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Implementation of Collateral Auctions in Handling Non-Performing Financing at Bank Syariah Indonesia Area Collection Bandung

Faiz Nurfadilah¹, Kartika Legistari²¹Digital Business Study Program, Politeknik Piksi Ganesha, Bandung, Indonesia, faiznurfadilah12@gmail.com²Computerized Accounting Study Program, Politeknik Piksi Ganesha, Bandung, Indonesia, legistikartika@gmail.comCorresponding Author: faiznurfadilah12@gmail.com¹

Abstract: The growth of Islamic banking financing increases the need for effective mechanisms to resolve non-performing financing while protecting the rights of all parties. Previous studies mainly discuss restructuring, legal aspects, or collateral settlement in general, while detailed evidence on operational auction implementation at the area collection level remains limited. This study analyzes collateral-auction implementation, identifies implementation barriers, and describes the strategies used by Bank Syariah Indonesia Area Collection Bandung. A descriptive qualitative normative-empirical approach was used. Data were obtained through in-depth interviews with three key informants, direct observation, documentation, and review of relevant regulations, and were analyzed through data reduction, data display, and conclusion drawing. The findings show nine sequential stages, from early monitoring and restructuring to post-auction settlement. The main barriers involve administrative and legal completeness, market conditions, and customer socio-psychological factors. The institution responds through document control, coordination with the State Assets and Auction Service Office, asset reappraisal, digital marketing, legal assistance, and a humanistic approach. The novelty lies in an integrated operational description of the auction process, barriers, and mitigation strategies at the area collection level.

Keywords: Collateral Auction, Islamic Banking, Non-Performing Financing, Risk Management

INTRODUCTION

The development of the modern financial industry has increased the complexity of financing risk, including in Islamic banking. Financing is a core function of Islamic banks in channeling funds to the real sector, but it also creates exposure to non-performing financing, which can reduce asset quality, disrupt liquidity and profitability, and weaken public trust. Therefore, the management of non-performing financing is an important component of risk management and the operational sustainability of Islamic banks (Fauzi & Sugianto, 2024;

Ihyak & Suprayitno, 2023). In handling non-performing financing, Islamic banks apply both preventive and remedial measures. Preventive measures include feasibility analysis, collateral verification, monitoring of customers' businesses, and the application of prudential principles. Remedial measures may include collection, restructuring, negotiation, voluntary sale, and collateral execution. Collateral auction is used as a last resort when financing-rescue efforts are unsuccessful. From an Islamic banking perspective, this mechanism must comply with positive law while also maintaining justice, transparency, public benefit, and protection of customer rights (Amelia et al., 2024).

The execution of mortgage collateral provides legal protection to creditors when debtors fail to meet their obligations. Mortgage rights give creditors a preferential position to obtain repayment from the proceeds of collateral execution. Therefore, auction implementation is not merely an asset-sale action but part of risk governance that must be conducted gradually, transparently, and accountably (Furqon et al., 2024; Soraya, 2021). Bank Syariah Indonesia, as a national-scale Islamic bank, manages a large and diverse financing portfolio and therefore requires an effective and integrated system for handling non-performing financing. At the operational level, the Bandung Area Collection unit performs collection, restructuring, document preparation, coordination with the State Assets and Auction Service Office, and collateral execution in accordance with applicable regulations. The success of these processes is influenced by administrative readiness, legal clarity, asset-market conditions, and communication with customers.

The research gap lies in the limited number of studies that comprehensively explain how collateral auctions are implemented at the operational area-collection level. Previous studies tend to discuss non-performing financing settlement or collateral execution from broad or legal perspectives, while the detailed sequence of implementation, field barriers, and mitigation strategies within the collection unit have rarely been examined together (Vebrianti & Puteri, n.d.; Furqon et al., 2024). The uniqueness of this study is its normative-empirical approach, which connects auction and mortgage regulations with actual operational practices at Bank Syariah Indonesia Area Collection Bandung. Based on this gap, the study addresses three questions: how collateral auctions are implemented in handling non-performing financing, what barriers arise during implementation, and what strategies are used to overcome those barriers. Accordingly, the objectives are to analyze the auction implementation process, identify the main barriers, and describe relevant resolution strategies for Islamic banking practice.

METHODS

This study used a qualitative method with a descriptive normative-empirical approach. The qualitative approach was selected to obtain an in-depth understanding of collateral-auction implementation, implementation barriers, and the strategies used to address them. The normative component examined legal provisions and regulations related to collateral auctions, mortgage rights, and Islamic banking, while the empirical component examined how these provisions were applied in the operational practices of Bank Syariah Indonesia Area Collection Bandung. The research object was Bank Syariah Indonesia Area Collection Bandung, with a focus on the handling of non-performing financing through collateral auctions. The study was conducted from November 5, 2025 to January 5, 2026. Informants were selected purposively based on their direct involvement and knowledge of collection and collateral-auction processes. Primary data were obtained from three key informants: the Head of Area Collection and two Senior Collection Staff members.

Primary data were collected through in-depth interviews and observation, while secondary data were obtained from accessible internal documentation, scholarly articles, books, and relevant regulations. Interviews explored implementation procedures, barriers, and

strategies; observations were used to understand operational practices; and documentation was used to examine requirements, procedural stages, and administrative evidence related to auctions. Data were analyzed descriptively through data reduction, data display, and conclusion drawing. Information from interviews, observations, documentation, and regulatory review was compared to obtain a comprehensive picture of collateral-auction implementation. The findings were then organized into narrative and tabular forms to clarify the relationship between implementation stages, barriers, and mitigation strategies.

RESULTS AND DISCUSSION

Overview of the Research Object

Bank Syariah Indonesia is a national Islamic bank formed through the merger of PT Bank BRI Syariah Tbk, PT Bank BNI Syariah, and PT Bank Syariah Mandiri and officially began operations on February 1, 2021. The Bandung Area Collection unit performs financing-quality monitoring, active collection, handling of non-performing financing, and coordination of auction implementation with the Bandung State Assets and Auction Service Office. The study involved three key informants, as shown in Table 1.

Table 1. Profile of Research Informants

No.	Informant	Position	Institution	Method
1	Informant I	Head of Area Collection	BSI Bandung Suniaraja Branch	In-depth interview
2	Informant II	Senior Collection Staff	BSI Bandung Suniaraja Branch	In-depth interview
3	Informant III	Senior Collection Staff	BSI Bandung Suniaraja Branch	In-depth interview

Source: Primary data, interviews (2025).

1. Collateral Auction Implementation in Handling Non-Performing Financing

The Area Collection unit uses financing collectibility classifications as the basis for determining the level of intervention. Handling progresses from monitoring and persuasive approaches to restructuring, intensive collection, and collateral execution. The operational classification and corresponding actions are summarized in Table 2.

Table 2. Financing Collectibility Classification and BSI Area Collection Actions

Collectibility	Operational Category	Financing Position Indicator	Risk Status	BSI Action
1	Level 1 - Normal Monitoring	No arrears	Low	Routine monitoring
2	Level 2 - Special Attention	Initial payment delay	Moderate	Contact, reminders, and persuasive approach
3	Level 3 - Early Remedial	Repeated delays begin to occur	Higher	Restructuring and targeted collection
4	Level 4 - Advanced Remedial	Collection escalates and documents begin to be prepared for legal action	High	Intensive collection, formal warning, and

				collateral evaluation
5	Level 5 - Collateral Execution	Restructuring/negotiated settlement failed and the case is ready for auction execution	Very High	Auction application through the State Assets and Auction Service Office as a last resort

Source: Financial-services authority provisions and BSI internal procedures, processed by the researchers (2025).

Based on this classification, collateral auctions are positioned as the final option after restructuring and negotiated settlement have failed. Interviews and document review show that auction implementation does not occur as a single immediate action; instead, it proceeds through nine sequential stages designed to maintain prudential principles and legal certainty. These stages are presented in Table 3.

Table 3. Stages of Collateral Auction Implementation at BSI Area Collection Bandung

No.	Stage	Implementation Description	Supporting Basis/Principle
1	Monitoring and Early Detection	Identify financing quality, conduct initial communication by telephone or visit, and pursue persuasive negotiation.	Prudential principle and financing monitoring
2	Financing Restructuring	Rescheduling, reconditioning, or restructuring based on the customer's repayment capacity.	Regulatory provisions and financing-rescue principle
3	Intensive Collection	Field visits, cross-unit coordination, and preparation of legal documents.	BSI internal procedures
4	Formal Warning	Sequential issuance of Warning Letters I, II, and III as evidence of settlement efforts.	Civil law and mortgage- right provisions
5	Collateral Reappraisal	Independent appraisal to determine a reasonable auction reserve price.	Minister of Finance Regulation No. 122 of 2023 and Indonesian Valuation Standards
6	Auction Application	Submission of certificates, financing agreement, mortgage certificate, warning letters, and arrears	Article 6 of Law No. 4 of 1996

		evidence to the auction office.	
7	Auction Announcement	Public disclosure of the object, reserve price, bid security, and bidder requirements.	Transparency principle and Minister of Finance Regulation No. 122 of 2023
8	Auction Execution	Electronic auction through the official mechanism using the highest valid bid above the reserve price.	Auction officer and accountability principle
9	Post-Auction Settlement	Settlement of customer obligations, return of excess auction proceeds, and administrative ownership-transfer processing.	Justice principle and legal certainty

Source: Primary data (interviews and observations) and secondary data (regulations), 2025.

The nine stages begin with monitoring and early detection, followed by restructuring, intensive collection, formal warnings, collateral reappraisal, auction application, public announcement, auction execution, and post-auction administration. This structure confirms that the auction is the final stage of financing-risk management rather than an immediate response to payment arrears. The gradual approach is consistent with legal protection for creditors while preserving debtor rights during collateral execution (Furqon et al., 2024; Soraya, 2021). Document completeness is a critical prerequisite for auction submission. Interviews and document review show that required documents include the mortgage certificate, ownership certificate, financing agreement, collateral appraisal report, warning letters, customer identification, and proof of arrears. Their functions and common barriers are summarized in Table 4.

Table 4. Documents Required for Auction Submission and Common Barriers

No.	Document	Function	Common Barrier
1	Mortgage Certificate	Legal basis for mortgage execution	Not yet registered, data errors, or unfinished administration
2	Land Ownership Certificate	Proof of collateral ownership	Duplicate certificate, dispute, or data inconsistency
3	Financing Agreement	Legal basis of creditor-debtor relationship	Generally available but must match collateral documents
4	Collateral Appraisal Report	Basis for determining the auction reserve price	Difference between appraisal value and current market price
5	Warning Letters I, II, III	Evidence of prior persuasive settlement efforts	Customer difficult to contact or refuses to receive the letters

6	Customer Identification	Verification of debtor identity	Expired identification or inconsistent data
7	Arrears Evidence/Account Statement	Basis for calculating outstanding obligations	Usually complete but may require nominal reconciliation

Source: Primary data (Informants I, II, III) and Minister of Finance Regulation No. 122 of 2023, processed by the researchers (2025).

The findings indicate that mortgage certificates and collateral-appraisal reports are among the documents most likely to create barriers when registration, ownership data, or appraisal values are incomplete or inconsistent. This demonstrates that administrative quality at the initial financing stage can determine the smoothness of later execution. Auction implementation is therefore closely linked to document control, procedural compliance, and interagency coordination.

2. Analysis of Barriers to Collateral Auction Implementation

The study identified seven principal barriers grouped into three categories: administrative and legal, market and economic, and social and psychological. These barriers and their effects on the auction process are presented in Table 5.

Table 5. Barriers to Collateral Auction Implementation

No.	Category	Barrier	Effect on Auction Process
1	Administrative & Legal	Incomplete collateral documents, including unregistered mortgage certificates, disputed/duplicate certificates, or inconsistent identification data.	Auction submission is delayed and may require additional legal proceedings.
2	Administrative & Legal	Legal resistance by customers, including lawsuits intended to delay the auction.	Execution is suspended during litigation and legal costs increase.
3	Administrative & Legal	Long processing queues at the Bandung auction office due to high application volume.	Auction implementation is delayed and resolution time is extended.
4	Market & Economic	Low bidder interest, especially for poorly located assets or assets requiring renovation.	Repeated auctions, delayed asset recovery, and lower realization values.
5	Market & Economic	Gap between appraisal value and actual market price due to the time lag before auction.	Reserve price becomes less competitive and auction failure risk increases.
6	Social & Psychological	Customer psychological pressure, embarrassment,	Access refusal, potential damage to collateral, or

		fear of losing a residence, or perceived social-status decline.	community mobilization that obstructs the process.
7	Social & Psychological	Resistance from family or community members who perceive execution as unfair.	Social conflict and difficulty conducting field verification.

Source: Primary data, interviews and field observations (2025).

Administrative and legal barriers are the most complex because they involve document completeness, disputes or data inconsistencies, customer litigation, and processing at external institutions. These conditions can delay submission, increase litigation needs, and prolong the resolution of non-performing financing. Market barriers arise when bidder interest is low or appraisal values differ from actual market conditions, while social and psychological barriers relate to loss perception, refusal, and conflicts involving customers' families or communities. The findings show that successful resolution of non-performing financing is not determined solely by the legal validity of collateral execution. Administrative quality from the initial financing agreement, asset-market conditions, and communication capacity are equally important. Accordingly, non-performing financing resolution requires risk management that integrates legal, operational, market, and relational dimensions (Ihyak & Suprayitno, 2023; Fauzi & Sugianto, 2024).

3. BSI Strategies for Addressing Auction Implementation Barriers

Bank Syariah Indonesia Area Collection Bandung applies preventive and corrective strategies to address the identified barriers. Preventive strategies aim to avoid problems before an auction application is submitted, while corrective strategies are used once barriers have emerged. The strategies are summarized in Table 6.

Table 6. BSI Area Collection Bandung Strategies for Addressing Auction Barriers

No.	Barrier Addressed	BSI Strategy	Expected Result
1	Incomplete documents	Apply a document checklist from the financing-contract stage and conduct comprehensive verification before disbursement.	Maintain collateral-document completeness and reduce administrative barriers.
2	Auction-office queues and delays	Assign a liaison officer to monitor files and conduct routine coordination meetings with the auction office.	Shorten processing time from submission to execution.
3	Appraisal value vs. market price	Conduct reappraisal shortly before auction for assets in the waiting list and strengthen coordination with appraisers.	Ensure reserve price reflects current market conditions and reduce auction-failure risk.

4	Low bidder interest	Use social media, websites, local property-broker networks, and real-estate agents to market auction objects.	Increase bidder participation and reduce repeated auctions.
5	Customer legal resistance	Provide internal legal assistance, coordinate with bank counsel, and accelerate responses to lawsuits.	Accelerate dispute resolution and minimize litigation-related delays.
6	Customer socio-psychological impact	Use a humanistic approach, offer voluntary sale before auction, and apply empathetic communication.	Reduce resistance and social conflict while promoting a sense of fair treatment.
7	Return of excess auction proceeds	Apply clear procedures and return excess proceeds after all customer obligations are settled.	Apply justice principles and maintain customer trust and bank reputation.

Source: Primary data, interviews with Informants I, II, and III (2025).

The main strategies include document checklists from the financing-contract stage, pre-disbursement verification, routine coordination with the State Assets and Auction Service Office, reappraisal when market conditions change, digital marketing of auction assets, legal assistance, and a humanistic approach to customers. Voluntary sale before auction is also used to reduce resistance and create opportunities for more acceptable settlements.

Overall, the strategies indicate that effective auction implementation requires integration of administrative control, external coordination, market adjustment, and resolution-oriented communication. Justice and prudential principles remain fundamental because auctions are positioned as a final mechanism after restructuring and negotiation have failed.

The novelty of this study is its integrated description of the collateral-auction process at the Area Collection operational level, covering financing classification, nine execution stages, documentary requirements, three groups of implementation barriers, and field-level mitigation strategies. Unlike studies focusing only on legal aspects or restructuring, this study shows that successful collateral execution results from the interaction of regulatory compliance, administrative quality, market conditions, interagency coordination, and a humanistic approach to customers.

CONCLUSIONS AND RECOMMENDATIONS

Conclusion

Collateral-auction implementation in handling non-performing financing at Bank Syariah Indonesia Area Collection Bandung is conducted gradually through nine stages: monitoring and early detection, financing restructuring, intensive collection, formal warnings, collateral reappraisal, auction application, auction announcement, electronic auction execution, and post-auction administration. Auction is used only after restructuring and negotiated settlement fail. Implementation barriers fall into administrative and legal, market and economic, and social and psychological categories. The principal strategies include stronger document control, coordination with the State Assets and Auction Service Office, collateral reappraisal, digital asset marketing, legal assistance, and a humanistic approach. Therefore,

successful auction implementation depends on regulatory compliance together with administrative quality, market conditions, interagency coordination, and communication with customers.

Limitations

This study was limited to a single Area Collection unit in Bandung and used a qualitative approach with three key informants. Therefore, the findings reflect the operational context studied and cannot yet be generalized to all Bank Syariah Indonesia units or other Islamic banks. The study focused on implementation processes, barriers, and strategies and did not quantitatively measure the effect of auctions on non-performing financing ratios, resolution time, or asset-recovery rates.

Recommendations

Bank Syariah Indonesia should strengthen financing-document management from the contract stage through a more integrated administrative system, intensify coordination with the State Assets and Auction Service Office, and maintain up-to-date appraisal values and asset-marketing strategies. Collection officers' competencies in administration, communication, negotiation, and conflict resolution should also be strengthened. Future studies should include several operational areas or other Islamic banks and may apply quantitative or mixed-method designs to examine the relationship between auction implementation, non-performing financing, and asset recovery.

Author Contributions

The source manuscript does not specify the individual contributions of Faiz Nurfadilah and Kartika Legistari. This section should be confirmed by the authors before submission, for example by specifying contributions to conceptualization, data collection, analysis, draft preparation, and manuscript revision.

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