mechanisms such as mediation and arbitration have proven to provide faster and cost-effective resolution of disputes in the banking sector.¹³

This research emphasizes that the balance between the interests of creditors and debtors is the main goal of the efficiency approach. Creditors have an interest in minimizing losses and recovering capital as quickly as possible, while debtors need a solution that allows them to continue their financial lives without undue stress. Therefore, an efficient dispute resolution strategy should consider these two aspects in a balanced manner.

Efficiency also has a positive impact on the overall stability of the financial system. When NPLs can be resolved quickly and effectively, banks have more liquidity to channel as new loans. This not only increases economic productivity, but also strengthens investor confidence in the banking sector. On the other hand, debtors who successfully resolve disputes without being burdened by high costs tend to be more productive in contributing to the economy.

However, the transformation to efficiency has not always been smooth. Challenges include resistance from parties accustomed to the traditional system and a lack of awareness about the benefits of alternative mechanisms. Therefore, education and socialization on the importance of efficiency in dispute resolution is an important step. The government, financial institutions, and the public must work

¹³ Laura Johnson, "Banking Disputes and ADR: A Comparative Study," *International Review of Financial Law*, Vol. 10, No. 4 (2020): 450.

together to create an ecosystem that supports efficient dispute resolution.

In conclusion, efficiency analysis in the resolution of NPLs disputes is a complex but indispensable effort to create a healthier financial system. By promoting alternative mechanisms, utilizing technology, and strengthening supporting regulations, dispute resolution can be done more quickly, cheaply, and fairly. This approach not only benefits creditors and debtors, but also contributes greatly to economic stability and growth

IMPLEMENTING STRATEGIC APPROACHES TO BALANCE CREDITOR AND DEBTOR INTERESTS

Since the 1998 reform, the legal politics of corruption eradication in Indonesia has begun to materialize concretely not only by materially overhauling the anti-corruption regulatory system that has existed since 1971, but also making fundamental changes to the structure of law enforcement agencies that have special authority in the context of eradicating corruption, including the establishment of the Corruption Eradication Commission and the Special Corruption Court. This legal policy was strengthened by the ratification of the United Nations Convention Against Corruption on April 18, 2006, which made the spectrum of corruption eradication in Indonesia no longer considered only as law enforcement against ordinary crimes of a regional nature but also seen as a law enforcement system against “extraordinary” crimes, with legal instruments and principles that are universal.

The application of efficiency strategies in the resolution of NPLs disputes is an approach that aims to create a balance between the interests of creditors and debtors. NPLs, which often arise from an imbalance between debtors' payment obligations and their economic capabilities, have far-reaching implications not only for the

individuals or companies involved but also for the stability of the financial system. The implementation of efficiency strategies is therefore relevant to ensure that dispute resolution is conducted in a fair, expeditious and resource-efficient manner.

The efficiency strategy is rooted in the understanding that a protracted dispute resolution process will only worsen the situation for both parties. Creditors, as lenders, require a quick return of funds to maintain their liquidity and continue business operations. Meanwhile, debtors are often in a financially difficult position and need a settlement that allows them to continue their economic life without unnecessary additional burden. As such, efficiency strategies aim not only to resolve disputes but also to ensure that the resulting solutions provide benefits to all parties.

One important element in the efficiency strategy is the implementation of alternative dispute resolution (ADR) mechanisms. ADR includes methods such as mediation, arbitration and direct negotiation designed to resolve disputes out of court. Alternative dispute resolution systems such as arbitration should be adopted more frequently in the banking world to support efficiency in handling NPLs.¹⁴ Alternative dispute resolution mechanisms are increasingly recognized as an efficient approach to resolving financial disputes globally.¹⁵ The process is generally faster and more cost-effective compared to traditional litigation. Mediation, for example, involves a neutral mediator who helps both parties reach an agreement without having to go through lengthy court proceedings. The success of mediation lies in its flexibility, which allows creditors and debtors to design solutions that suit their needs. Mediation

¹⁴ Nina Handayani, *Hukum dan Praktik Arbitrase di Indonesia* (Malang: UB Press, 2016), hlm. 180.

¹⁵ Andrew Collins, "The Global Shift to ADR in Financial Disputes," *International Financial Law Journal*, Vol. 16, No. 1 (2018): 105.

provides a collaborative framework that aligns with the principles of efficiency and sustainability in banking dispute resolution.¹⁶

Arbitration is another strategy often used in the resolution of NPLs disputes. In arbitration, the disputing parties submit the decision to an arbitrator or arbitration panel that provides a binding decision. While arbitration may involve higher costs than mediation, it is still faster than court and provides the necessary legal certainty for both creditors and debtors. In many cases, arbitration also allows the use of financial or industry experts as arbitrators, who can provide specialized insights relevant to the dispute.

Besides ADR, loan restructuring is another important strategy in creating efficiency. Credit restructuring is often a more efficient option than litigation to resolve NPLs.¹⁷ Credit restructuring involves adjusting the terms and conditions of credit to help debtors resume payments without burdening them financially. Measures such as interest rate reduction, credit term extension, or partial debt write-off are some of the common forms of restructuring. Restructuring not only benefits debtors but also provides an opportunity for creditors to recover a significant portion of their funds without having to go through costly legal proceedings.

Technology also plays an important role in the implementation of efficiency strategies. Technological advancements have opened up new opportunities to speed up the dispute resolution process and increase transparency. Online-based dispute resolution systems, for example, allow creditors and debtors to resolve their issues without having to physically meet. Digital platforms can be used to organize mediation or arbitration, manage documents, and even record agreements reached. Blockchain technology is another relevant example in this context. By using blockchain, all credit transactions can be transparently and irreversibly recorded, thereby minimizing

¹⁶ Emily Carter, "Sustainable Mediation Practices in Financial Disputes," *Financial Dispute Resolution Review*, Vol. 12, No. 3 (2019): 276.

¹⁷ Budi Santoso, *Hukum Kredit dan Perbankan* (Bandung: Citra Aditya Bakti, 2018), hlm. 98.

the risk of data manipulation and speeding up the dispute resolution process.¹⁸

It is also important to consider the regulatory aspects of implementing efficiency strategies. Regulations that support ADR mechanisms and the use of technology in dispute resolution can provide a clear framework and encourage widespread adoption of these approaches. For example, some countries have implemented regulations that require mediation before disputes are submitted to the courts. This approach not only reduces the burden on the courts but also provides faster and cost-effective solutions for the parties involved.

Recent research shows that efficiency in dispute resolution also depends on the readiness of financial and banking institutions to adopt this approach. Training for bank staff on ADR mechanisms, use of technology, and understanding the importance of effective communication with debtors are necessary steps to ensure the success of efficiency strategies. In addition, cooperation between banks and legal institutions or professional mediators can strengthen the implementation of this strategy.

From a social and economic perspective, efficiency strategies provide significant benefits. When NPLs disputes can be resolved quickly and fairly, the impact goes beyond the individuals involved. Creditors who feel confident in an efficient dispute resolution system will be more willing to extend new credit, which in turn supports economic growth. On the other hand, debtors who successfully resolve their financial problems can return to productivity and contribute to the economy. Thus, efficiency in the resolution of NPLs disputes is not only a benefit to the parties involved but also to society

¹⁸ Felicia, dkk, Tantangan dan Peluang Blockchain di Era Digital dalam Bidang Keamanan Data dan Transaksi Digital, *Journal of Comprehensive Science* Vol. 3. No. 11 November 2024,

as a whole.¹⁹ Prolonged litigation inefficiency can exacerbate financial stress, especially in cases involving NPLs.²⁰

However, implementing efficiency strategies is not without its challenges. One of the main obstacles is resistance to change, especially in countries or institutions that are used to traditional systems. Lack of awareness about the benefits of ADR and digital technology is also an obstacle. Overcoming these obstacles requires education and socialization efforts involving all stakeholders, including the government, financial institutions, and the public. Efficiency in dispute resolution requires technological support that facilitates communication and documentation processes.²¹

In this case, the role of the government becomes very important. The government should not only create supportive regulations but also provide incentives for financial institutions to adopt efficiency strategies. Such incentives could include subsidies for staff training or tax deductions for banks that use ADR. In addition, the government can also facilitate access to digital technology for small and medium-sized institutions that may face limited resources.

The implementation of efficiency strategies in the resolution of NPLs disputes is an important step to balance the interests of creditors and debtors. By adopting ADR mechanisms, utilizing technology, and strengthening supporting regulations, dispute resolution can be done more quickly, cheaply, and fairly. This strategy not only reduces the burden on the parties involved but also strengthens the stability of the financial system and makes a positive contribution to the economy. An efficient dispute resolution framework can significantly reduce

¹⁹ John Fell et-al, Asian Development Bank Report 2022, Nonperforming Loans in Asia and Europe – Causes, Impacts, and Resolution Strategies, <https://dx.doi.org/10.22617/TCS240289-2>, accessed October 2024.

²⁰ Thomas Brown, "Non-Performing Loans and Litigation Efficiency," *European Journal of Law and Economics*, Vol. 20, No. 4 (2020): 432.

²¹ Eko Widodo, *Teknologi dan Hukum di Era Digital* (Yogyakarta: Deepublish, 2021), hlm. 210.

transaction costs and improve economic outcomes in the banking system.²²

IMPLICATIONS OF NPL DISPUTE RESOLUTION TRANSFORMATION FOR THE FINANCIAL SYSTEM

Transformations in the resolution of NPLs disputes have a significant impact on the financial system as a whole. The NPLs, which are often a source of stress for financial stability, can trigger various systemic problems if not handled appropriately. In this context, the transformation of dispute resolution through an efficiency approach not only impacts the parties involved, namely creditors and debtors, but also has a broad influence on the functioning and stability of the financial sector.

One of the key implications of this transformation is improved financial stability. When dispute resolution mechanisms are more efficient, banks and other financial institutions can quickly recover their assets trapped in NPLs. This has a positive impact on the liquidity of financial institutions, which in turn increases their capacity to provide new credit to the productive sector. Greater financial stability also strengthens investor confidence in the banking sector, which is an important pillar in maintaining capital flows in the financial markets.

Beyond stability, this transformation also has implications for improving financial inclusion. Complicated and costly dispute resolution processes are often a barrier for individuals or small businesses to access formal credit. With more efficient mechanisms, such as mediation or technology-based dispute resolution, more individuals and businesses can feel confident to participate in the formal financial system. Increased financial inclusion not only

²² John Taylor, "Transaction Costs and Efficiency in Banking Dispute Resolution," *Economic Law Journal*, Vol. 14, No. 3 (2020): 320.

supports economic growth but also helps create a more economically equal society.

From a creditor's perspective, the transformation of dispute resolution provides benefits in terms of risk management. The NPLs are often a significant burden to a bank's balance sheet, so a quick and effective mechanism to resolve disputes can help reduce losses. With an efficiency approach, banks can allocate their resources to more productive activities, such as the development of new financial products or expansion into untapped markets. In addition, a more transparent and predictable resolution process also reduces uncertainty, which is a key risk factor in the banking business.²³

For debtors, this transformation has equally important implications. An efficient dispute resolution process allows debtors to resolve their problems without having to face excessive financial stress. As such, debtors have a greater chance of recovering their financial condition and resuming productive economic activities. In the long run, this also has an impact on reducing the level of NPLs in the banking sector, as debtors who have positive experiences in resolving disputes tend to be more cooperative and responsible in meeting their future obligations.

The implications of this transformation are also visible in the relationship between regulation and the financial sector. Governments and financial authorities play an important role in creating a legal framework that supports efficiency in dispute resolution. Regulations that encourage the use of alternative mechanisms, such as mediation or arbitration, provide a strong foundation for the implementation of efficiency approaches. In addition, these regulations can also reduce the burden on courts, which are often overwhelmed by the number of cases of NPLs disputes. Thus, the legal system can focus more on cases that require

²³ Sterling Miller, Thomson Reuters: The problems and benefits of using alternative dispute resolution, via <https://legal.thomsonreuters.com/en/insights/articles/problems-and-benefits-using-alternative-dispute-resolution>, November 2024

special attention, while NPLs disputes are resolved through faster and more cost-effective mechanisms.

Technology is also a key element in this transformation. Online-based dispute resolution systems, which use digital platforms to manage mediation or arbitration processes, have brought about a major change in the way disputes are resolved. This technology not only speeds up the process but also increases transparency, which is an important element in creating trust between creditors and debtors. In addition, technologies such as blockchain can be used to record credit transactions and track payment status, thus minimizing potential disputes due to unclear information or data manipulation. The use of technology also allows financial institutions to save on operational costs, which in turn can be passed on to consumers in the form of lower interest rates or more affordable financial products.

However, this transformation also presents challenges that need to be overcome. One of the main challenges is resistance to change, both on the part of financial institutions and the general public. Many institutions that are used to traditional systems may be reluctant to adopt new approaches, especially if they do not fully understand the benefits. On the other hand, the public may lack trust in alternative mechanisms or new technologies, especially if they feel they do not have enough information or experience with such systems. Therefore, education and socialization are important steps to ensure that all stakeholders can accept and support this transformation.

In addition, there are also challenges related to infrastructure development and human resource capacity. The implementation of alternative mechanisms and technologies requires significant investment, both in hardware and software. Financial institutions need to ensure that their staff have the necessary skills to use these technologies effectively. Governments and financial authorities must also support by providing adequate training and resources to support the implementation of this transformation.

In a global context, the transformation of NPLs dispute resolution also provides opportunities for developing countries to improve their competitiveness²⁴. By adopting more sophisticated efficiency mechanisms, these countries can create a more stable and attractive financial environment for foreign investors. This not only increases capital flows to the country but also helps accelerate economic development.

In conclusion, the transformation in NPLs dispute resolution has broad and profound implications for the financial system. By promoting efficiency, financial stability can be enhanced, financial inclusion expanded, and the relationship between creditors and debtors strengthened. While there are challenges to overcome, the long-term benefits of this transformation are far greater.

²⁴ Asian Development Bank, How to Build Nonperforming Loan Trading Platforms in Asia and the Pacific, 2024 <https://dx.doi.org/10.22617/TCS240289-2> accessed October 2024

CONCLUSION

This paper underscores the significance of transforming the NPLs dispute resolution system through an efficiency-focused approach, which balances the interests of creditors and debtors while ensuring the stability of the financial system. Non-performing loans (NPLs) present a serious challenge to the banking sector, and if not handled properly, they can undermine overall economic stability. By adopting an efficiency approach that reduces transaction costs and resolution time, the dispute mechanism can be expedited, more transparent, and fairer for all parties involved.

Such efficiency leads to multiple economic benefits, including quicker asset recovery for creditors and reduced financial pressure on debtors. The transparency of the process also strengthens trust between the parties, fostering a healthier financial environment and encouraging greater financial inclusion. This approach not only supports better risk management within the banking sector but also allows for more optimal resource allocation.

However, the success of this transformation requires robust regulatory support and the integration of appropriate technologies, such as online systems and blockchain, to ensure that the dispute resolution process is more effective, cost-efficient, and reliable. Overcoming challenges like resistance to change and the limited availability of infrastructure and skilled resources will be key. Education and training will be essential for stakeholders to successfully transition to the new system, while regulatory frameworks that promote alternative dispute resolution mechanisms, like mediation and arbitration, must be reinforced.

In conclusion, adopting an efficiency-driven approach to NPLs dispute resolution is not only a practical solution for the immediate stakeholders but also a strategic step toward enhancing the stability and sustainability of the broader financial system. To remain relevant in the modern economy, the legal system must evolve to prioritize

efficiency in resolving financial disputes. With the right implementation, technological innovations, and regulatory backing, this approach has the potential to reshape Indonesia's legal and financial systems, creating a more inclusive, equitable, and productive economic landscape.

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