Article

Indonesia's Guarantee Industry Outlook

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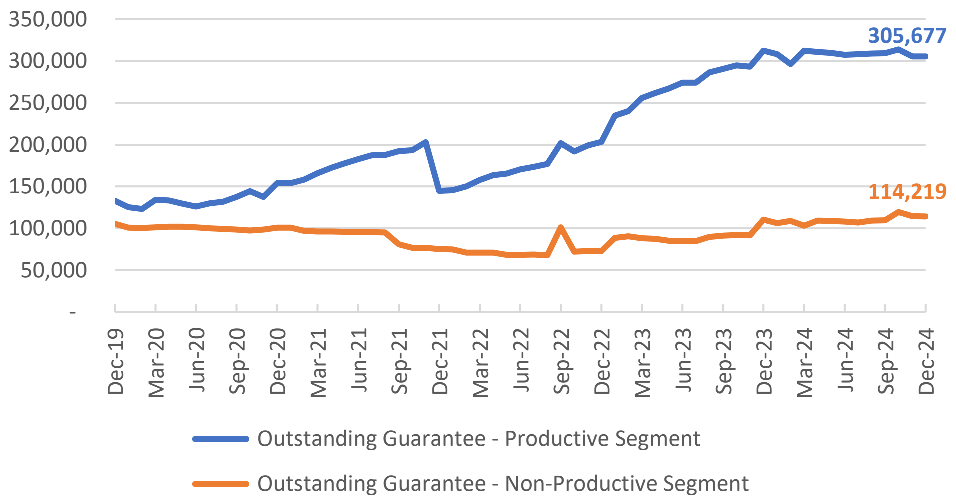
We view the outlook for the guarantee industry to remain stable over the short and medium term, highlighted by the expectation of positive growth of 5%-7% in 2025 despite a slight decline in outstanding guarantee volume by 0.7% Year on Year (YoY) as of FY2024, considering the strong potential demand and the industry's strong capitalization. However, the industry is exposed to a high potential claim ratio, particularly from the micro, small, and medium enterprises (MSME) segment, given its vulnerability to the macroeconomic conditions, which have not fully recovered. Currently, the guarantee industry comprises one state-owned entity with national coverage, seventeen regional guarantee companies (Jamkrida), two private conventional companies, and two full-fledged sharia guarantee companies. Of the Jamkridas, seven Jamkridas operate nationally, while the rest focus on regional markets, servicing their regions.

One of the industry's primary contributions to the economy is its support for government programs like Kredit Usaha Rakyat (KUR), which aims to improve credit access for MSMEs. Currently, ten guarantee companies are authorized to provide guarantees specifically for KUR products, emphasizing their critical role in expanding MSME financing. The industry's focus on the productive segment, which accounted for 72.8% of total guarantee volumes (IDR305.7 trillion) as of FY2024, aligns with the government's goal of fostering economic growth through MSME empowerment. The non-productive segment contributed 27.2% or around IDR114.2 trillion.

The industry's guarantee volume penetration remains modest relative to the scale of Indonesia's national banking sector. As of FY2024, guarantee volumes in the productive segment account for just 5.4% of national productive loans and 20.3% of MSME loans, underscoring significant room for expansion. Guarantee companies are designed to drive economic growth by addressing the financing gap faced by MSMEs, which are critical to Indonesia's economy. With MSMEs contributing 61% to the nation's Gross Domestic Product (GDP) and employing approximately 97% of the total workforce, the expansion of guarantee services can unlock their full economic potential, further catalyzing industry development and economic progress.

Graph 1. Outstanding National Guarantee (IDR billion)



Source: Otoritas Jasa Keuangan, processed by PEFINDO

Table 1. Outstanding Loan and Guarantee in Indonesia

	FY24	FY23	FY22	FY21	FY20
(IDR Trillion) National Outstanding Productive Loan	5,688.4	5,156.6	4,651.2	4,148.9	3,934.1
(IDR Trillion) National MSMEs Outstanding Loan	1,506.3	1,457.1	1,348.8	1,221.0	1,088.3
(IDR Trillion) Outstanding Guarantee - Productive	305.7	312.6	203.1	144.6	153.8
(%) Productive Guarantee to MSMEs Loan	20.3%	21.5%	15.1%	11.8%	14.1%
(%) Productive Guarantee to Productive Loan	5.4%	6.1%	4.4%	3.5%	3.9%

Source: Otoritas Jasa Keuangan processed by PEFINDO

The industry benefits from a strong capitalization base, as reflected in the national total gearing ratio of 22.9x, well within the regulatory limit of 40x. This ample cushion highlights the industry's ability to support business expansion and absorb growth opportunities. However, in the productive segment, the gearing ratio has reached 16.6x as of FY2024, approaching the regulatory ceiling of 20x. This constraint may limit the industry's capacity to scale its core operations in the productive segment, which is essential for driving MSME growth. To fully unlock the industry's potential, regulatory adjustments—such as easing the productive gearing ceiling—could provide greater flexibility for expansion. By enabling a more dynamic and growth-oriented approach, such reforms would significantly enhance financial support for MSMEs, further strengthening Indonesia's economic landscape.

Table 2. Gearing Ratio

	FY24	FY23	FY22	FY21	FY20
Gearing Ratio - Productive (x)	16.6	17.7	13.9	9.9	12.3
Gearing Ratio - Non Productive (x)	6.2	6.2	5.0	5.1	8.1
Gearing Ratio Total (x)	22.9	23.9	18.9	15.0	20.4

Source: Otoritas Jasa Keuangan, processed by PEFINDO

The industry faces several key challenges that impact its growth trajectory. One notable factor is the increase in claims following the pandemic, which has placed additional pressure on guarantee companies and affected lender's risk assessments, particularly towards MSME loans. Additionally, stricter KUR disbursement criteria under Permenko Perekonomian No. 1/2023 were introduced to enhance the program's effectiveness and ensure more targeted financing. However, these adjustments have led to a moderation in KUR disbursements compared to peak levels in 2022, partially contributing to a slowdown in outstanding guaranteed loans. To overcome these shifts, banks have adapted by expanding their offerings of unsubsidized MSME loans with terms similar to KUR, helping to maintain financing accessibility. While this shift helps sustain MSME credit availability, it also requires careful balancing to maintain loan affordability and effectively manage risk.

Table 3. National KUR Realization

IDR trillion	FY24	FY23	FY22	FY21	FY20	FY19
National KUR Realization	280.3	255.8	365.5	278.7	198.5	139.5

Source: Kemenko, processed by PEFINDO

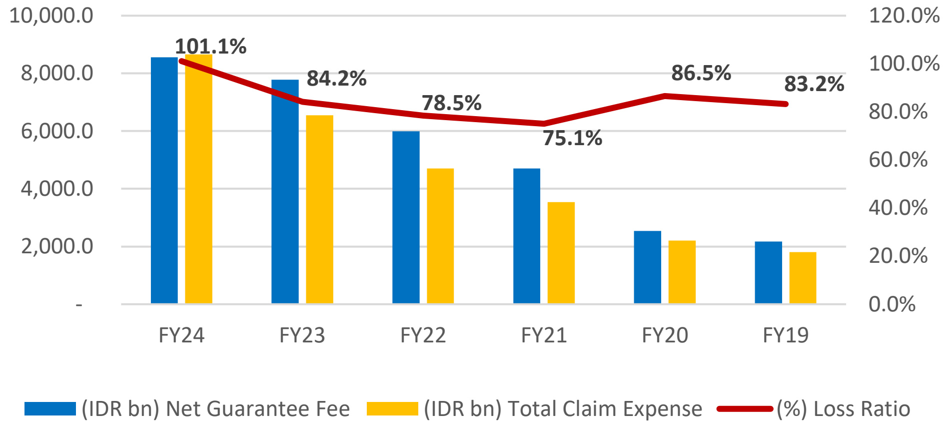
At the same time, the decline in outstanding guarantee volume was partly driven by the substantial write-off of MSME non-performing loans (NPLs). As of FY2024, outstanding guarantee volume contracted by 0.7% YoY, primarily due to a 2.2% YoY decline in the productive segment, even as the consumer segment grew by 3.5% YoY. Banks accelerated the write-off of MSME-related NPLs to clean up their loan books, particularly as the pandemic-era loan restructuring relaxation expired. For instance, BRI, which held a dominant 59.8% market share in national MSME loans as of FY2024, wrote off approximately IDR36.7 trillion in MSME loans, up from IDR29.2 trillion in FY2023. Since guarantee exposure is closely tied to loan performance, these NPL write-offs led to a decline in outstanding guarantees as claim payments were settled and removed from guarantee portfolios. While this process enhances asset quality over the long term, it temporarily suppresses growth in the guarantee industry.

Pressure in the operating performance

Another significant challenge is maintaining robust operating performance, as the substantial exposure to the micro, small, and medium enterprise (MSME) segment inherently carries higher credit risk, which is often elevated during periods of economic downturns. The end of the relaxation period has brought these vulnerabilities to the forefront. As claims surged following the relaxation period's end in 2024, the industry's financial stability has been further compromised. The loss ratio, one of the key metrics of operating performance, escalated to 101.1% in FY2024, compared to 84.2% in FY2023 and 78.5% in FY2022. This deterioration underscores the increasing pressure on the industry's profitability, as net claims exceeded the guarantee fee generated.

This loss ratio worsening trend signals the significant strain the industry is under, affecting its capacity to underwrite and manage risks associated with its primary business segment. An underlying key issue is the long-standing misalignment between guarantee fees and risk exposure. Despite the high claim rates associated with MSME guarantees, the industry's ability to adjust fees according to the risk exposure is limited. This challenge is particularly evident in government-backed programs such as Kredit Usaha Rakyat (KUR), where fees are regulated and have not been revised since 2007, putting guarantee providers in increasingly challenging situation in dealing with rising credit risks and maintaining their financial stability.

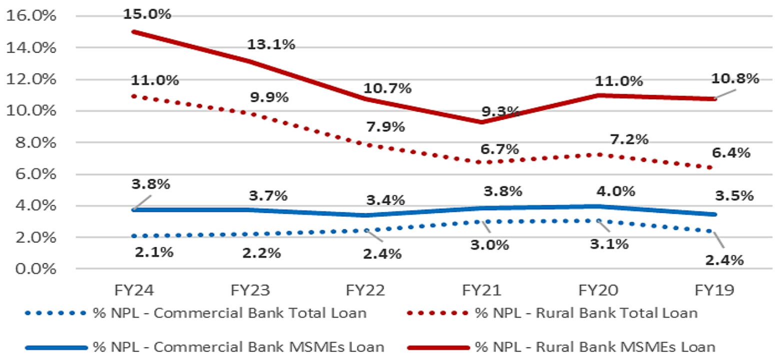
Graph 2. Guarantee Industry Loss Ratio



Source: Otoritas Jasa Keuangan, processed by PEFINDO

The rise in claims within the guarantee industry has closely mirrored the increasing trend of non-performing loan (NPL) ratios in the MSME sector across commercial and rural banks. In commercial banks, the MSME NPL ratio climbed to 3.8% as of FY2024, up from 3.7% in FY2023 and 3.4% in FY2022. Meanwhile, rural banks exhibited a significantly higher MSME NPL ratio of 15% in FY2024, rising from 13.1% in FY2023 and 10.7% in FY2022. These figures reflect the growing financial stress faced by MSMEs, which in turn poses challenges for guarantee companies. Guarantee institutions are crucial in supporting economic growth and government initiatives by underwriting higher-risk businesses, including those in underserved communities. However, this developmental mandate, given its increasing risk exposure, must be balanced by stronger risk mitigation measures, or else it will significantly impair the industry's operating performance.

Graph 3. Banking Non-Performing Loan Ratio



Source: Otoritas Jasa Keuangan, processed by PEFINDO

Guarantee companies have tried to improve operational performance through enhancement of the underwriting process, intensifying subrogation efforts, and implementing stop-loss strategies. While these initiatives represent progress, they are unlikely to yield immediate results, as they are implemented for future guarantee policies, not affecting existing policies. Structural constraints, particularly in government-related programs, further limit the flexibility of guarantee companies to adjust fees commensurate with risk. These programs often operate within parameters set by policymakers, leaving little room in the short term for adaptive pricing strategies. Unlike the insurance sector, which has implemented mandatory risk-sharing mechanisms—particularly in credit insurance—the guarantee industry still lacks such systems. This absence may expose guarantee companies to higher risk concentrations without sufficient mitigating measures.

In response to the challenges faced by the guarantee industry, regulators have begun exploring several policy measures to strengthen the sector’s resilience and long-term sustainability. The introduction of risk-sharing mechanisms, similar to that used in the insurance sector, would help distribute risk more evenly and revitalize the guarantee industry. A possible evaluation of the productive gearing ceiling is also necessary to allow the industry to optimize its business capacity in supporting economic development. Additionally, adjustments to the pricing for government-backed programs are crucial. Aligning fees more closely with the actual risks involved would improve financial sustainability while preserving the industry’s role in fostering economic growth.