

4.0 Research Objectives

4.1 Introduction

The objective of the research is to give insight on how to improve the efficiency and profitability of the Rehabilitation Operations and Management of Non Performing Loans in SME Bank. It is vital to investigate and explore the rehabilitation process on NPLS in the Bank. Non-performing loans have been viewed to constitute one of the most important factors causing reluctance for the banks to provide credit. In a high NPL condition, banks increasingly tend to carry out internal consolidation to improve the asset quality rather than distributing credit. Problem with the non-performing loans can lead to efficiency problem in the banking system.

The procedures and process flows of the Rehabilitation Department as well as other relevant departments are scrutinized. A close inspection of the project flow and critical paths are analyzed to look for possibilities of step redundancy, cost saving, as well as time efficiency. Interviews with Head of Department and Officer in Charge have been conducted along with the procedure analysis to ensure comprehensive information is obtained. Current issues in the department are mainly originates by the inter department process flow.

4.2 Issues Faced by Rehabilitation Department

Below are some of the issues faced by the department internally:-

- **The information on the account provided/obtained from the branches is inefficient and insufficient. Due to some ignorance of the procedures and steps to be taken in preparing transfer report on respective NPLs account by branches. Some of the NPLs accounts which are transferred from branches are in really critical condition, some of them are ageing more than 15 months.**
- **Shortage of manpower especially the Account Executive to handle the respective accounts. As a result, lack of communication between branches and the Rehabilitation Department resulted incomplete information received**
- **The Bank's current process flow is limited to rescheduling and restructuring (debt restructuring) the NPL only. This defeats the purpose of its existence.**
- **The Bank does not have the expertise in marketing, management and financial restructuring to advice NPLs recovery accordingly. Therefore, various problems occurred when hiring third party such as professional bodies to advise and consult the NPLs account**

Apart from issues and challenges within the organisation, Rehabilitation Department also facing some challenges and issues from the defaults clients/customers. Below are some of the issues:-

- **The department faced difficulties in getting good cooperation from NPLs customers due to out dated information on customers and customer's personal attitudes.**
- **Problems with important information on financial data such as financial statement, company's accounts normally are not updated. The data is the most important information for the department to access the company and to propose the best solution to help the NPLs account.**
- **Attitude and characteristic problems of the customer in fulfilling their promise and duty to comply with the reschedule program.**
- **External uncontrolled factors such as frequent occurrence changes in the repeal/enactment of new Government policy pertaining to financing. Sometimes creditors (trade/non-trade) of respective customers have commenced legal action on the said company even before the department can start its rehabilitation plan.**

Essentially, the above are simply symptoms and not the problem itself as the issues stated above have a deeper and more subtle root cause. Those issues imply the reliability of the decision as well as the capability of the Bank to address the NPLs. According to (Jaffrey, 1998), issue of the mounting non performing loans of banks and DFIs is not new and successive governments, caretakers via its financial institution continued blowing their trumpets as to their commitments to recover every single penny of the defaulted loans.

Added to that, the loans when they are re-scheduled lose their status as non-performing asset. In the past, rescheduling has been let loose and it would sufficiently indicative on the increasing of size of non-performing loans, which may be assigned both to the accumulation of mark-up and addition of new defaulters. Therefore, the research will intend to look closely at the whole operations management relating to the current process flow of the Rehabilitation Department.

This would include, but not limited to the following:

- i) **Productivity Management, Measurement and Variables of the Rehabilitation Department as well as the corresponding branches**
- ii) **The current operations strategy to reduce the NPL and a measure of its effectiveness**
- iii) **The Bank's ability to forecast possible NPLs and take pre-emptive actions**
- iv) **The overall review of the procedures and process flow to obtain critical paths**

It is intended that the newly proposed process flow of the Rehabilitation Department should not only cover the basic operations but also to look into the incorporating new financing and marketing schemes within the rehabilitation process. An improvised process flow comes with a comprehensive system and newly proposed **Collateral Management Unit** would encompass the operations management in the existing process. The unit is expected to reduce the NPLs as well as increase the effectiveness of the operations, save time and cost and most importantly, provide an opportunity for the SMEs to manage their financial performance which would benefited both parties.