



Analysis of Bank Perekonomian Rakyat (BPR) Failures And Implications For Financial Sustainability

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Abstract - This study aims to identify the factors causing the failure of rural banks (BPR) in Indonesia and formulate financial sustainability strategies. Using survey methods and descriptive analysis, it was found that BPR failures were caused by a combination of internal and external factors. Dominant internal factors include poor asset quality with a non-performing loan (NPL) ratio above the threshold, weak governance, ineffective internal supervision, limited core capital, weak risk and compliance management, low human resource competency, and unstable financial performance. External factors include poor public reputation, delays in digitalization, and difficulties in industry consolidation. Strategies include strengthening governance, meeting minimum core capital requirements, improving asset quality through prudent credit analysis, BPR digitalization, strengthening human resources through certification and training, and industry consolidation. This study contributes by linking the analysis of BPR failure factors with the concept of financial sustainability, thereby strengthening the stability and role of BPRs in promoting national financial inclusion.

Keywords: BPR; Bank Failure; Financial Sustainability; NPL; Governance

1. INTRODUCTION

In the context of national financial system stability, Rural Banks (Bank Perekonomian Rakyat/BPR) play a strategic role as microfinance institutions that expand access to financial services for communities in regional areas. Through their intermediation function, BPRs contribute to enhancing financial inclusion and empowering local economies. However, over the past decade, the BPR industry in Indonesia has faced serious challenges, marked by the rising number of institutions whose business licenses have been revoked by the Financial Services Authority (Otoritas Jasa Keuangan/OJK). Data from the Indonesia Deposit Insurance Corporation (Lembaga Penjamin Simpanan/LPS, 2024) show that from 2015 to 2023, more than 150 BPRs failed and were liquidated due to various causes, including weak risk management, unsound credit distribution, and governance practices that did not adhere to prudential principles.

This situation raises concerns about the sustainability of Indonesia's microfinance system. The existence of BPRs is vital to supporting the national agenda for financial inclusion and sustainable development (SDGs), particularly in achieving the goals of "Decent Work and Economic Growth" and "Reduced Inequalities." The increasing number of BPR failures also reflects persistent weaknesses in supervisory mechanisms and internal management. According to the OJK (2023), most failed BPRs showed a sharp decline in financial indicators especially in Non-Performing Loans (NPL), Capital Adequacy Ratio (CAR), and Return on Assets (ROA). From a global perspective, the failure of microfinance institutions is not unique to Indonesia. The IMF (2022) notes that small-scale financial

institutions in developing countries are vulnerable to liquidity crises and default risks due to weak internal supervision and lack of asset diversification. The World Bank (2023) further highlights that microfinance sustainability depends heavily on risk governance, capital adequacy, and digital innovation. In the Indonesian context, the Asian Development Bank (2021) also warns that the competitiveness of local financial institutions may deteriorate rapidly if they fail to adapt to financial technology and digital transformation.

The failure of BPRs not only affects depositors and shareholders but also has broader social and economic implications. The closure of BPRs undermines public trust in the microfinance system, disrupts local capital circulation, and increases the risk of financial exclusion in rural areas. According to the OECD (2020), a loss of confidence in microfinance institutions can hinder regional economic growth by reducing the public's willingness to save and invest in formal financial entities. From an academic perspective, several previous studies have identified key factors behind BPR failures, such as weak internal supervision (Maswarni & Rachmawati, 2021), low operational efficiency (Kurniawati & Yusuf, 2022), and high NPL ratios (Oktaviani et al., 2019). However, most of these studies focus on a single dimension financial, managerial, or regulatory without linking them comprehensively to the concept of financial sustainability. In other words, there remains a research gap in understanding how internal and external factors simultaneously affect the financial sustainability of BPRs.

Based on this gap, the present study seeks to comprehensively identify the factors causing BPR failures from the perspective of financial sustainability. The approach adopted not only examines financial aspects but also explores governance, digital transformation, and the role of external supervision. Thus, this research aims to provide academic contributions by expanding theoretical understanding of financial sustainability in microfinance institutions, as well as offering practical recommendations for regulators and BPR management to strengthen institutional resilience against failure risks.

Beyond its academic contribution, this study also has practical significance for supervisory authorities such as OJK and LPS in formulating risk-based supervision policies that are more adaptive to BPR characteristics. For practitioners and BPR management, the findings are expected to serve as a foundation for developing strategies to strengthen governance, capital adequacy, and digital innovation to achieve business sustainability amid the dynamics of the national financial industry. Given these circumstances, this study posits that BPR failures are not driven by a single factor but rather by a combination of poor asset quality, weak governance, inadequate capital and liquidity, deficient risk management, and low human resource capacity. External factors such as delayed digital adoption, weak reputation, and consolidation challenges further exacerbate BPR vulnerabilities.

Therefore, a comprehensive strengthening strategy is needed. The key areas to be addressed include: (1) strengthening the governance of BPR Boards of Commissioners, (2) meeting minimum

core capital and prudent liquidity management requirements, (3) improving asset quality, (4) enhancing efficiency and competitiveness, (5) strengthening regular human resource capacity, and (6) reinforcing the economic scale of BPRs. Accordingly, this study not only focuses on analyzing the causes of BPR failures but also proposes strategic recommendations grounded in the concept of financial sustainability. These are expected to reinforce the role of BPRs in the national financial system and enhance their contribution to local economic development. Based on the above background, the main research problem identified in this study is determining which internal and external issues constitute the primary causes of BPR failures.

Internal problems include:

- A. Poor asset quality indicated by high non-performing loan (NPL) ratios above acceptable limits, due to non-prudent lending processes and concentrated financing in specific sectors;
- B. Weak corporate governance (Good Corporate Governance), especially due to non-independent Boards of Commissioners and Directors, ineffective internal supervision, and high potential for fraud;
- C. Inadequate capital and liquidity, as many BPRs have yet to meet minimum core capital requirements and maintain prudent liquidity management;
- D. Weak risk management and compliance, including reporting delays, violations of large exposure limits (BMPK), and the absence of adequate credit and operational risk detection systems;
- E. Limited human resource quality, characterized by low certification rates, lack of technical competence, and high employee turnover;
- F. Unstable financial performance resulting from low operating income, high operational costs (BOPO), and limited product diversification.

External problems faced by BPRs include:

- A. Reputation and public trust issues, which weaken their ability to attract third-party funds;
- B. Delayed adoption of digital technology, including outdated IT infrastructure, obsolete core banking systems, and weak cybersecurity;
- C. Industrial consolidation challenges, which hinder BPRs from achieving economies of scale and competitiveness amid regulatory and market pressures.

This study aims to answer the following research questions:

- a) What are the dominant internal and external factors causing BPR failures in Indonesia?
- b) How are asset quality, governance, capital adequacy, risk management, and external factors (technology, reputation, scale economy) related to BPR financial sustainability?
- c) To what extent do limitations in governance, core capital, human resources, and technology contribute to financial performance and public trust in BPRs?
- d) What strategies can be implemented by BPRs to reduce failure risks, improve asset quality, and enhance financial sustainability in the digital and competitive era?

The objectives of this study are to:

1. Identify and analyze the main factors causing BPR failures in Indonesia;
2. Analyze the relationship between internal problems (assets, governance, capital, risk management, human resources) and external factors (technology, reputation, scale economy) and their effects on BPR financial sustainability;
3. Develop a strategic recommendation framework covering governance strengthening, risk management, digitalization, capitalization, and industrial consolidation to reinforce BPR sustainability; and
4. Provide empirical contributions to the literature on microbank failures and financial sustainability strategies, focusing on BPRs as local financial institutions.

The novelty of this research lies in integrating the perspectives of failure and financial sustainability analyzing the causes of BPR failures and directly linking them to the concept of financial sustainability, which remains rarely discussed in BPR studies in Indonesia. This study combines internal factors (asset quality, governance, capital, risk management, human resources, financial performance) and external factors (technology, reputation, economies of scale) into a unified sustainability framework. Furthermore, it formulates concrete strategies such as strengthening governance, fulfilling core capital requirements, improving asset quality, digitalization, human resource development, and industrial consolidation as mitigation measures against failure and as pathways to enhance financial sustainability.

2. THEORETICAL FRAMEWORK AND PREVIOUS STUDIES

Theoretical Framework

Theory of Risk and Bank Failure

Bank failure is a multidimensional phenomenon influenced by a combination of financial, managerial, and external environmental factors. According to the Basel Committee on Banking Supervision (BCBS, 2022), bank failure occurs when a financial institution is no longer able to meet its financial obligations due to a decline in asset quality, liquidity, or capital adequacy. Diamond and Rajan (2011) explain that the mismatch between the maturities of assets and liabilities, along with weak control over credit risk, are primary triggers of banking crises. In the context of BPRs in Indonesia, credit risk dominates as the main factor driving performance deterioration. This is reflected in the increasing Non-Performing Loan (NPL) ratios among smaller BPRs that lack adequate risk control systems (OJK, 2023). Weaknesses in internal supervision further exacerbate the risks of fraud and moral hazard, particularly in BPRs that rely heavily on a single managerial figure (Maswarni & Rachmawati, 2021).

Theory of Corporate Governance (Good Corporate Governance)

The principles of Good Corporate Governance (GCG) serve as the fundamental framework for ensuring the sustainability of financial institutions. The OECD (2020) emphasizes that strong governance promotes transparency, accountability, and integrity in financial risk management.

According to the Forum for Corporate Governance in Indonesia (FCGI, 2022), sound governance practices also act as a safeguard against internal deviations that can lead to performance decline and reputational damage. In the context of BPRs, implementing GCG includes active oversight by the Board of Commissioners, an independent internal audit function, and a measurable risk reporting system. When these principles are neglected, BPRs become more vulnerable to failure due to non-transparent decision-making and weak risk management (Nurjannah & Wirawan, 2020; Hidayat & Zulkifli, 2021).

Theory of Financial Sustainability

Financial sustainability refers to a financial institution's ability to maintain long-term operations by balancing profitability, liquidity, and adherence to social and environmental principles (World Bank, 2023). According to Bieńkowski and Kacprzyk (2021), financial sustainability encompasses not only short-term survival but also the capacity to adapt to economic and regulatory changes. The Asian Development Bank (2021) highlights that digitalization plays a crucial role in enhancing the sustainability of microfinance institutions by improving service efficiency and adaptive risk management. Meanwhile, the IMF (2022) emphasizes that the sustainability of small financial institutions largely depends on capital resilience and the speed of technological adoption in response to global financial disruptions.

Theory of Operational Efficiency

Operational efficiency reflects a bank's ability to utilize resources optimally to generate income. Berger and Mester (2017) argue that efficiency is directly linked to profitability and institutional stability. In the case of BPRs, the BOPO ratio (operating expenses to operating income) serves as a key indicator of efficiency high BOPO values indicate excessive costs and weakened profitability (Kurniawati & Yusuf, 2022). Inefficient banks are more prone to liquidity crises and loss of depositor confidence (Alhassan et al., 2020). Therefore, improving operational efficiency not only enhances profitability but also strengthens institutional resilience against external risks.

Previous Studies

The Concept of Rural Banks (BPR) and Their Role in Microfinance

Bank Perkreditan Rakyat (BPR) are financial institutions authorized to collect public funds and redistribute them as loans, particularly to micro, small, and medium enterprises (MSMEs). BPRs play a vital role in promoting financial inclusion, especially in rural and semi-urban areas. Unlike commercial banks, BPRs face operational restrictions, such as being prohibited from accepting demand deposits (giro) or engaging in foreign exchange transactions (POJK No. 62/POJK.03/2020). Studies by Arsyad (2018) and Sutojo (2020) found that BPR success is strongly influenced by sound governance, effective risk management, asset quality, and adequate capital. However, OJK (2024) data indicate that numerous BPRs continue to have their licenses revoked due to internal and external issues signifying persistent weaknesses in fundamental management aspects.

The Perspective of Financial Sustainability

Financial sustainability is defined as a financial institution's ability to maintain long-term operations through sufficient revenue, operational efficiency, and effective risk management (Rhyne, 2019). In the context of BPRs, it involves maintaining adequate capital, asset quality, liquidity, and profitability to ensure continuous service delivery to the community (Ledgerwood, 2013). Studies by Meyer (2021) and Guttentag & Herring (2017) emphasize that the failure of small financial institutions, including BPRs, generally results from a combination of weak governance, poor asset quality, and vulnerability to economic shocks.

Factors Contributing to BPR Failure

Based on existing literature, several major factors contribute to BPR failures:

1 Weak Governance

Poor governance often arises from owner dominance, lack of board independence, and non-functioning key committees such as audit and risk management committees (Putri & Santoso, 2022). Lestari (2021) and Mulyadi (2020) found that weak governance increases biased decision-making and conflicts of interest. Weak Good Corporate Governance (GCG) implementation directly heightens fraud risks and reduces public trust (Wardhani et al., 2021).

2 Insufficient Capital and Liquidity

Core capital adequacy is essential for BPR sustainability (OJK, 2024). Studies by Prasetyo (2022) and Handayani (2021) reveal that BPRs with core capital below regulatory minimums face higher default risks. Poor liquidity management—such as mismatches between third-party funds and lending can worsen financial instability (Sundjaja & Barlian, 2020).

3 Poor Asset Quality (High NPLs)

High Non-Performing Loan (NPL) ratios are a key indicator of poor asset quality. Firmansyah (2020) and Nugroho (2021) found that NPLs exceeding 5% erode profitability and capital. The main causes include non-prudent lending and credit concentration in specific sectors (Wijaya & Sutanto, 2020). Similar findings by Supeno & Aminudin (2024) in Bali's BPRs and Putra & Hasibuan (2021) demonstrate that NPLs significantly affect both profitability and operational efficiency.

4 Weak Risk Management

Many BPRs lack adequate risk management structures, and implementation is often merely administrative (Kurniawan, 2021). As a result, credit, operational, and market risks are not identified early. Rahmawati (2020) and Haryanto (2019) note frequent violations of Large Exposure Limits (BMPK) due to poor compliance. Mudassir et al. (2022) and Hermawan et al. (2024) provide policy and procedural perspectives on BPR risk management, while Desda & Yurasti (2024) highlight the importance of limiting credit authority to reduce NPL ratios.

5 Delayed Adoption of Digital Technology

Sihombing (2021) reports that most BPRs still lack adequate core banking systems. Weak cybersecurity also increases the risk of fraud (Yuliana, 2020). OJK Institute (2022) and BPRNews.id (2024) confirm a significant gap between technological readiness and the digitalization needs of micro-banking services in user performance (SUPRANATA & Lailiyah, 2025).

6 Low Human Resource Competence

Human resource quality is a critical determinant of BPR success. Santosa (2021) found that low certification and training rates lead to poor credit analysis and weak risk management. High employee turnover further undermines operational stability (Saputra, 2020). Hernita & Qustolani (2022) and Pratiwi & Hartono (2021) stress the need for continuous training to improve professionalism.

7 Unstable Financial Performance

BPRs with limited operating income and BOPO ratios above 90% experience profitability pressures (Hadi & Wulandari, 2021). Lack of product diversification also hinders competitiveness. Maulana et al. (2021) found that operational efficiency (BOPO) significantly affects Return on Assets (ROA), while Yuwana et al. (2012) emphasize income diversification as essential for maintaining financial sustainability.

8 Reputation and Public Trust Issues

Internal fraud cases often trigger bank runs. Manurung (2020) and Setiawan (2021) note that low public financial literacy makes perceptions easily swayed by negative rumors. Ashari & Nugrahanti (2021) further argue that ethics and reputation are crucial for preventing fraud and maintaining customer trust.

9 Limited Economies of Scale

Most BPRs have a narrow market reach and struggle to compete with commercial banks or fintechs (Sari & Andriani, 2021). Consolidation efforts are often hampered by ownership conflicts (Budianto, 2020). Setiawan & Harto (2025) found that mergers can increase operational scale and efficiency, although their impact on profitability remains modest.

10 Weak Internal Supervision

Ineffective internal audits make operational deviations difficult to detect. Hermawan (2021) asserts that BPRs with weak internal audits are more prone to fraud and mismanagement. Paskhea (2024) concludes that strong internal auditing, supported by a healthy organizational culture, can significantly reduce fraud risks.

Most previous studies on BPRs have focused on single factors such as NPLs or capitalization without directly linking them to financial sustainability. Moreover, few studies employ a multifactor approach within an integrated conceptual framework. Therefore, this research seeks to fill this gap by analyzing ten key factors contributing to BPR failure and their comprehensive relationship with financial sustainability.

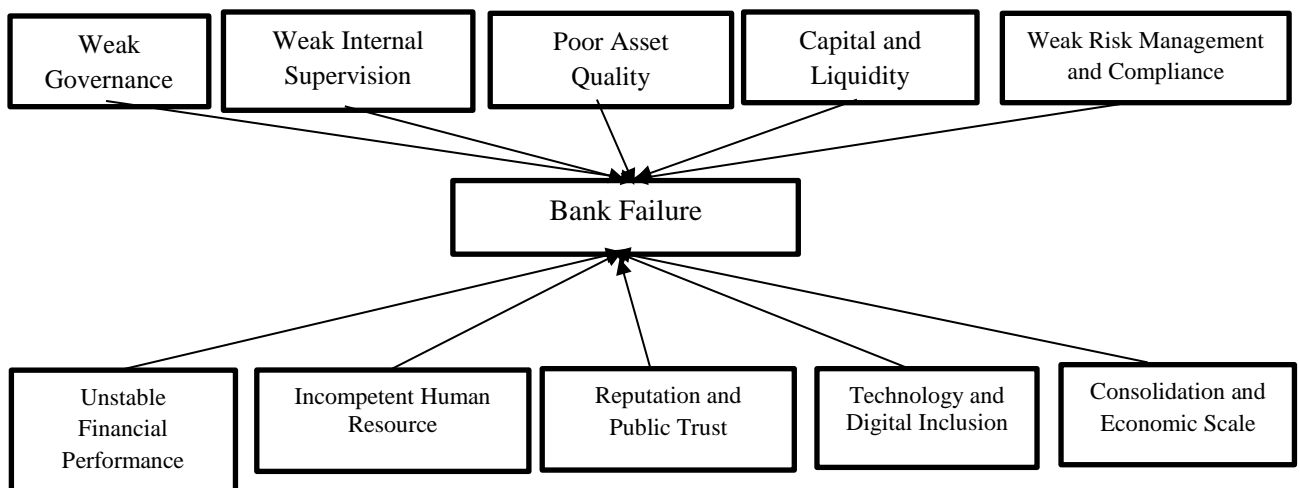
Conceptual Framework

This study develops a conceptual framework that links internal factors (risk management, governance, efficiency, and human resource competence) and external factors (digitalization, market pressure, and regulation) to the financial sustainability of Rural Banks (Bank Perkreditan Rakyat/BPR). The combination of these factors determines the ability of BPRs to maintain stability and prevent fraud risks. To manage risks and strengthen institutional resilience, BPRs need to implement a comprehensive strategy encompassing six key aspects:

First, Good governance serves as the fundamental basis for fraud prevention through transparency, accountability, and a strong culture of oversight (Wilson, 2015; Bawono & Setyaningrum, 2018). Second, Effective internal control must be applied through systematic supervision policies, access restrictions, and structured verification procedures (Setiawan & Baa, 2023; Purwasih, 2019). Strengthening firm and consistent anti-fraud policies also enhances awareness across all organizational levels (Surahman & Wang, 2022; Mulatsih, 2024; Suleiman, 2024). Third, an Ethical organizational culture should be cultivated to instill integrity and moral responsibility in work behavior, thereby reinforcing internal control mechanisms (Assegaf, 2017; Nareswari, 2024; Fatmawati & Putra, 2024).

Fourth, the Utilization of digital technologies, such as anomaly detection systems and artificial intelligence, enables early and accurate identification of potential fraud (Tritto et al., 2020; Ridwan et al., 2023). Fifth, a Secure and transparent whistleblowing system encourages early reporting of fraud indications (Alfian & Rahayu, 2018; Wardani & Sulhani, 2017). Sixth, Continuous human resource training and development enhance employee capacity to identify and prevent fraudulent practices (Harjo & Pramono, 2020; Assegaf, 2017). Through an integrated approach that combines governance, internal control, ethical culture, technology, whistleblowing mechanisms, and human resource training, BPRs can strengthen their fraud prevention systems and ensure long-term financial sustainability.

Picture 1. Conceptual Framework



3. RESEARCH METHODOLOGY

This study adopts a descriptive-qualitative research design utilizing thematic analysis to examine the financial sustainability of Rural Banks (BPR) in Indonesia. Data are collected from publications issued by the Financial Services Authority (OJK), banking industry reports, and case studies of BPRs whose operating licenses were revoked during the 2018–2024 period. The analysis process involves identifying, classifying, and interpreting key patterns within the data to reveal underlying issues affecting BPR performance. Subsequently, the identified problems are systematically categorized into ten principal factors that collectively influence the financial sustainability and operational resilience of BPRs within the observed timeframe.

4. RESULT AND DISCUSSION

Based on the research findings, the **informants’ profile data** are presented in **Table 1** below.

Table 1. Informant Data

Criteria		Amount	%	Criteria		Amount	%
Gender	Man	20	74%	Respondent Latest Education	Diploma	4	11%
	Woman	7	26%		Strata 1	19	78%
	Total	27	100%		Strata 2/3	4	11%
					Total	27	100%
Work Experience in Banking	Yes	24	89%	Ever Worked at a Liquidated BPR	Yes	14	52%
	No	3	11%		No	13	48%
	Total	27	100%		Total	27	100%
Length of Work in Banking	< 3 Year	3	11%	Experience as a Liquidation Team Member	< 3 Year	7	26%
	3 - 5 Year	3	11%		3 - 5 Year	8	29%
	5 - 10 Year	7	26%		5 - 10 Year	5	19%
	10 - 20 Year	10	37%		> 10 Year	7	26%
	>20 Year	1	4%		Total	27	100%
	Total	24	100%				
Experience as the Head of the Liquidation Team	< 3 Year	10	37%	Number of BPR Liquidation Processes Handled	< 3 BPR	11	41%
	3 - 5 Year	3	11%		3 - 5 BPR	9	33%
	5 - 10 Year	5	19%		5 - 10 BPR	5	19%
	> 10 Year	2	7%		10 - 20 BPR	0	0%
	Never	7	26%		>20 BPR	2	7%
	Total	27	100%		Total	27	100,00%

Source: Processed by the Author

Based on the data above, the informants who participated as respondents in this study totaled 27 people, with the majority being male (74%), holding a bachelor’s degree (78%), having previous experience working in banks (89%), having worked in liquidated banks (52%), having more than three years of experience handling BPR (64%), having handled the liquidation process of more than three BPR (59%), and having served as Head of the Liquidation Team (74%). According to the data above, the informants involved in this study are, in the Author’s view, highly competent to provide information regarding the problems faced by BPR, particularly those that have experienced failure.

Main Issues

Based on the data analysis, the problems faced by BPR can be grouped into several key indicators, namely asset quality, corporate governance, internal supervision, capital and liquidity, risk management, human resources, financial performance, digital technology, public reputation, and consolidation. Among all indicators, the three most significant problems are weak corporate governance, ineffective internal supervision, and poor asset quality (high Non-Performing Loans). These findings reinforce the conceptual framework presented in Chapter II, which emphasizes that the fundamental weaknesses of BPR are not only in financial factors but also in institutional and governance aspects (Wijayanti et al., 2022).

Table 2
BPR Problems

Variabel	Score
Governance	8,98
Weak Internal Control	8,87
Poor Asset Quality	8,79
Capital and Liquidity	8,45
Weak Risk Management and Compliance	8,33
Unstable Financial Performance	8,06
Incompetent Human Resource	8,02
Reputation and Public Trust	7,95
Tehnology Problem and Digital Inclusion	7,82
Consolidation and Economic Scale	7,59

Source : Processed by the Author

Based on the data analysis, the problems faced by BPR can be grouped into several key indicators: asset quality, governance, internal supervision, capitalization and liquidity, risk management, human resources, financial performance, digital technology, public reputation, and consolidation. Among all indicators, the three main problems are weak governance, ineffective internal supervision, and poor asset quality (high Non-Performing Loans, NPL). These findings reinforce the conceptual framework presented in Chapter II, which emphasizes that the fundamental weaknesses of BPR are not only financial but also institutional and governance-

related (Wijayanti et al., 2022). Governance Issues. Governance problems rank the highest with an average score of 8.98. This is reflected in the low independence of the Board of Commissioners and Directors (9.30), where many strategic positions are occupied by non-independent parties and even dominated by owners (8.89), reducing the effectiveness of supervisory functions. Furthermore, the inactivity of audit committees and risk management committees (8.74) further exacerbates institutional governance.

These findings are consistent with the literature, which indicates that weak governance is the root cause of low transparency and accountability in BPR (Wijayanti et al., 2022). Poor governance opens opportunities for fraud and conflicts of interest. Santoso (2021) emphasizes that board independence is a key factor in maintaining banking institutional stability. The survey results also align with research by Putri and Santoso (2022), showing that weak BPR governance stems from owner dominance, lack of board independence, and absence of crucial committees such as audit and risk management committees. Lestari (2021) and Mulyadi (2020) further reinforce this finding, concluding that weak governance increases the risk of biased decision-making and vulnerability to conflicts of interest.

Weak Internal Supervision. The next major issue is weak internal supervision, with an average score of 8.87 slightly lower than governance but still critical. This weakness is caused by inadequate internal controls (8.96) and ineffective internal audit functions (8.78). Many BPR still rely on undocumented manual processes, making tracking deviations difficult. This condition increases the risk of fraud and operational losses. These findings are reinforced by Prabowo and Simanjuntak (2020), who emphasize that internal audit effectiveness is crucial in preventing fraud in microfinance institutions. Hermawan (2021) also found that BPR with weak internal audits are more vulnerable to losses due to fraud and management errors. Paskhea (2024) highlights the importance of audit functions and organizational culture in strengthening internal controls. Effective internal auditing and positive organizational culture have been proven to significantly reduce fraud risks in BPR.

Poor Asset Quality (High NPL). Poor asset quality is the third major problem, with an average score of 8.79. The study shows that BPR undergoing liquidation have high Non-Performing Loan ratios (9.41), exceeding the OJK's maximum ideal limit of 5%. Additionally, non-prudent lending practices (9.41) worsen credit portfolio quality, as many loans are granted without adequate feasibility analysis or based solely on personal relationships. Moderate scores were observed for dependence on specific debtor segments (7.56), such as agriculture and traditional trade, leading to credit risk concentration. These findings are consistent with Arifin and Firmansyah (2021), who state that high NPL is the primary cause of BPR vulnerability in

Indonesia. Nugroho (2021) also emphasizes that high NPL is closely related to weak implementation of prudential banking principles.

To prevent asset quality deterioration, comprehensive reforms in credit analysis processes are needed so that BPR can maintain portfolio quality. This finding aligns with Firmansyah (2020) and Nugroho (2021), which indicate that NPL above 5% significantly pressures profitability and causes capital losses. Supeno and Aminudin (2024), through a case study of BPR in Bali, found a direct impact of NPL on profitability and asset quality. Putra and Hasibuan (2021) further demonstrate that NPL affects operational efficiency and financial performance of local BPR.

Other Supporting Issues. Beyond the three main problems, several supporting issues further worsen BPR performance.

Capitalization and Liquidity Issues. This problem has an average score of 8.44 (high category), indicating that many BPR have not met the minimum core capital requirement of IDR 6 billion (score 8.37) and face liquidity difficulties (score 8.52). This reflects weak capitalization, high operational costs, and low efficiency. These findings align with Prasetyo (2022) and Handayani (2021), stating that BPR with below-minimum capital are at high risk of default. Poor liquidity management, such as mismatches between third-party funds and credit disbursement, can worsen financial conditions (Sundjaja & Barlian, 2020).

Weak Risk Management and Regulatory Compliance. This issue has an average score of 8.33. Many BPR lack structured risk management systems (score 8.44) and show weak regulatory compliance, including violations of OJK requirements such as BMPK, interest rate transparency, and routine reporting (score 8.22). This affects performance stability. Weak risk management means BPR do not have early warning systems for credit or operational risks. Suryanto (2020) emphasizes that regulatory compliance is important in maintaining operational stability, reducing risks, and increasing customer and regulator confidence.

Unstable Financial Performance. Fluctuating financial performance is reflected in an average score of 8.06. High BOPO ratios (8.22) and low operational income (7.89) indicate weak efficiency and profitability. Indrawan (2020) explains that operational efficiency is closely related to BPR profitability. High operational costs are the main obstacle to achieving optimal efficiency. Therefore, better cost management and increased operational income are key to improving performance and BPR sustainability in a competitive market.

Limited Human Resource Competence. The human resource aspect scores an average of 8.02, consisting of limited staff capacity (8.44) and high turnover (7.59). This indicates weak HR management in BPR. High turnover shows a lack of retention of qualified personnel, while limited competence hampers operational optimization. Anisa and Darmawan (2021) emphasize that HR competence is a key factor in BPR success. Therefore, continuous training and effective retention policies are strategic steps to improve employee quality and productivity.

Weak Public Reputation. Reputation issues score an average of 7.94, with two main causes: high internal fraud cases (8.52) and low public financial literacy (7.37). High fraud rates reduce public trust, while low financial literacy hinders understanding of BPR products. Santoso (2021) emphasizes that financial literacy and strong institutional reputation significantly influence public trust. Therefore, BPR need to strengthen internal governance, improve public financial literacy, and build a transparent and trustworthy reputation. Delayed Digital Transformation and Financial Inclusion. Digitalization and digital inclusion score an average of 7.83. Most BPR are not yet adaptive to digital technology (7.74) and are weak in facing cyber security threats (7.89). Delayed digital transformation increases fraud risks, data leakage, and reduces competitiveness. Kusnadi and Rahmawati (2022) stress that accelerating digital transformation is critical to maintaining BPR sustainability and competitiveness in the technology era.

Consolidation Issues. The consolidation issue scores an average of 7.59, with main challenges including the small and dispersed size of BPR (7.37) and failed mergers (7.81). As of June 2025, thousands of BPR and BPRS operate mostly locally with limited competitive ability. OJK-led merger and acquisition efforts often face obstacles due to ownership differences, interests, and weak management support. These findings reinforce the literature, emphasizing the importance of consolidation, HR capacity improvement, financial efficiency, and digital transformation as key strategies to strengthen BPR competitiveness and sustainability

5. CONCLUSION AND RECOMMENDATIONS

This study concludes that BPR failures result from a combination of internal and external factors. The dominant internal factors include high Non-Performing Loan (NPL) ratios due to non-prudent lending, weak governance and lack of independence in management organs, inability to meet minimum core capital requirements, weak risk management and regulatory compliance, low human resource quality, and inefficient financial performance. External factors, such as low public financial literacy, delayed adaptation to technology, and inability to achieve economies of scale, further exacerbate the situation. The accumulation of these problems reduces BPR reputation and public trust, hindering its role in promoting financial inclusion.

Based on these findings, the study provides several strategic recommendations:

- A. **Strengthening Governance:** Improve board independence, establish audit and risk management committees, and apply prudential principles in credit decision-making.
- B. **Meeting Minimum Core Capital and Prudent Liquidity Management:** Ensure adequate capital and liquidity to enhance BPR financial resilience.
- C. **Improving Asset Quality:** Implement comprehensive business feasibility analysis for credit approval rather than relying on personal connections.

- D. **Digitalization of BPR:** Enhance operational efficiency, security, and competitiveness in the digital era.
- E. **Enhancing Human Resource Capacity:** Provide certification, continuous training, and incentives to reduce turnover and improve staff quality.
- F. **Industry Consolidation:** Promote mergers and collaboration to achieve stronger economies of scale and sustainable competitiveness.

By implementing these measures, BPR are expected to strengthen their strategic role in the national financial system, increase public trust, and serve as key drivers of financial inclusion in rural communities and MSMEs.

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