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Performance guarantee: Banking guarantee for large and Bonafide Companies

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Abstract: The current conventional guarantee system is fundamentally unfair in that prospective debtors who are large *(bonafide)* companies, have good intentions in repaying credit, and have a good track record are treated the same as prospective debtors who are small companies with bad intentions in terms of their obligation to provide bank credit guarantees. The provision of bank credit collateral for large companies with good intentions is very detrimental, reducing competitiveness and constituting an *unnecessary cost*. The Performance Guarantee System was developed from the 5 C Analysis, primarily using both qualitative and quantitative analysis techniques. In the 4 Cs (*Capital, Capacity, Character, and Condition of Economy)*, if the quantitative analysis is feasible, then according to this theory, collateral is no longer necessary. Based on the credit policy established by the OJK, all bank loans must be secured, so this new guarantee is only a performance guarantee because, based on in-depth analysis, it is estimated that the project will run smoothly. According to the Performance Guarantee System Theory, the possibility of loan defaults is small, which means that the possibility of the guarantee being auctioned is also small. Thus, the object of this guarantee can be physically demonstrated and calculated in monetary terms.

Keywords: *Legal management, Manual system, Performance collateral.*

1. Introduction

In banking practice in Indonesia, the current credit guarantee system still refers to a conventional paradigm that is not entirely relevant to the dynamics of modern business needs. Prospective debtors, whether small or large companies, are still burdened with collateral requirements even though they have proven to have strong business performance and a bona fide track record. This equal treatment is considered unfair because it ignores the principle of distributive justice, whereby different entities should be treated differently according to their capacity and track record. Large companies that have proven their ability to repay their credit obligations still have to provide collateral, which should no longer be necessary if risk analysis is carried out properly. This reflects a collateral system that prioritizes legal certainty for banks without considering substantive fairness for debtors [1]. This provision has an impact on increasing business costs and reducing the competitiveness of national companies. Therefore, reforming the legal paradigm of bank credit collateral is an urgent need.

Collateral such as land, buildings, and vehicles in large projects has proven to be disproportionate in terms of value and effectiveness of execution. Large infrastructure projects in Indonesia, such as toll road projects, experience fluctuations in value due to the dynamics of material and land prices, which render collateral irrelevant [2]. In fact, these changes often require complex and time-consuming revisions to credit and collateral agreements, which are costly. In addition, risks to collateral objects, such as damage due to natural disasters or social unrest, add to the challenges in the use of collateral [3]. National strategic projects are also often disrupted by sociopolitical dynamics that affect the security and value of collateral. The long duration of projects causes collateral to depreciate or change in purpose, making execution difficult. In this context, the performance guarantee approach is a relevant

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solution because it focuses on the feasibility of the business and the sustainability of the debtor's business.

Performance collateral is a new approach based on modern risk management principles and in-depth analysis of the five main aspects of credit granting, namely character, capacity, capital, business conditions, and collateral (5Cs). This analysis is not only quantitative but also qualitative, providing banks with objective confidence regarding the potential success of the funded project [4]. When the 4C aspects other than *collateral* have been met, then basically collateral is no longer needed. In practice, many banks such as Bank Mandiri and Bank Panin have begun to consider performance aspects such as turnover and business track record, although they have not completely abandoned collateral [5]. This shows that the idea of performance guarantees has gained ground in practice, even though it does not yet have a clear regulatory basis. Therefore, more adaptive and progressive regulations are needed to legitimize the performance approach. The success of this paradigm depends heavily on the courage of regulators and industry players to carry out systemic transformation.

Philosophically, the performance guarantee system is in line with Aristotle's principle of justice, which emphasizes different treatment for legal subjects with different capacities and conditions [6]. Bonafide debtors with good track records should not be burdened with heavy collateral requirements that are irrelevant to their business conditions. Conversely, new companies that do not yet have strong credibility need to be subject to stricter supervision through conventional guarantees. This shows that the performance guarantee system is a hybrid approach that balances normative and business considerations. In addition, this approach creates incentives for companies to continuously improve their performance in order to obtain lighter financing facilities. This strategy is not only cost-efficient, but also strengthens a healthy and accountable business culture. In the long term, this system has great potential to increase the competitiveness of national companies.

The current legal problem is the absence of explicit regulations regarding the performance guarantee system in national banking regulations. Law No. 7 of 1992 concerning Banking, even after the latest revision in Law No. 4 of 2023, still adopts the traditional guarantee paradigm [7]. In fact, countries such as Malaysia and Singapore have adopted a credit risk management system that is oriented towards business performance, not merely collateral value. This has caused Indonesia to lag behind and become less competitive in the regional AEC competition framework. As a result, national companies face administrative and financing burdens that are disproportionate to their actual risks. Therefore, the recognition and legalization of performance guarantee systems by authorities such as the OJK is very important. This step not only aligns regulations with modern banking practices but also encourages the creation of a more equitable and efficient financing model. Progressive regulations will support inclusive financing that favors business sustainability.

From a macroeconomic perspective, performance guarantee systems can also strengthen the national financial system by increasing trust between banks and debtors. Based on business performance and feasibility, banks will have a more strategic position in supporting sustainable economic growth [8]. This approach is in line with the principle of equitable development that emphasizes efficiency, transparency, and accessibility of financing. If implemented systematically, this approach can reduce the potential for non-performing loans because debtor selection is carried out more accurately and objectively. Banks will also have a new role as strategic partners of debtors in business development. This transformation will strengthen the intermediary role of banks and enhance the socio-economic function of financial institutions. Therefore, reforming the guarantee system is not only a legal necessity but also an economic necessity. Performance guarantees are one of the most promising instruments of modernization.

The traditional guarantee system is still maintained because it is considered to guarantee legal certainty for banks, when in fact it actually hinders efficiency. This approach focuses too much on asset protection and ignores the value of business potential [9]. In the era of the Industrial Revolution 4.0, which is characterized by accelerated innovation and digitalization, this type of guarantee system is irrelevant. Technology-based companies with high valuations but no fixed assets will be excluded from

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conventional financing systems. Performance-based collateral systems address this need by assessing *intangible* assets such as IP, equity, and market potential. Thus, performance-based collateral is not only relevant but essential in creating financial inclusion in the modern business sector. Banks must adapt immediately to avoid being left behind by more adaptive non-bank financial institutions.

In an international context, countries such as Malaysia regulate credit risk management systems that balance quality, profitability, and growth through Bank Negara Malaysia (BNM) policies [10]. Meanwhile, Singapore, through *the Monetary Authority Guidelines*, implements comprehensive supervision of the risks and performance of financed companies. In both systems, collateral is not the only key parameter. Instead, business feasibility assessments are the dominant criteria in credit decision-making. This system also allows for periodic and flexible evaluations of debtor performance. Indonesia can emulate this approach by adapting it to national legal and economic characteristics. This adjustment will accelerate the adaptation of national banking to the challenges of the digital economy and global competition.

This new paradigm in credit collateral paves the way for the transformation of banking from a traditional intermediary institution to a modern financial entity oriented towards service and collaboration. The implementation of a performance guarantee system can encourage banks to become proactive, innovative, and responsive institutions to the dynamics of the business world [11]. This will not only improve the image of national banking, but also expand the customer base from strategic sectors. Companies with good performance will be more interested in working with banks that have modern guarantee systems. Therefore, the performance guarantee system is a middle ground between risk protection and business empowerment. This paradigm supports the realization of a fair and sustainable financing system. In the long term, this transformation will be the driving force behind national economic growth.

The transformation of the guarantee system in Indonesia's banking industry cannot be separated from the reform of the underlying institutional structure and legal culture. Changes are not only needed in regulatory aspects, but must also touch on the mindset of financial industry players, including government officials who are regulators. Collective courage is needed to leave the comfort zone that is no longer relevant to the challenges of the times. Banks must have the courage to adopt a performance-based risk assessment system, while the government and supervisory agencies must provide full support through progressive and flexible regulations. This is important so that banks are not left behind by financial innovations offered by non-bank institutions that are more agile in absorbing technology. If the performance guarantee system can be implemented consistently and proportionally, we will witness the birth of a new financing ecosystem that is more efficient and fair. Indonesia will be able to compete in the ASEAN region and even globally with a superior and measurable performance-based financial model.

The readiness of information technology and digital system integration in the financial sector is also a key pillar in supporting the performance guarantee system. *Big* data-based analytical platforms, digital credit rating systems, and real-time connectivity between financial institutions must be developed immediately. Through this digitalization, banks will no longer assess customers statically, but dynamically according to their track record and actual performance, which is continuously updated. Such innovations require long-term investment and cross-sector coordination, but the benefits will be enormous for the resilience of the national financial system. In the long term, this approach will also promote transparency and reduce opportunities for rent-seeking and collusion in credit distribution. With a data-driven system, decision-making processes become more objective, accountable, and free from subjectivity. Therefore, digitization and performance guarantee systems must go hand in hand as the foundation of a fair and competitive modern economy.

In addition, it is important to establish a business ethics framework that supports performance guarantee system practices. In this case, the values of integrity, social responsibility, and legal compliance become an inseparable moral foundation for the success of this new system. Banks are not only institutions that pursue profits, but also stakeholders who have a responsibility for social stability and national economic development. A performance guarantee system, if accompanied by ethical commitment and good governance, will strengthen the position of banks as true agents of development. The culture of legal quality that has been developed in the corporate and government sectors needs to be adopted by the banking sector as a new standard of professionalism. With this holistic approach, the transformation of the guarantee system will not only create technical changes, but also changes in values within the national financial ecosystem. This is an important moment to reunite economic, social, and legal interests in a dignified national financing system.

Thus, the performance guarantee system is not only intended to change credit guarantee methods, but also to reshape the way of thinking, doing business, and being responsible in the Indonesian banking sector. Through the redesign of the functions, objectives, and guarantee system, national banks are encouraged to transform into more responsive, innovative, and inclusive institutions. These changes will have a systemic impact on economic stability, financial inclusion, and national competitiveness. This reform must be part of Indonesia's future economic development strategy, especially in the face of global competition and digital integration. Therefore, the successful implementation of the performance guarantee system will be a benchmark for the extent to which this nation is able to build a banking system based on fairness, accountability, and sustainability. The future of Indonesia's financial system lies in our courage to transform today.

1.1. The Position of Indonesian Banks in Credit Distribution for Large-Scale Project Financing Compared to Banks in Singapore and Malaysia

In the era of the 4.0 industrial revolution, rapid technological advances have prompted corporations to make fundamental changes to their business models in order to survive and compete. Today's companies are no longer judged by the size of their capital or the number of business areas they operate in, but by their ability to adapt to change and adopt the latest technology. Smart industries, cyber-physical systems, and a focus on social responsibility are important elements in business sustainability [12]. In this context, the banking system is required to play an active role as part of the business support ecosystem, rather than becoming a bureaucratic obstacle. The conventional credit guarantee system makes banks less attractive to large businesses. Speed and efficiency are the main requirements of today's business world. Therefore, Indonesian banks need to immediately adapt to the changing times by carrying out comprehensive reforms [13].

As intermediary institutions, banks play a vital role in channeling funds to productive sectors and driving economic growth. Unfortunately, the credit guarantee system implemented in Indonesia still burdens debtors with high collateral requirements and lengthy administrative processes. These procedures are not in line with the principles of efficiency required by large companies in the digital era [14]. Meanwhile, non-bank financial institutions such as *fintech* have offered more flexible, faster, and less bureaucratic financing models. This poses a serious threat to conventional banking. Performance-based guarantees and business track records are approaches that are more in line with the dynamics of modern business. However, this approach does not yet have a strong legal basis in Indonesia. The OJK, as the authority, needs to move quickly to formulate supporting regulations [15].

Advances in information technology have given rise to various forms of alternative financing such as *crowdfunding* and *peer-to-peer lending*. These systems allow people to provide financing to each other without going through conventional banking procedures [16]. Although there are still challenges in terms of legal and data security, flexibility and efficiency are the main values offered. On the other hand, banks still adhere to traditional procedures that are not adaptive to the times. This imbalance makes banks less competitive, especially in attracting middle and upper class customers. Business reengineering is an urgent need to update bank business processes to remain relevant. If this is not done immediately, banking institutions risk being abandoned by large business players [17].

One form of *business reengineering* is the development of a data- and business performance-based guarantee system (Table 1.). However, in reality, the implementation of this system in Indonesia is still very limited. For example, the fiduciary registration system at the Ministry of Law and Human Rights is still in the early stages of digitization and has not yet touched on the substance of the credit agreement process [18]. Large companies that operate digitally require fast and efficient processes, which conventional guarantee systems cannot yet fulfill. As a result, they choose more flexible foreign financing institutions. This indicates the potential loss of strategic customers for national banks. Therefore, performance guarantee systems must be formally institutionalized so that banks can provide services in line with the needs of the business world [19].

Field research at Bank Mandiri and Bank Panin shows that although performance guarantees are beginning to be considered, both banks still require collateral as a main condition. In practice, the debt ratio and fixed asset value are still the main references in granting credit [20]. Indicators such as turnover, *pre-orders*, and *invoices* are used only as supplements and have not replaced conventional guarantees. This is because there are no explicit regulations governing the use of performance guarantees. Credit ratings from independent institutions are used, but they are still combined with fixed asset assessments. This legal uncertainty has prevented the optimal implementation of performance guarantee systems. Therefore, banking laws need to be revised to be more adaptive to financial innovation [21].

Banks in Malaysia and Singapore have already developed modern and effective credit risk management systems. In Malaysia, Bank Negara Malaysia requires banks to develop annual credit risk strategies that consider the balance between credit quality, profitability, and growth [22]. Credit evaluations are conducted using a scenario approach that covers potential losses, not just potential profits. Singapore implements similar standards through *Monetary Authority Guidelines* that regulate the formation of senior risk committees and periodic credit evaluations [23]. Collateral is only a supplement and does not replace comprehensive risk analysis. This approach strengthens the resilience of the financial systems in both countries. Indonesia needs to learn from this model to improve the competitiveness of its national banking sector at the regional level [24].

Table 1.
Conventional vs. Performance-Based Credit Guarantee Systems.

Aspect	Conventional Guarantee (Collateral-Based)	Performance-Based Guarantee
Main Reference	Fixed assets, debt ratio	Turnover, invoices, pre-orders, financial ratios
Process	Lengthy, bureaucratic, asset-heavy	Faster, flexible, data-driven
Legal Basis in Indonesia	Strong, codified in banking law	Weak, no explicit regulations
Competitiveness	Less adaptive to digital economy	Aligned with Industry 4.0 dynamics
Risk	Burdens debtors, discourages large firms	Better reflects real business capacity

Table 2.
Comparative Practices in Selected Jurisdictions

Jurisdiction	Approach	Key Features
Indonesia	Collateral-dominant with some performance indicators	Legal uncertainty, banks (Mandiri, Panin) still prioritize fixed assets
Malaysia	Bank Negara Malaysia risk strategy	Scenario-based evaluation, collateral only supplementary
Singapore	Monetary Authority Guidelines	Senior risk committees, periodic credit evaluations, comprehensive risk analysis
Global (LMA)	Performance-based financing scheme	Debt-to-equity, interest cover, cash flow ratios as primary indicators

Although the term performance guarantee is not formally recognized in the Indonesian legal system, some elements of this concept have been applied to a limited extent in practice. The use of performance indicators such as turnover, *invoices*, and *purchase orders* has become part of credit analysis, especially for large-scale financing [25]. However, this approach does not have strong legal force and is therefore vulnerable to changes in internal bank policy. Many entrepreneurs complain that double standards are still applied, whereby good performance alone is not enough without collateral. In the global context (Table 2.), institutions such as *the Loan Market Association* (LMA) have implemented a

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comprehensive performance-based financing scheme [26]. They use financial ratios such as *debt to equity*, *interest cover*, and *cash flow* to assess creditworthiness [27]. Such a system is more relevant to the dynamics of modern business.

For a performance-based collateral system to be implemented effectively, comprehensive legal reforms are needed. This includes changes to the regulatory structure, simplification of procedures, and improvement of the capacity of banking human resources. Regulations need to set criteria for companies that are eligible for performance-based credit without collateral requirements [28]. Nevertheless, the 5C principle remains important and should be used as the basis for evaluation. *Collateral* can be replaced by verifiable performance indicators, such as audited financial statements, credit scores, and business projections. Cooperation with independent rating agencies is also a strategic step to reduce risk. Thus, the performance guarantee system can run parallel to the principle of prudence [29].

The guarantee system can be classified into four levels based on the readiness of banks and debtors to adopt a performance-based approach. The first level still relies entirely on collateral. The second level is a combination of collateral and some performance indicators [30]. The third level prioritizes performance as the main basis, with collateral as an administrative requirement. Meanwhile, the fourth level fully implements a performance-based guarantee system without the requirement for collateral. Based on field data, Indonesia's national banking sector is at the second level. To jump to the fourth level requires legal, systemic, and cultural readiness [31]. Therefore, a phased approach is more realistic and controllable [31].

A performance guarantee system with a "good" classification is the most suitable model to be applied in the current national banking context. This model still accommodates the aspect of collateral in accordance with regulations, but gives greater weight to the performance of the debtor's business [32]. Reforming this system requires clear regulatory support, strengthening of the internal audit system, and risk management training. Quality standards such as ISO 9001 can also be used to validate business performance. In the long term, this system will pave the way for a pure performance guarantee system. Therefore, a gradual approach is highly recommended to maintain the stability of the financial system. This reform will strengthen the business world's confidence in Indonesian banking [33].

1.2. Justification for Performance Guarantee Regulations as Credit Guarantees for Large-Scale Project Financing

In the practice of lending by banks, all prospective debtors, without exception, are required to provide collateral whose value exceeds the loan ceiling and must be executory. Interestingly, this provision is applied uniformly to both large, well-established, and bankable corporations and small entities that *are* only commercially *feasible*. This shows an approach that does not consider the fundamental differences between borrowers' capacities, thus creating structural injustice. In many cases, large corporations that should be more trusted are treated the same as new entities that do not yet have a track record [34]. This paradigm reflects the traditional collateral system mindset, which is based on banks' fear of default risk rather than a rational assessment of borrower credibility.

The structural injustice arising from this equalization reinforces a system that tends to be exclusive and unadaptive to variations in debtor characteristics. This system not only burdens financially sound corporations, but also fails to support new entrepreneurs who are developing. In practice, debtors who are business-feasible but not yet bankable are often forced to provide collateral beyond their means. If credit is still granted with such a collateral scheme, the likelihood of non-performing loans will increase significantly, and in many cases will end in business failure and loss of assets through collateral auction [35].

Meanwhile, *bankable* debtors are also not immune to the pressures of the system. They must provide assets as collateral, even though they have demonstrated business viability and a good payment track record. This requirement has the potential to disrupt *the* internal *cash flow* of corporations and weaken their solvency. According to Saragih, an excessive emphasis on physical collateral not only limits the debtor's room for maneuver, but also distances banking from the principles of strategic partnership that should be fostered in a healthy financing ecosystem [36]. This is where the current system appears to be more capitalistic and liberal in its approach, without favoring economic justice in line with the values of Pancasila.

In the context of the 4.0 industrial transformation, banks are required to undergo *business reengineering*. Major changes in the industrial ecosystem, such as the use of *cyber-physical systems* and *the Internet of Things* (IoT), also require a transformation from a collateral system that was originally based on physical assets to a performance-based collateral system [37]. The first step is to change the perspective on the function of collateral itself. It is no longer merely a tool to cover bank losses, but a form of synergy between banks and debtors in achieving common economic goals. This paradigm brings banks to a more active role in assessing and fostering debtor businesses.

The performance-based collateral system paradigm emphasizes the importance of active bank involvement in analyzing and monitoring the performance of the debtor's business. Banks do not simply disburse funds and wait for installment payments, but also participate in assessing project feasibility, managerial capabilities, and business sustainability potential. In this case, losses due to non-performing loans are no longer borne solely by the debtor, but become a shared responsibility. This approach has been adopted in modern credit restructuring practices, such as converting debt into temporary equity or reducing interest rates [38].

What is guaranteed in performance guarantees is not merely objects, but the performance of the debtor. This is in line with Article 8 paragraph (1) of the Banking Law, which states that in disbursing credit, banks must ascertain the ability, character, capital, and economic conditions of prospective debtors. According to Setiawan, these four aspects are the main performance indicators that must be used as measures in a performance guarantee system [39]. Thus, guarantees are not only seen as collateral with executable value, but as a measure of the bank's confidence in the debtor's good faith and capabilities.

Collateral in the narrow sense, i.e., limited to security or *collateral*, is no longer relevant if applied rigidly in the modern business era. Banks that still use this approach will lag behind market realities, which now demand flexibility and the courage to take data-based risks. This confirms that in a performance system, collateral is still necessary, but its function has changed from merely covering risk to symbolizing corporate responsibility [40]. Its form is also more adaptive, such as shares, patents, technology, and even business profit projections.

In addition to changes in the banking paradigm, there is also a need for recognition of a more operational legal system. Currently, various instruments such as *Standard Operating Procedures* (SOPs), Policy Manuals, and Work Instructions implemented by financial institutions are not considered part of binding legal norms because they are not included in the hierarchy of laws and regulations. However, according to Purnomo, these documents are a tangible manifestation of operational law and can be used as an audit tool to ensure legal compliance [41]. Therefore, strengthening legal recognition of this internal management system is an important part of performance-based guarantee system reform.

The comprehensive implementation of a performance-based guarantee system cannot be done instantly. This process requires a gradual transition with the support of comprehensive public policies and the readiness of all elements of the banking sector. The government, through financial authorities such as the OJK and Bank Indonesia, needs to formulate derivative regulations that encourage banks to gradually adopt a performance-based approach. On the other hand, training and capacity building of human resources in the banking sector are a must so that bank officials are able to accurately read the dynamics of debtor performance. This transformation also requires technological integration, particularly for accurate performance data management and risk management. With adequate legal and technological infrastructure, the performance guarantee system will become a catalyst for more equitable, responsive, and strategic financing.

Changes to the guarantee system also require the support of an institutional culture that is oriented towards quality and accountability. The application of the principles of *a legal quality management system* in the banking environment must become a national standard that is consistently monitored. This includes basic principles of legal quality such as freedom from procedural defects, the ability to satisfy service users, and a focus on continuous improvement. This will strengthen the internal control structure and encourage the creation of a legal culture that is in line with business ethics. If all parties, including banks, customers, and regulators, share the same quality paradigm, the financial system will be more resilient and inclusive. With this approach, banks will no longer merely carry out formal obligations, but will become strategic partners in national economic development based on performance and integrity.

The success of the performance-based guarantee system is not only determined by the strength of the rules and the readiness of institutions, but also by the collective awareness to abandon outdated conservative approaches. The courage to take measured and data-driven risks is key in facing the fast and complex dynamics of the digital economy. Indonesia has a great opportunity to become a pioneer in the transformation of a performance-based guarantee system rooted in the principle of substantive justice. If implemented consistently, this reform will not only boost the competitiveness of the banking sector, but also strengthen the national economy structurally. Thus, the guarantee system will no longer be merely a protection tool, but a means of accelerating healthy, fair, and sustainable business growth.

1.3. Paradigm Shift as the Foundation for Performance-Based Guarantee Regulations as Indonesian Banking Guarantees

The transformation of the national financial system, particularly in the banking sector, has become an urgent necessity as Indonesia enters the 4.0 industrial revolution and the development of the global digital economy. Rapid changes in transaction patterns, consumer preferences, and cross-sector business models require the banking system to adapt structurally and strategically. Banks can no longer simply act as institutions that store and distribute funds, but must also be proactive, adaptive, and visionary business entities. As informal financial institutions such as *fintech* and *shadow banking* begin to take over some of the roles of banks, the existence of conventional guarantee systems has become obsolete and uncompetitive. This situation is exacerbated by the complexity of regulations that have not been able to adapt quickly to market dynamics. Therefore, the idea of reforming the design, objectives, and guarantee systems in the banking industry is no longer optional, but mandatory. Improving the competitiveness of the national banking sector can only be achieved through comprehensive reforms based on technological integration, values of fairness, and progressive legal principles. It is within this framework that the concept of the Performance Guarantee System emerges as a fundamental instrument for building a new order for Indonesian banking.

The idea of a Performance Guarantee System is not only a response to the limitations of traditional guarantees based on collateral, but also a reflection of the demand for a more equitable, efficient, and modern business-friendly approach. In practice, this performance-based approach emphasizes the importance of integrity, competence, and managerial capacity of prospective debtors as key indicators of creditworthiness. This type of assessment is highly contextual to the needs of large business sectors that move quickly and require flexible financial support. Guarantees are no longer used as a tool to cover risks, but as a reflection of trust in the continuity of the customer's business. This system encourages a transformation in banking behavior from a passive to an active approach, where banks are not only distributors of funds, but also strategic partners in supporting the success of their customers' businesses. This collaboration fosters a mutually beneficial relationship between banks and customers and strengthens the national economy from within. Thus, the Performance Guarantee System must be understood as an evolutionary step towards inclusive, professional, and long-term banking.

One of the major risks of the banking sector's inability to transform is that their role will be taken over by non-formal financial institutions, known as *shadow banking*. These institutions, although outside the framework of traditional banking regulations, have high agility and flexibility, especially with the support of digital technology, which they utilize optimally [42]. Without the burden of regulations and complex organizational structures, they are able to provide faster, cheaper, and more accessible financial services. This situation certainly poses a serious threat to the stability of the national financial system if it is not immediately anticipated by regulators and the banking industry itself. Therefore, the transformation of the banking business paradigm must include a review of the basic functions of banks, as stipulated in Article 3 of the Banking Law. The traditional function as an institution that collects and distributes public funds is no longer adequate in the current digital economic landscape [43]. Banks are required to be more dynamic and oriented towards value-added services through product innovation and relevant guarantee systems. This transformation is, of course, not just a policy change, but a comprehensive paradigm shift.

In the context of banking function reform, the fundamental weaknesses of the intermediation system need to be a primary concern. Dependence on public funds makes banks vulnerable to confidence shocks, including digital attacks that spread hoaxes on a massive scale [44]. Bank runs due to the spread of disinformation are a real scenario that has occurred in several countries and pose a great risk if allowed to happen in Indonesia. To reduce dependence on public funds, banks need to be directed towards becoming institutions that are more oriented towards *fee-based income*. In this context, the Performance Guarantee System can be the basis for the government in assessing the feasibility of injecting capital into banks, especially through a performance-based lending model. Banks will be assessed not solely on the basis of their collateral wealth, but on their reliability in managing risk and actively assisting customers [45]. This gives the performance guarantee system a dual role: as a tool for evaluating customers and a tool for assessing the banks themselves. Reforms of this kind require political courage and strategic policy support from the central government.

The transformation to a performance guarantee system can make banks more adaptive to the needs of the business world, especially large and technology-based companies. Companies in *holding companies* often already have their own financial lines that can provide internal funds. If banks do not immediately improve their services and guarantee systems, their role could become increasingly marginalized. Banks must dare to take a softer but more strategic approach, such as offering flexibility in guarantees based on customer business performance [46]. This will encourage mutually beneficial cooperation and increase customer loyalty. On the other hand, this approach also increases the accountability of banks because they must be more active in monitoring the continuity of their customers' businesses, rather than just waiting for loan repayments. Thus, the business model of banks will change from passive to active and collaborative. This change also increases the capacity of banks to innovate and compete with fintech and shadow banking.

Fundamental changes to the objectives of Indonesian banking must also be made immediately. Article 4 of the Banking Law, which states that the objective of banking is to support national development, sounds noble, but it limits the movement of banks as independent business entities [47]. In practice, banks' involvement in government projects is often not balanced with adequate capital support or risk management. This places a financial burden on banks and reduces their innovation in developing service products. Therefore, it is necessary to change the design of the objective from public (*development bank)* to more private (*commercial bank)* with a focus on business sustainability. This step does not mean abandoning the bank's social responsibility, but rather aligning business sustainability with contributions to the national economy. The Performance Guarantee System here acts as a bridge between the economic and social values of banks [48]. In other words, banks become strategic partners of the government, not just technical implementers of state programs.

The transformation of banking objectives through the performance guarantee system will require banks to develop sophisticated, data-driven risk assessment systems. One concrete step that can be taken is to integrate business information systems and national financial data that banks can access in *real time*. That way, banks can assess prospective customers based on objective performance scores, not just the value of the collateral offered [49]. To make this happen, the government must provide an adequate regulatory framework, including regulations on the provision of capital facilities for banks undergoing business transformation. The author proposes the formation of a Government Regulation on the Provision of Capital Facilities for Banks Undergoing Functional Transfer. This could take the

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form of soft loans, temporary capital participation, or government fund placements based on an analysis of the bank's own performance [50]. This approach allows for the application of a win-win solution between the government and the banking sector. In addition to strengthening bank capital, this scheme also increases the resilience of the national financial system.

In this fund provision scheme, a performance-based approach must be the main foundation. The government can assess the effectiveness of public fund utilization based on the bank's success in channeling productive credit, reducing the number of non-performing loans, and increasing the penetration of financial services to the real sector [51]. Bank performance will be reflected in indicators such as profitability ratio, current credit ratio, and productive portfolio growth. On the other hand, banks are required to submit performance reports regularly and transparently to the financial authorities. Thus, this system will create internal discipline in the management of public funds and increase the accountability of the banking sector. In addition, banks will be more encouraged to strengthen their performance guarantee systems as instruments for risk mitigation and internal evaluation. The author believes that this kind of performance-based regulatory framework is highly relevant in this era of fast-moving, data-driven business. Without it, the national legal and financial systems will lag behind global dynamics [52].

One important element in the paradigm shift of guarantees is the shift from a quantitative approach to a qualitative approach in assessing prospective debtors. Until now, the banking system has relied too much on numerical data such as asset value or financial ratios to determine creditworthiness. In fact, business success is largely determined by non-material factors such as character, management competence, and product innovation. The 5C analysis (*character, capacity, capital, collateral, and condition of economy)* actually reflects this approach, but in practice, it still places too much emphasis on collateral [53]. The Performance Guarantee System places the first four aspects as the main foundation of the " " in assessing creditworthiness. Banks will be encouraged to delve deeper into the management background, business reputation, and business development strategies of prospective customers. With this approach, the guarantee system becomes more humane and proportional.

In addition, this paradigm shift also encourages banks to develop an internal performance audit system based on *legal compliance*. Banks will not only focus on complying with regulations, but also evaluate the effectiveness of the implementation of internal procedures and policies on an ongoing basis [54]. This is where the concept of *a legal quality management system* becomes important, making policy manuals, procedure manuals, and work instructions internal standards that must be complied with by all bank work units. The implementation of this system will make banks more professional and accountable, as well as reduce the risk of failure due to internal violations. These manual systems serve as a bridge between positive legal principles and the operational needs of modern financial institutions. Therefore, changes to the assurance system must be followed by improvements to the documentation and legal-based risk management systems. The integration of performance assurance and legal quality systems will be the backbone of bank transformation in the 4.0 era [55].

This transformation is not merely a demand for adaptation, but a strategic necessity to maintain economic sovereignty and the resilience of the national financial system. In an increasingly connected global landscape, a country's ability to keep its banking industry relevant and competitive is a key determinant of its economic strength [56]. The author believes that Indonesia must be a pioneer in implementing a performance guarantee system based on fairness, technology, and progressive legal principles. Through changes in the design of the functions, objectives, and banking guarantee system, it is hoped that Indonesia will be able to create a new financial model that is more adaptive and competitive. This model not only protects customers and banks, but also substantially strengthens the intermediary function of banks. Banks will become institutions that actively shape a healthy, inclusive, and innovative business ecosystem. With a strong legal foundation and performance-based regulations, the national financial system will be more resilient in facing complex global challenges.

The success of the guarantee system transformation in the banking world is largely determined by the extent to which cross-sector collaboration can be realized in concrete terms. The government, authoritative institutions such as the OJK and Bank Indonesia, and banking industry players need to sit down together to develop a structured and progressive roadmap. Not only that, the involvement of the academic community and legal professionals is also needed to formulate a solid conceptual and technical framework. The Performance Guarantee System, in essence, requires a paradigm shift in assessing risk, no longer solely from a quantitative perspective, but also from the aspects of business performance and reliability. This marks a major shift in banking practices from a transactional approach to a strategic approach. To support this, the development of a digital performance evaluation platform, a quality-based audit system, and intensive training for banking human resources are important investments. With the right strategy, Indonesia has a great opportunity to not only follow global trends, but also become a leader in reforming a fair and responsive credit guarantee system.

In an effort to build a financial system that is relevant to the digital and value-based era, the legal approach must also evolve substantially. The law is no longer merely a normative device, but must become an adaptive instrument of social and economic development. If Indonesia is able to renew its banking legal structure through revisions to laws and other technical regulations, the potential for stagnation can be avoided. This legal reform will open up space for performance-based guarantee systems to grow and play a central role in improving financial intermediation functions. This strengthens the role of law as a driving force, not merely a protector of the status *quo*. This is where the importance of progressive laws that are able to respond to the complexities of the times without losing their legal integrity lies. The implementation of a Performance Guarantee System, if accompanied by political will and strong institutional capacity, will strengthen the national financial structure from its foundations.

A great nation is one that dares to change course when the old direction is no longer in line with the realities of the times. In the face of increasingly uncertain global challenges, the resilience of the national financial system can only be achieved through bold and visionary regulatory and institutional breakthroughs. The Performance Guarantee System offers a more future-oriented framework because it aligns the values of trust, transparency, and accountability in one policy package. With this approach, the relationship between banks and customers becomes healthier, mutually supportive, and mutually beneficial. Not only is financial stability maintained, but an inclusive and dynamic business climate is also created. Now is the time for Indonesia to take on the role of leader in value- and performance-based financial reform, rather than merely following trends. This momentum must not be wasted, because the future of the nation's economy depends on the courage to take action now.

Transparency:

The authors confirm that the manuscript is an honest, accurate, and transparent account of the study; that no vital features of the study have been omitted; and that any discrepancies from the study as planned have been explained. This study followed all ethical practices during writing.

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