The Concept of Welfare State in Indonesia as a Strategic Move to Win People Trust Through Economic Sustainability: Good Governance and Bank Conduct on Bank Debt Cancellation Due to Natural Disasters

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Abstract

Natural disasters are unavoidable events for any country and they may carry impacts on debts extended by banks to their debtors/customers. Bad debts due to natural disasters are categorized as force majeure that may result in cancellation. Such concept of debt cancellation is part of credit risks in the form of losses that banks have provided reserves for, whereas to be eligible the problem debtor must be directly affected by the disaster.In a philosophy of welfare state, the real practice of debt cancellation for those directly affected by disasters shall nurture trust value to the government of its country, where the government will then be seen as the people's savior. In addition, not only initiate trust to the government but especially also nurturing trust towards the banks. The bank's strategic role is as an institution providing money for funding and investments to invigorate people to expand their businesses. Having nurturing trust issues as the foundation of good conduct both in government and bank shall affect to the future more investment back to the bank which as result build a more sustainable people economy power as a strong national economic under the lead of good government.

Keywords: *Natural disaster, good of conduct, economic sustainability, debt cancellation, welfare state.*

1. Introduction

Disasters occur from time to time across the globe that nearly every country has a disaster experience. Even hi-tech nations such as the United States have been hit by tornadoes, and so has Japan by Tsunamis. Tremendous floods befell several cities in China and the city of Bangkok in Thailand, while in April 2014a major earthquake with a magnitude of 8.2 struck Chile. The number of disasters has doubled from 200 to 400 per year in more than the last two decades (Kolmannskog et. al., 2010).These catastrophes brought trauma, sadness, and fear to the citizens, causingdamages, deaths, injuries, and hunger for animals and humans alike. People lost their possessions, homes, and relatives. Roads, government buildings, and vehicles were impaired or shattered that the region's economy was finally affected and unemployment increased.Therefore, disasters somehow have an impact on the affected region. They are directly involved with the banking business, which is very important to a country's economy. Debtors may have difficulty with their bank loans, as the situation makes them unable to fulfill their obligations to the bank.

Indonesia is geographically a country vulnerable to disasters. As what has been known, Earth's surface consists of several layers called plates. These plates never stops moving. It is the clashes of these plates that cause earthquakes. The quake affects not only lands. The ocean will also adjust to the changing form of the seabed and may generate a huge wave of water, commonly known as tsunami. Besides, many regions in Indonesia have active volcanoes that have the potential to erupt and pour out superheated lava very dangerous to humans. Therefore, earthquakes are most frequent in Indonesia since a long time ago, and also volcanic eruptions (Reportase Eksklusif Harian Singgalang, 2010). The National Disaster Mitigation Agency (BNPB) of Indonesia states that there are 500 volcanoes, 129 of which are active and spread in Sumatra, Java, Bali, Nusa Tenggara, North Sulawesi, and the Islands of Maluku. Tens of millions of people in Indonesia live in proximity to volcanoes, even some big cities are located near one and faced with serious risks.

One of the main reasons why people living close to volcanoes are the fact the land is very fertile and suitable for agriculture. Another reason is the limited available residential spaces that they are left with no choice other than living there. Aside from that, many cities were built before people realized the risks from volcanoes, for instance, Yogyakarta and Solo (Central Java), Ternate (Southeast Maluku), Bukit Tinggi (West Sumatra), Brastagi and Kabanjahe (North Sumatera), and other cities. In addition, great floods often occur in several cities in Indonesia, such as Bandung District (West Java) andthe city of Manado (North Sulawesi). The Ministry of Domestic Affairs has identified 25 of the 33 Indonesian provinces as vulnerable to natural disasters.

Considering live in a disaster-vulnerable place, Indonesians do not have any choices except readying themselves for safety. As such, it is necessary to have a disaster handling preparedness as part of disaster management. The concept of preparedness as proposed by Nick Carter in LIPI UNESCO/ISDR (2006) states that the preparedness of a government, a community group, or an individual is: "the actions that make it possible for governments, organizations, societies, communities, and individuals to respond to a disaster situation in a quick and effective manner. Included in preparedness actions are disaster mitigation planning, resources management, and personnel training. Preparedness is basically all the actions and activities carried out before a disaster occurs to ensure that responses can be implemented quickly and effectively to situations during and after the disaster. These efforts are very important to the people to reduce disaster risks/impacts, including deaths, material losses, and environmental damages (Hidayati, Deni, 2008).

Disasters result in human victims, material losses, facility and infrastructure damages, and socio-economic impacts, which in turn may affect the banking industry, especially the credit sector, where debtors cannot be said as falling into default because their loans are not yet mature but they are no longer able to make any payments to the creditors/banks due to force majeure.

Bad debts as specified above are a result of natural disasters, which means that it is an unintentional case where the debtor wants to pay but he is not able to. The inability is caused by force majeure or *overmacht* (in Dutch), in which an unexpected event occurs after the closing of the agreement and it is not the debtor's fault.The unexpected events, such as natural disaster, shall prevent the debtor to fulfill his responsibility before being declared as negligent and the debtor is neither liable nor responsible for the risks of the event. However, under current practice, a bad debt caused by a natural disaster is not written off at once. The credit extended by the bank as the creditor to the debtor comes from the bank's funds as well as third-party and the government's funds channeled through the bank so that if cancelled it will cause a damage to the bank. Such debt cancellation requires a corporate mechanism in the banking institution, and the government's role to protect and maintain the prosperity of its people.

Therefore, the current practice to write off the debt seems challenging to be true. People see the trust issues to as an expensive and unreachable matters in Indonesia. People still hope for salvation from the government and the bank with regards to the inability to pay the debts as caused by natural disaster.

Having new approach of the concept of welfare state in Indonesia, shall bring about a fresh and promising mechanism to the good governance and bank conduct on bank debt cancellation due to the natural disaster. People welfare shall be prioritizing under the government agenda. The welfare shall be handed not only to the government but also within an active support and real practice by the industry and people. Government well integration with bank and people shall promote a more economic sustainability that shall bring a more sustainability benefit to the national economic and development of country in Indonesia.

2. Discussion

2.1 Bank Debt Cancellation Due to Natural Disasters in a welfare state

The provision of credits in banking is a high-risk activity.Although the bank have analyzed the feasibility of a credit proposal and minimized any risks contained in the credit, external factors beyond expectation or force majeure are often unavoidable, such as natural disasters. This will cause high levels of bad debts in banks located in the disaster region.As has been known, the increased level of bad debts in banks in the Islands of Nias (North Sumatra) after the April 2005 earthquake was somehow influenced by the disaster as the force majeure. This is shown by the post-earthquake data of the NPL (non-performing loan) in Nias District (Table 1). The numbers in the table referred to above show significant increases in bad debts after the earthquake disaster took place in the Islands of Nias, North Sumatra, in April 2005.

The same thing happened to the non-performing bank loans in the Special Region of Yogyakarta after the eruption of Mount Merapi, which is estimated to amount to Rp228.4 billion, said Head of Bank Indonesia Yogyakarta, Dewi Setyowati. The non-performing loans are estimated to come from 8,240 customers in the region, of both commercial banks and BPR (people's credit bank). The non-performing bank loans after the first eruption are recorded amounting to Rp 106 billion from 3,655 customers. For the next eruption, the number is Rp228 billion from 8,240 customers. The non-performing loans resulted from the credits of customers affected either directly or indirectly by the disaster. Based on data, there were 4,009 debtors in Sleman District with a total credit of Rp 63.9 billion directly affected by the eruption (antaranews.com, 2010).

Table 1. Data on Bad Debts and NPL of Nias Region (amount in Million Rp)

Year	Quarter	Quality					Credit Total	NPL
		Performing	Under Special Attention	Substandard	Doubtful	Bad		
		(1)	(2)	(3)	(4)	(5)		
2004	Q-I	72,198	3,425	279	301	181	76,384	1.00%
	Q-II	143,011	5,867	2,357	1,107	660	153,002	2.70%
	Q-III	151,037	7,702	1,564	1,489	1,482	163,274	2.78%
	Q-IV	169,314	7,100	2,980	1,181	2,063	182,638	3.41%
2005	Q-I	151,180	19,929	3,001	3,082	2,264	179,456	4.65%
	Q-II	130,892	25,437	3,400	8,380	10,964	179,073	12.70%
	Q-III	133,495	15,840	5,419	3,736	29,205	187,695	20.44%
	Q-IV	152,840	11,014	3,718	1,190	8,473	177,235	7.55%
2006	Q-I	156,203	20,264	1,938	2,211	7,800	188,416	6.34%
	Q-II	168,676	16,458	1,375	2,327	8,070	196,906	5.98%
	Q-III	209,534	12,513	3,283	1,442	1,656	228,428	2.79%
	Q-IV	213,323	13,122	2,892	1,946	2,647	233,930	3.20%
2007	Q-I	208,846	26,023	7,644	3,702	3,013	249,228	5.76%
	Q-II	235,821	18,090	10,951	2,695	5,106	272,663	6.88%
	Q-III	276,022	12,377	8,947	3,527	6,884	307,757	6.29%
	Q-IV	260,782	20,018	5,195	2,479	2,885	291,359	3.62%
2008	Q-I	263,059	11,472	15,749	1,481	4,567	296,328	7.36%
	Q-II	308,422	15,229	8,260	6,550	7,893	346,354	6.55%
	Q-III	349,435	21,279	4,892	3,439	13,643	392,688	5.60%
	Q-IV	347,922	16,048	3,862	3,210	1,866	372,908	2.40%
2009	Q-I	361,516	27,271	9,779	4,111	5,615	408,292	4.78%
	Q-II	446,957	20,261	8,410	6,700	9,437	491,765	4.99%
	Q-III	501,841	27,124	2,668	2,421	16,905	550,959	3.99%
	Q-IV	529,040	26,010	1,701	1,134	12,060	569,945	2.61%
2010	Q-I	529,322	33,488	8,081	2,941	12,570	586,402	4.02%
	Q-II	566,954	39,806	3,998	3,397	16,454	630,609	3.78%
	Q-III	626,352	34,518	3,009	3,633	19,074	686,586	3.75%
	Q-IV	636,536	28,183	1,714	4,481	20,855	691,769	3.91%
2011	Q-I	638,308	41,760	2,355	1,667	27,440	711,530	4.42%
	Q-II	709,048	30,171	5,413	4,305	23,542	772,479	4.31%
	Q-III	751,327	34,496	1,757	2,096	29,525	819,201	4.07%
	Q-IV	747,199	36,573	781	1,664	28,338	814,555	3.78%
2012	Q-I	712,578	45,257	1,639	1,166	33,834	794,474	4.61%
	Q-II	774,102	33,643	2,713	3,134	34,633	848,225	4.77%
	Q-III	853,945	35,184	2,222	1,857	35,793	929,001	4.29%
	Q-IV	879,127	30,647	725	2,514	35,555	948,568	4.09%

Source: Bank Indonesia Representative IX Medan

The Indonesian Civil Code does not give a clear definition for force majeure or overmacht, but we can find the regulations on the subject in article 1244 and article 1245 (see the content analysis in Table 2), which can be used as a guideline for understanding force majeure in its general meaning.

Table 2. Content Analysis on the Indonesian Civil Code regarding the Force Majeure

The Indonesian Civil Code	
Article 1244	Article 1245
If there are any reasons for it, the debtor shall be sanctioned to pay the fee, damage, and interest ifhe cannot provide evidence that his failure or delay in complying with the agreement is caused by an **unexpected situation**, for which he cannot be held liable, and where he does not have any bad intentions.	There shall be no compensation for the fee, damage, and interest, if because of an **unavoidable** situation or an **accidental** event the debtor fails to provide or perform his obligation, or if because of such a cause he conducts a violation

From the provisions in the above articles we can see that the causes of force majeure according to the Civil Code are in major of three causes are unexpected causes; unavoidable situations; and accidental events. Similar norms and content is appeared within the comparisons in some references such as Indonesian Supreme Court Decree No.49 K/Sip/1983; Pidot 2013; Mariam 2001.

Force majeure is defined as a situation caused of a catastrophe that is unavoidable in any reasonable way by the obliged party (Indonesian Supreme Court Decree No. 409 K/Sip/1983). Force majeurecloses any possibilities or other alternatives for the suffering party to comply with the contract (Indonesian Supreme Court Decree No. 24 K/Sip/1958) (Rahmat, 2010).

Justin Pidot, on the other hand, defines natural disasters more as unexpected “acts of nature” rather than “occurrences” or events of nature that are generally possible to be mitigated, while still reminding us that nature and man is engaged in a conflict where nature is an opposition that needs to be controlled (Pidot, 2013).

Mariam (2001) explains that there are three elements that must exist for a force majeure case, namely: a) Failure to perform the obligation due to an event destroying or ruining the object of the agreement; b) There is a cause beyond the debtor’s liability that prevents the debtor from performing his obligation; c) The causing factor is impossible to be seen before and the debtor cannot be held liable for it. (Mariam, 2001). An event categorized as force majeure may result in the five following (legal) consequences which are firstly, the creditor cannot demand compliance; next the debtor can no longer be declared as negligent; third one is the debtor is not required to pay the damage; next is the creditor cannot demand cancellation in a reciprocal agreement; and the fifth express that the agreement is considered to be annulled.

In the clauses of the credit agreement, force majeure is defined as a natural situation or condition or an unavoidable event that occurs due to the act of God such as floods, volcanic eruptions, tornadoes, revolts, wars/invasions, and othersbeyond the power of the involved parties. It is so that one of the parties is no longer capable to perform its obligation as specified in the credit agreement.

In many credit agreements, generally the force majeure clause requires the suffering party (debtor) to notify in writing the other party (creditor) on the force majeure event no later than 7 (seven) working days since the date when the force majeure event ends and if an agreement cannot be reached concerning the end date of the force majeure event,the suffering party must enclose evidence from the local police showing the occurrence of the force majeure event as well as the end date.The clause also usually explains further that all and every problem as a result of force majeure will be settled by the parties by way of discussions seeking a mutual agreement. The policy on credits after natural disasters refers to Bank Indonesia Regulation No. 8/15/PBI/2006 concerning Special Treatments for Bank Loans in Certain Indonesian Regions Suffering from Natural Disasters. The provision does not cover debt cancellation for debtors affected by natural disasters, but it regulates the possible restructuring for commercial banks and people’s credit banks. This is related to the quality of the credits in commercial banks and people’s credit banks that are restructured, which shall be declared as performing since the date of restructuring until 3 (three) years after the disaster.

However in Indonesia, when a natural disaster takes place, there is no explicit regulation on non-performing loans due to natural disasters. The only regulation is Bank Indonesia Regulation No. 10/39/PBI/2008 concerning the Regulation on the Implementation of Special Treatments for Banking Issues after the National Disasters in Nangroe Aceh Darussalam Province and the Islands of Nias in Sumatra, of which Article 12 only specifies that in case of destroyed collateral and the relevant debtors failing to fulfill their obligations to the banks, the credit issues shall be handled based on each bank’s policy. Furthermore, the article also referring to the bank’s policy in settling credit issues as specified above must take the bank’s financial state into consideration.

Looking closely at this condition, we can see that debtors have yet to have legal certainty regarding their non-performing loans because the existing regulations do not guarantee debt cancellation. Therefore, as legal meansspecifically the existing regulations are not useful enough, debtors seek settlement through non-legal means.Non-legal meanshere refers to other support especially from the government as well as community through non-government organizations (NGO). Government support for disaster victims is a form of the implementation of a welfare state. The non-legal support is sought when the settlement process for a non-performing loan does not guarantee debt cancellation.

An example of such non-legal means in practice took place during the earthquake in Yogyakarta back in 2006 where the Governor of Yogyakarta requested debt cancellation for small and medium businesses (UMKM) to the House of Representatives. The request was forwarded to the Minister of State-Owned Enterprises (BUMN) who then approved it so the debt cancellation procedure was activated for government banks through a corporate mechanism. Debt cancellation was also given after the tsunami in Aceh and the earthquake in Nias, North Sumatra, facilitated by non-government organization (NGO) Elsaka.

These settlements through non-legal means give birth to a new legal model, and it is suitable with the notion of a welfare state as specified in the Preamble of the 1945 Constitution, in which it is stated that one of Indonesia's objectives is to realize public welfare (*bonum commune*). The state is a means for achieving the common objectives of welfare and social justice for all citizens. This corresponds to what is conceptualized by W. Friedmann (1971) about a welfare state, in which the state has 4 (four) functions, namely: 1) The State as provider, 2) The State as regulator, 3) The State as Entrepreneur, and 4) The State as Umpire.

Welfare is related to rights, necessities, equality, and justice of individuals. Welfare is a state's affair and more generally, the scope of policies on welfare (whatever defined), in any situation, will reflect the political structure in decision making in the state. (Hamlin, 2008) Even the welfare state system of America is not different to that of Europe, just like that understood by policies or people in general. If we define the welfare state system as part of a state with all levels of the state apparatus that seeks to achieve public welfare, the functions of the welfare system includes social, health, and education protection. (Leinieux, 2013)

In a simple manner it can be said that a welfare state demands the state's responsibility for its people's wellbeing. In Indonesia, this notion is formulated with an economic principle expressed in the fifth principle of *Pancasila*, which is social justice for all the people of Indonesia, which can be considered something Indonesia hopes to achieve and in this case is in line with the objective of a welfare state. Until today, despite the changes of government, *Pancasila* remains the approved philosophical foundation of the Indonesian state.

2.2 Concept of Debt Cancellation Due to Natural Disasters in Indonesia

In banking, there are 2 (two) kinds of cancellation of non-performing loans, namely: the administrative cancellation that does not waive the bank's right to collect, alternatively known as a write-off, and the cancellation seen as a loss and cannot be collected in the future, alternatively known as a hair-cut.

In case of bad debts, debtors directly affected by disasters are given the hair-cut facility because the situation is included as the legal event of force majeure, which is unexpected and not liable to anyone, while the related party has tried all the reasonable efforts to fulfill its obligation. The Draft Bill on Credits in Indonesian Banking, now under examination of the Parliament, has specified in its article 19 that if a debtor is having difficulty in fulfilling his obligation, the creditor may perform a safety measure by way of credit restructuring. If restructuring does not work, the creditor/bank may perform a hair-cut cancellation due to force majeure that makes the debtor unable to fulfill his obligation. In its explanation, it is specified that debt hair-cut means the action of ending the collection of a loan, while force majeure means a situation beyond the power of human, such as a natural disaster.

If we look at the principles of justice put forward by Rawls (1999), justice is a freedom and equality is formal justice also known as regulative justice.Freedom and equality in Rawl's theory of justice are the minimum demands of a right that must be upheld for a kind of protection for the lower class, bank customers, and consumers that include equality of the parties entering into an agreement. Rawls also formulates two principles of justice on people in their original position as being rational, free, and equal. Based on these principles of justice can be driven that every individual has an equal right to basic freedom in its broadest definition; and Social and economic freedom must be regulated in such a way that it could benefit and protect every individual.

Natural disasters affect many operational aspects of financial institutions, not only destroying their loans but also hampering future loans. The profit/loss statementand balance sheet is important accounting tools that highlight the vulnerability of financial institutions. Net income includes three broad categories: revenues, fees, andchanges in asset values, and each of these categories are vulnerable to disasters. Therefore when a debtor is having difficulty in paying his loan, the financial institution's income decreases (Collier, 2012).

Furthermore, the obvious risk of credits for a bank is the risk in which the bank's funds extended as a credit to people is not paid back either partially or entirely according to the applicable credit agreement. A further impact of such risk is a loss because the bank is no longer receiving payments for interests and other fees. This situation is indicated by non-performing loans.

In relation to the above credit risk, Bank Indonesia Regulation No. 7/2/PBI/2005 requiresbanks to have a reserve that includes a general reserve and a special reserve by establishing provisions for possible write-off (PPA) of productive assets and non-productive assets. General reserves are specified as minimum 1% (one percent) of the productive assets with a Performing quality status. As for special reserves, they are specified as minimum: a) 5% (five percent) of the assetswith an Under Special Attention quality status after being subtracted with the collateral's value, b) 15% (fifteen percent) of the assets with a Substandard quality status after being subtracted with the collateral's value, c) 50% (fifty percent) of the assets with a Doubtful quality status after being subtracted with the collateral's value, and d) 100% (one hundred percent) of the assets with a Bad quality status after being subtracted with the collateral's value.

Based on the above, debt cancellation due to natural disasters can be categorized as a hair-cut, that is, to be considered as a loss and no longer collectable as the bad debt is caused by force majeure, a credit risk that has been covered by the bank's reserve as a loss in the balance sheet or as a fee in the bank's accounting.

A structural hindrance in giving aid to disaster victims comes up in the vertical relations among the local, regional, and central governmentwith their respective responsibilities for handling natural disasters. Concerning this matter Indonesia has had Law of Republic of Indonesia No. 24 of 2007 concerning Disaster Mitigation. Article 5 of the law states that the central government and the regional government are responsible for organizing disaster mitigation efforts. Therefore, when a natural disaster occurs, it becomes proper that credits directly affected by the disaster are given hair-cuts with a requirement that the disaster must be stated through a government decree as a national disaster. However, as for the debtor, he must meet certaincriteria as shown in Table 3;

Table 3. Criteria for Debtor with National Disaster for Debt's Hair-Cuts

Criteria	Content Analysis for the Criteria
The debt is realized **before** the disaster	*Time constrain*
The debtor is **directly affected** so that his business is ruined or having a sharp decline in turnover or left with no prospect	*Level of loss caused by the disaster*
The debtor is expected to have **difficulty** in paying the principal or the interest due to **the impact of the disaster**	*Level of impact*
The debtor is **deceased or his whereabouts** becomes unknown due to the disaster	*The debtor status*

2.3 Welfare State Approach to Win People Trust and Improve Economic Sustainability

Natural disasters affect many aspects related to the operations of financial institutions, disrupting not only their current loans but also hampering future loans. If a debtor has difficulty in paying their debt, then the financial institution's revenue decreases. Financing fees increases as customers withdraw their funds, competitions becomes stiffer among affected financial institutions, and the risks of loans extended to this financial institution rise. In the worst case, financial institutions may no longer be able to access reserve funds and faced with a liquidity crisis.

Financial institutions' inability to control natural disasters is a challenge for policy making in many developed countries that put importance in restoring people's revenue. Concerning income, access enhancement to financial services is an important policy as a lethargic money market may hamper economic growth and perpetuate poverty (Collier, 2012).

Post-disaster material business aid shall be provided for small and big businesses to repair and make up for property damages. Every business or non-profit organization located in a disaster region experiencing losses due to the disaster can submit a financial aid request (Wichmann, 2002).

According to Law of Republic of Indonesia No. 24 of 2007 concerning Disaster Mitigation, of which implementation regulation is Indonesian Government Decree No. 22 of 2008 concerning Disaster Aid Financing and Management, the central and regional government shall provide disaster aid for the victims. The disaster aid includes: a) condolence aid, b) disability aid, c) concessional loans for productive businesses; and d) basic necessities aid. Concessional loans for productive businesses are extended in the form of either productive business loans or capital goods ownership loans.

Business loans and capital goods loans extended to disaster victims will invigorate their businesses. And after their businesses have returned to normal, banks can offer new loans for these natural disaster-affected debtors. The approach of welfare state for Indonesia with regard to the good governance and bank conduct is as shown in following Figure 1;

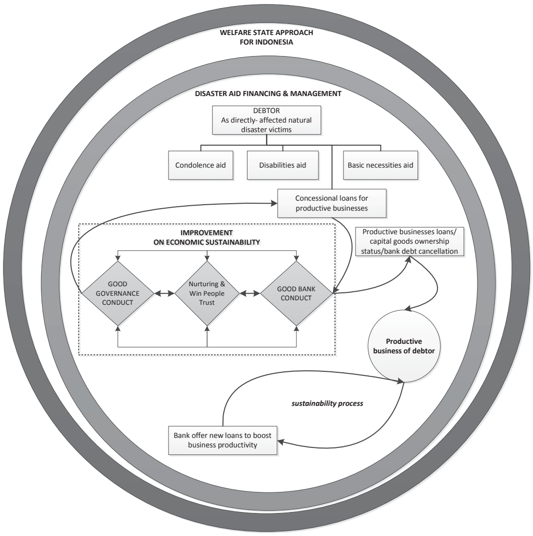

Figure 1. Welfare State Approach for Indonesia to improve economic sustainability through people trust on the real practice of good governance and bank conduct

2.4 Good Governance and Bank Conduct on Bank Debt Cancellation Due to Natural Disasters

Debt cancellation for directly-affected disaster victims, followed with business capital aid, will builds people's trust in the ruling government where the government is seen as a savior in the concept of welfare state, as said by Jeremy Bentham (1748-1832): the government has a responsibility to insure the greatest number of their citizens.It means that the government is obliged to ensure the wellbeing of as many as possible of their citizens (Bessant, et.al, 2006).

People's trust in banks is also formed. Banks's nature of business is a business trading in credits and money. Therefore, keeping and manage people money is a trust business whereas define bank as a trust institution (Veithzal, 2007). In other words, the significance contribution of credits is to serve the society and boost the facilitate commerce, productions, services, and even daily consumption where all of these are aimed at improving the people's quality of living.

The welfare state approach to the people-centered economic development,the creation of employment opportunities, and people's participation in its broadest meaning needs to be given ultimate attention because people is a core componentto sustain the economic system (see Figure 1).

Banks as a financial institutionserve as a facility in the implementation of financial policies, where banks are the funds provider for financing or investment. Through this role, banks seek to increase financing and investment and such increase boosts the productions of goods and services so that goods and service supplies in the market can also grow.

Finally, with non-performing loans written off after a natural disaster,it would be easier for banks to expand further and focus more on running a business with an objective to help make the people in their country prosperous. In the concept of welfare state, the duty of making the people prosperous is not only the government's responsibility, but the government shall hand-in-hand work together with its agencies, private organizationsas in this study is bank, social organizations, and communities.

3. Conclusion

Non-performing loans due to natural disasters are a result of force majeure shall bring about legal consequences as the creditor cannot demand the debtor to fulfill his obligation. In addition, the debtor can also no longer be declared as negligent which is lead to that the debtor is not required to pay any damages

As response to the good bank conduct under the spirit of welfare state, the creditor cannot demand cancellation in a reciprocal agreement and the agreement is considered annulled. Therefore, debt cancellation for debtors facilitated by the government is a form of the state's responsibility to its people and shows the government's support for disaster victims as an implementation of a welfare state.

The study proposed a comprehensive approach to the welfare state for Indonesia as a strategic move to win people trust. The approach recognized that the concept of debt cancellation due to natural disasters is part of credit risks related to banks' obligation. The bank has a reserve that includes a general reserve and a special reserve by establishing provisions for possible write-off (PPA) of productive assets and non-productive assets. The assets shall conduct under the condition that the debtor must be directly affected by the natural disasters with the following criteria of; the debt is realized before the disaster; the debtor is directly-affected so that his business is ruined or having a sharp decline in turnover or left with no prospect; the debtor is expected to have difficulty in paying the principal or the interest due to the impact of the disaster; and the debtor is deceased or his whereabouts becomes unknown due to the disaster.

In addition, under the welfare state approach, the debt cancellation with business capital aid for directly affected disaster victims builds people's trust in the ruling government where the government is seen as a savior in the concept of welfare state. The good governance conduct shall lead to people's trust in banks, of which the bank's nature of business is trust. Therefore, banks as a funds providing institution for financing or investment will help boost the production of goods and services that will ensure the restoration of supplies of goods and services in the market. Furthermore, shall beneficial for the bank itself to expand further and focus more on running a business with an objective to contribute economic sustainability under the form of good governance and bank conduct in a welfare state approach for Indonesia.

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