



## Application of the 5C Principle (Character, Capacity, Capital, Collateral, Condition) as a Credit Risk Mitigation Tool (Case Study on FIFGROUP Sukabumi Branch)

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### ABSTRACT

*The provision of credit to retail finance companies such as FIFGROUP Sukabumi Branch has a strategic role in the economy, but it also carries the risk of bad credit or bad loans that can disrupt business liquidity and profitability. The number of bad credit cases that are often accompanied by violations of fiduciary guarantees, such as embezzlement or illegal diversion of vehicles, are a major problem faced by partners. The purpose of this community service initiative is to evaluate risk mitigation by applying the 5Cs (Character, Capacity, Capital, Collateral, Condition) principles. This will be done using a descriptive qualitative method that uses observation, interviews, and documentation. The results show that the application of the 5C principle serves as a good initial filter to select customer integrity, financial ability, and collateral availability to reduce the risk of default. Overall, combining these five principles has shown that it is critical to keep a company's credit portfolio healthy, protect corporate assets from significant losses, and improve the efficacy of more accurate and responsible credit decision-making.*

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## A. INTRODUCTION

The financing sector is one of the main pillars in driving the wheels of the community's economy, especially in providing access to credit to meet various consumption and productive needs. Credit is applied to help people in their business fields in the form of capital (Monulandi et al., 2016). However, credit is also a business activity that has risks that can affect the bank's health level and the bank's business continuity (Chosyali & Sartono, 2019). FIFGROUP Sukabumi Branch, as part of one of the largest retail finance companies in Indonesia, has a strategic role in distributing capital to the community. Along with the rapid economic growth in Indonesia, currently various kinds of financial service facilities are offered by the FIFGROUP company itself, such as motor vehicle financing to household appliances. However, behind the ease of credit disbursement, companies are faced with the inevitable challenge of credit risk, the ease of credit disbursement is also accompanied by the emergence



of credit risks that have the potential to cause non-performing loans if not managed properly. Several previous studies have discussed the quality of credit related to non-performing loans, for this study it discusses the application of the 5C principle as a risk mitigation tool in reducing and preventing non-performing loans.

Credit risk, or better known as the bad credit phenomenon, is a condition in which the debtor is unable to meet his installment payment obligations on time according to the agreement. From an accounting perspective, bad loans have a direct impact on the decline in the quality of receivables, an increase in the cost of receivables loss reserves, and disruption of the company's liquidity and profitability. Therefore, a strong risk mitigation system is needed from the early stages of credit application to minimize the number of bad loans or NPLs.

Bad credit is an act of default committed by the borrower against the agreed promise, so that the lender suffers a large loss.(Cahyani et al., 2020). In practice, a person is considered a default if he does not fulfill his obligations or is late in fulfilling them or fulfilling them but not as agreed in the financing contract that has been made previously(RAHMAWATI, 2023). Credit congestion can be triggered by various internal and external factors. One of the most effective and fundamental analytical instruments in the world of banking and finance companies to prevent non-performing loans is the 5C Principle (Character, Capacity, Capital, Collateral, and Condition). In addition, the author realizes that the effectiveness of the 5C Principle relies heavily on the accuracy of the data and the accuracy of the field team's analysis to verify information from potential customers. In the midst of a highly competitive financing industry, especially in the Sukabumi area, it is very important to balance the objectives of credit disbursement with prudence in risk assessment.

The government has created regulations that regulate the rules regarding credit distribution carried out by banks as creditors. However, in practice, banks tend to ignore the principles of the banking world so that banks will easily encounter various problems in their business activities. However, the rules regarding the 5C principle in the distribution of credit and the provision of sanctions are not strict so that it shows a vagueness of norms that will cause problematic financing and unwanted things, which will also have an impact on the credibility and vaccination of customers or prospective debtors (Hendrayanti et al., 2023). The implementation of the 5Cs is an important defense strategy for companies to maintain cash flow stability and minimize the risk of receivables losses that can affect the company's overall financial health.

## **B. METHODS**

The implementation of this community service program is carried out through a mentoring approach based on internship activities which aims to determine risk mitigation using the 5C Principle. The activity was carried out for five months, starting from February 3 to June 30, 2025, according to the operational schedule of the FIFGROUP Sukabumi Branch company. The entire series of activities were carried out at the FIFGROUP Company Sukabumi Branch, which is located on Jl. Bhayangkara, Gunungpuyuh District, Sukabumi City.

This study uses a qualitative method with a descriptive approach, where data is collected through observation, interviews, and documentation. The theoretical foundation is used as a guideline to ensure that the research emphasis is appropriate to the circumstances in the field, and the methodology is the study of the literature. This research is carried out through several



stages of systematic activities to obtain accurate and relevant data. The first stage is the preparation stage, which includes the identification of problems related to bad loans at FIFGROUP Sukabumi Branch as well as literature studies to understand the concept of credit risk and the application of the 5C principle as the basis for analysis. At this stage, the researcher also compiled research instruments such as interview guidelines and observation formats.

The second stage is the data collection stage, which is carried out through three main techniques, namely observation, interviews, and documentation. Observation is carried out by directly observing the credit analysis process and the company's operational activities, especially those related to the application of the 5C principle. Interviews are conducted with related parties, such as employees or credit analysts, to obtain in-depth information about credit assessment procedures and the obstacles faced. Meanwhile, documentation is carried out by collecting supporting data in the form of reports, company archives, and relevant credit policy documents.

The third stage is the data processing and analysis stage, where all the data that has been collected is then classified, reduced, and analyzed using a qualitative descriptive approach. At this stage, the researcher compares the conditions in the field with the theory used, especially related to the application of the 5C principle in credit risk mitigation. The fourth stage is the conclusion and evaluation stage, namely formulating research results based on the analysis that has been carried out and evaluating the effectiveness of the application of the 5C principle in minimizing the risk of bad loans. The final results of this stage are used to provide recommendations that can help companies improve the quality of credit analysis and risk management.

## **C. RESULTS AND DISCUSSION**

### **1.1. Community Engagement Activities**

Community service activities carried out at FIFGROUP Sukabumi Branch focused on analyzing the application of the 5C principles (*Character, Capacity, Capital, Collateral, Condition*) as a credit risk mitigation tool at FIFGROUP Sukabumi Branch. This program begins with observation and identification activities of partner problems, namely the existence of several cases of bad loans that often occur in FIFGROUP companies, which are almost always related to violations of fiduciary guarantees on motor vehicle objects, such as the transfer or embezzlement of fiduciary guarantee objects. Cases of bad loans in multifinance companies FIFGROUP mostly occur when the debtor or creditor is unable to pay installments, and instead of returning the collateral unit, the debtor commits an unlawful act, namely illegal pawning or resale of credit units or credit transfers. This is a mode that often occurs in bad credit cases.

To overcome the bad credit cases that have been described earlier, there are several solutions that can be taken by FIFGROUP Sukabumi Branch that can be applied through the 5Cs, including:

1. *Character*: through an evaluation of the customer's background, including credit history and reputation, which helps identify moral hazard risks.
2. *Capacity*: evaluated based on the customer's ability to repay the loan, with a rigorous analysis of income and cash flow, thereby reducing the risk of default due to financial incapacity.



3. *Capital*: calculated through the customer's working capital assessment, which ensures the availability of funds to support business activities, although in some small cases, customers with limited capital are still given credit with additional conditions.
4. *Collateral*: strictly applied through physical or non-physical collateral, such as land certificates or deposits, which serve as a risk buffer in the event of default on the customer, with the collateral value always exceeding the credit amount.
5. *Condition*: evaluated by considering economic conditions or trends in the Sukabumi area, for example fluctuations in the price of agricultural commodities, the phenomenon of reducing labor in the garment sector, and so on, which affects the customer's ability to pay installments. Credit policy adjustments are made in certain areas or sectors that are considered to have high risk, in order to prevent a systemic surge in *Non-Performing Loans* (NPLs).

## **1.2. Outcomes and Impacts of Community Engagement**

The implementation of community service activities has yielded results for partners. Among them, applying the 5C principles (Character, Capacity, Capital, Collateral, and Condition) can be a vital foundation for companies to maintain the health of their credit portfolio and minimize the risk of default that can threaten the company's financial stability. By analyzing the character, the company can assess the integrity and moral track record of prospective debtors to ensure that there is good faith in fulfilling future obligations. The capacity and capital aspects provide an objective picture of the financial capabilities and asset strength of the customer, so that companies can measure whether their cash flow is able to bear installments without disrupting their business continuity. Meanwhile, collateral serves as a safety net or risk mitigation of last resort in the event of payment constraints, and conditions allow companies to consider external factors such as economic trends or market regulations that may affect the debtor's business performance broadly. Overall, the integration of these five principles not only protects the company's assets from major losses, but also improves operational efficiency in more accurate, credible and responsible credit decision-making.

The results of this study show that the application of the 5C principle (Character, Capacity, Capital, Collateral, and Condition) has proven to be effective in minimizing the risk of bad loans at FIFGROUP Sukabumi Branch. This finding is in line with research conducted by Cahyani et al. (2020) which states that one of the main factors causing bad loans is the weak initial analysis of potential debtors, especially in terms of ability to pay and character. In addition, the results of this study also support the findings of Rahmawati (2023) who explained that defaults in credit often occur due to a mismatch between the debtor's financial condition and the payment obligations given, so a more comprehensive analysis is needed before credit is disbursed.

In the context of this study, the integrated application of the five aspects of the 5Cs is able to help companies in assessing the eligibility of debtors in a more objective and systematic manner. This shows that the 5C principle is not only theoretically relevant, but also proven to be applicable in practice in the field, particularly in finance companies such as FIFGROUP. Thus, the results of this study provide an empirical contribution that strengthens the importance of applying the prudential principle in the credit analysis process to maintain the quality of the company's financing portfolio.



#### **D. CONCLUSION**

Community service activities carried out at FIFGROUP Sukabumi Branch can provide solutions to partner problems related to bad credit problems that occur in companies and solutions that can be applied through the 5C principle to minimize these problems. This principle serves as an initial filter to mitigate the risk of default or bad credit from the stage of applying for credit. In terms of accounting, firmness in applying the 5C principle has a positive impact on the quality of the company's assets. With strict customer selection, the company can maintain the stability of *the cash flow* of branch operations.

Based on the results of the analysis and discussion, there are several suggestions for FIFGROUP Sukabumi Branch companies, namely to continue to increase the use of technology in *Capacity* data verification (income), especially for prospective informal sector customers who do not have official payslips, in order to speed up the process without reducing the level of prudence. Also increasing supervision of risky sectors, companies need to be more proactive in updating credit policies for customers in the sector to anticipate potential mass defaults.

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#### **F. AUTHOR CONTRIBUTION**

Dini Sri Stania (DSS) contributes to the planning and implementation of community service activities, analyzing company problems, collecting and processing data, analyzing the results and impacts of activities, as well as preparing and revising articles.

Heliani (H) contributes to academic guidance, provides methodological direction, evaluates the implementation of activities, and reviews the results of activities.

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