

6.0 Process Analysis

6.1 Introduction

The figure below shows us the current and applied process flow. As can be seen, the process flow is oversimplified and does not contain the necessary information and logical process. It is obvious that the process flow was not designed to be a continuous flow. It is also apparent that the process diagram is confusing and has open loops that are not properly defined. Our initial interview with the staffs of the Rehabilitation Department confirmed this. The staffs complained about the complexity of the process flow and the lack of clarity.

The process flow was poorly designed and it was discovered that the documentation has not been updated for a period of time. The loop for the decision triangle "Project Status" had two errors. The first is that it does not pose a decision making question and secondly, it does not address all the possibilities of the process. In essence, the SME Bank staffs informed that this decision triangle is to ensure a decision regarding the default period of the customer.

The second decision triangle labeled **“Recovered?”** has two possible destinations if the answer is yes – **“Monitoring”** or **“Credit Collection”**. We also see that there is an ambiguous direction from **“Restructuring/Rescheduling”** to **“Credit Control”**. In reality, this should not exist as a decision maker will need to clarify whether the loan is to be monitored or continued to be collected.

The staffs also mentioned that existing process led the **“Credit Control”** Department to pursue a **“Foreclosure”** directly without going through the rehabilitation process. In reality, the section head of the Rehabilitation Department is responsible in deciding whether the account is suitable for **“Foreclosure”**. Despite all the irregularities and fundamental mistakes, the staffs reported that there is an understanding of the procedures. However, the procedures are not updated nor are they streamlined. We interviewed the staffs and asked the relevant questions to map out the actual existing process.

We hoped to produce a documented complete process flow that earmarks and thoroughly explains the current procedural practice of the staffs in the rehabilitation department. To envision a clearer a picture, the process flow was redesigned to complete the logical flows in Figure 2.

As can be observed, the actual flow is very different compared to the documented procedures. After the loan is approved, the account is considered active. These active accounts are monitored by the Monitoring Department while the repayment collection is performed by the Credit Collection Department. Interestingly, these two departments perform similar tasks but operate independently. The Monitoring Department and the Credit Collection Department are primarily responsible for the collection and monitoring of the repayment amount. Therefore, if the loan is defaulted by three months, these two departments will forward the defaulted account to the Rehabilitation Department.

As mentioned earlier, our focus will be the rehabilitation process flow. However, the process flow does not only depend on the process flow within the department but also based on the information from the branches as well as the defaulter. Therefore, in order for us to analyze the process closely, it becomes imperative for us to look at the process within the department closely as well as the relevant information that is obtained by the department.

6.2 Rescheduled Credit Facility and Restructured Credit Facility

The actual current process flow covers the scope on Rescheduling and Restructuring process of NPLs accounts. The scope started from the day the department received the decision to rescheduling and restructuring the NPLs account from the Bank's Approving Committee to the issuance of new Repayment Schedule by the department.

According to Bank Negara Guidelines on ***Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts (BNM/GP3)***:-

- **A rescheduled credit facility** is one whose repayment terms have been modified but the principal terms and conditions of the contract have not changed significantly. This includes, amongst others, lengthening the repayment tenor of the facility. A change in the form of the credit facility for example conversion from a trade-related facility to an overdraft facility does not constitute a rescheduled facility as the principal terms of the contract have changed significantly.
- **A restructured credit facility** is one whose terms and conditions have been modified principally. This may include a change in the type or structure of facilities or changes to other facility terms to assist the

borrower overcome its shorter term financial difficulties particularly where the longer term prospect of the business or project is deemed to be viable. When the borrower enters into Schemes of Arrangement, the new facility will constitute a restructured facility.

Both of these actions are under the rehabilitation plans prepared by the department. The next scope under rehabilitation process started from receiving decision for rehabilitation from Bank's Approving Committee until a full rehabilitation or foreclosure of the NPLs account. Both of the scopes are now defined and translated into the current process flow of Rehabilitation Department.

6.3 Procedures in Rehabilitation Process Flow

The procedures involved are as per below:-

6.3.1 Transfer Process (Branches)

- To identify problem accounts (NPLs) which fulfilled the criteria to be transferred to Rehab Department by respective branches. The criteria under the loan portfolio are Loans outstanding more than 3 months, which is classify as NPLs and Loans which have 1 months to 3 months outstanding (Potential NPLs).
- To prepare proposal paper on transferred account (NPLs) to the approving authority. The decision will be made on case to case basis, NPLs account more than RM1 million will be transferred to Rehabilitation Department and also sensitive cases.
- If approved, prepare all documentation to be transferred to Rehabilitation Department., If disapproved, the accounts would remain at branches for continuous monitoring and collection. Branches are also allowed to conduct a Self Action process on Restructuring and Rescheduling for accounts below RM1 million.

- Officer in Charge (branches) to prepare all relevant documentation using Transfer Forms and to enclose a project report. A Project Report should have comprehensive information pertaining to issues on Marketing, Technical, Management / Administration and Financial aspects should be addressed clearly in the report to justify the transfer.
- The transferring of the project report and Transfer Forms are submitted via online (e-mails). Other relevant documents are via snail mails (couriers). The preparation and transferring process should be done in **7 working days**.

As can be seen, the single officer in charge is responsible for obtaining all information. Therefore, the possibility of insufficient information as well as failure in communication can occur. This will lead to inefficient transfer of information from the branch to the Rehabilitation Department. This, in turn, will lead to delays and multiple communications. Obviously, this signals an inefficient process setup whereby the root cause is inadequate manpower and information sharing technology.

6.3.2 Receiving Transfer Document

- To acknowledge recipient of the project report, relevant documents and transfer forms. Project report via emails will be acknowledged immediately, however documents by mails have to be checked and ensured all documents are sufficient for further action. Any insufficient information should be requested from the respective branches.
- To prepare a brief analysis based on the project report to be discussed between Head of Rehabilitation and Officer in Charge (Assistant Manager) whether to proceed with a complete Diagnostic Report or to propose for Rehabilitation / Foreclosure Plan. This process has to be done within **3 days** after recipient of complete information on respective NPLs accounts.
- After the department has decided on the action, the Officer in Charge has to issue an acknowledgement letter to respective customer, to inform on the status of account and also to get more information especially on problems and issues pertaining to the business. Issuing of the acknowledgement letter has to be done within **1 day** after the decision.

- The customer must respond to the letter and submit all additional information requested in **14 days**. Meanwhile, the officer in charge needs to gather all information from internal sources in **21 days** to prepare a comprehensive Diagnostic Report.

Issues on this process are the delivery and transferring of information from branches to Rehabilitation Department. It will delay if all information is sent thru snails mail compares to if the documents are sent via emails or systems. Efficiency of the delivery process is important to ensure proper documentation handling and vital information on accounts reaches on time and accurate. The tendency on lack of information and miscommunication of information between branches and the department will cause delays in processing. A integrated system is required to ensure the flow of information between branches and Rehabilitation Department is accurate and secure.

6.3.3 Diagnostic Process

- The officer in charge has to complete the Diagnostic Report in **44 days** after the decision was made. The Report required thorough evaluation and study. A field study needs to be conducted and it is to be done within **30 days** after the diagnostic report started.
- A thorough study and analysis are to be conducted as well as discussion with respective customer to identify problems and solutions.
- The result from the diagnostic process is divided into three categories; No Rehabilitation Potential, Rehabilitation Potential, and Rehabilitation Potential with extended period.
- For No Rehabilitation Potential, the account is decided for foreclosure. Accounts which fall under this category are accounts which had been declared notice of bankruptcy, no cooperation from the owner/director/shareholder of the company, non viable rehab proposal and the Bank's collateral and guarantees are under threat.
- For Rehabilitation Potential, the account will be transfer to relevant monitoring committee to decide on whether the account to be restructuring, rescheduling or negotiated settlement.

- For Rehabilitation Potential with extended period, more time needed by the officer to study.
- Under Rehabilitation Potential, account which is transferred to negotiated settlement would undergo a negotiation process with the bank. If there negotiation agreed by both parties, a full settlement figure would be paid to the Bank and the account now fully settled. If no agreement, the account is to be foreclosed.
- Account which is transfer to restructuring and rescheduling would undergo process in which would be agreeable by both parties. Both of the rehab plans would assist customers to manage their financial and would be able to service the Bank without anymore default. This account will be carefully monitored by the Monitoring and Collection Department.
- If the customers/accounts show a good paymaster or prompt payment, that NPLs account would be converted into Performing Loans (PLs). Accounts which are failed to undergo both of the plans will be transfer to foreclosure.

For **Diagnostic Process**, time completion for the report is seen to be an issue. The **44 days** time frame is too long for a report to be completed and decided on which rehabilitation process would be conducted. Again problem with inadequate staff contribute to this problem. With an additional manpower, the task for gathering information can expedite the process. A proper system which can self generate report will ease the reporting procedure for office in charge as he/she can monitor the status and availability of the information through the system.

6.3.4 Foreclosure Accounts

- Accounts in foreclosure action will be transferred to litigation for necessary action such as legal action and etc.

This action is the last resort for the department to salvage the account. However, this action requires longer time frame and multi reporting. It also involves various departments to solve the problems. To justify and support the main issues of the Rehabilitation Department; ***The Bank's current process flow is limited to rescheduling and restructuring (debt restructuring) the NPL only and the Bank does not have the expertise in marketing, management and financial restructuring to advice NPLs recovery accordingly.*** To avoid unnecessary cost and also longer time taken to settle the case, the department should expand

its operation into salvaging the foreclose accounts. The department also needs to have expertise in various aspects in which this will help clients to properly salvage their companies.

A revision of the process flow after interviewing the staffs and reviewing existing job functions as related above, allowed us to create a process flow of the Rehabilitation Department. ***This can be considered a new process flow since the actions have never been documented in the department's operating procedures.*** A new process flow that takes into account the time required as well as the staffs required is depicted in Figure 3. It is imperative to note that this particular process flow was derived from the interviews with the staffs as well as loosely written memos as well as procedures.

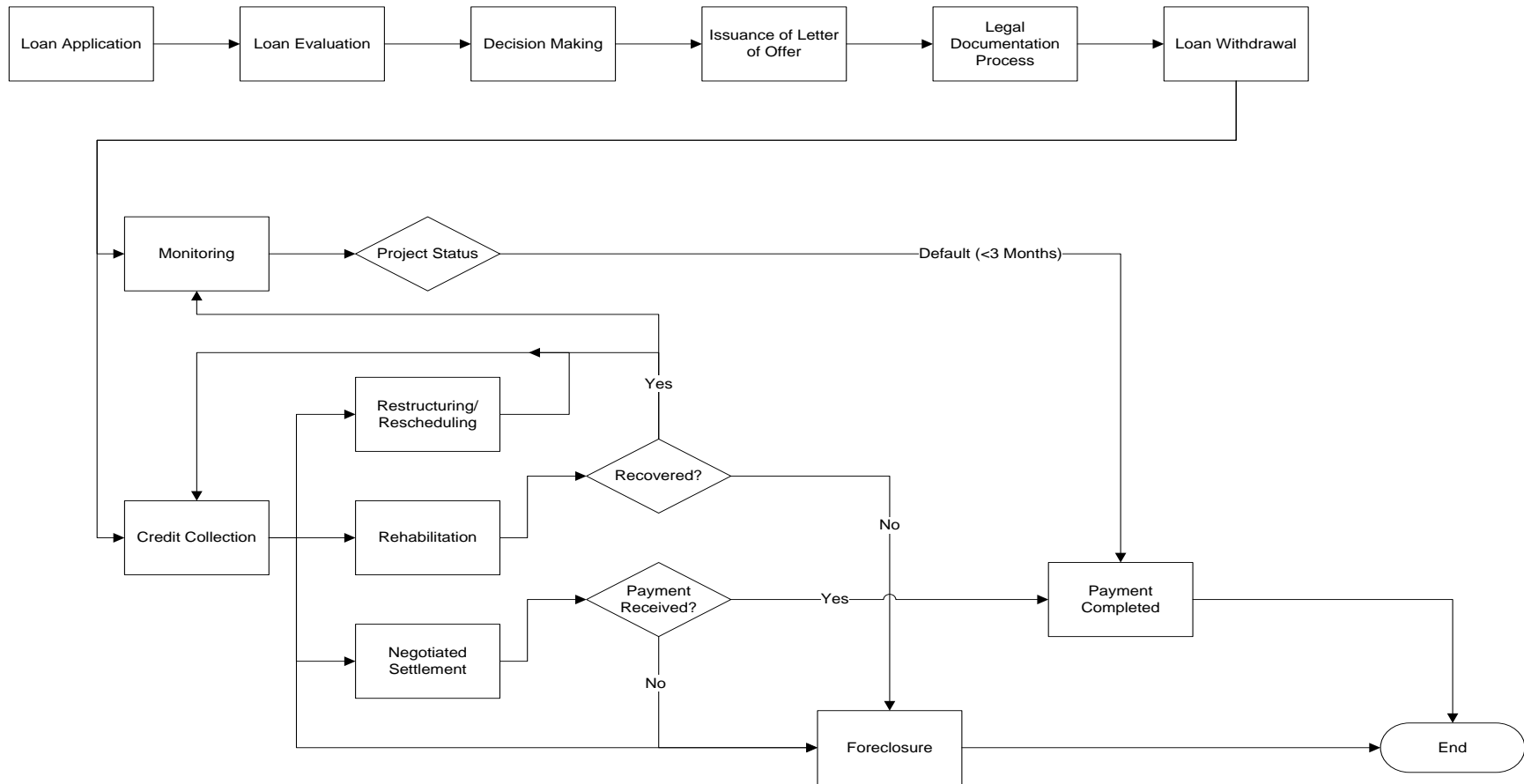


Figure 2: Current Existing Process Flow Documentation

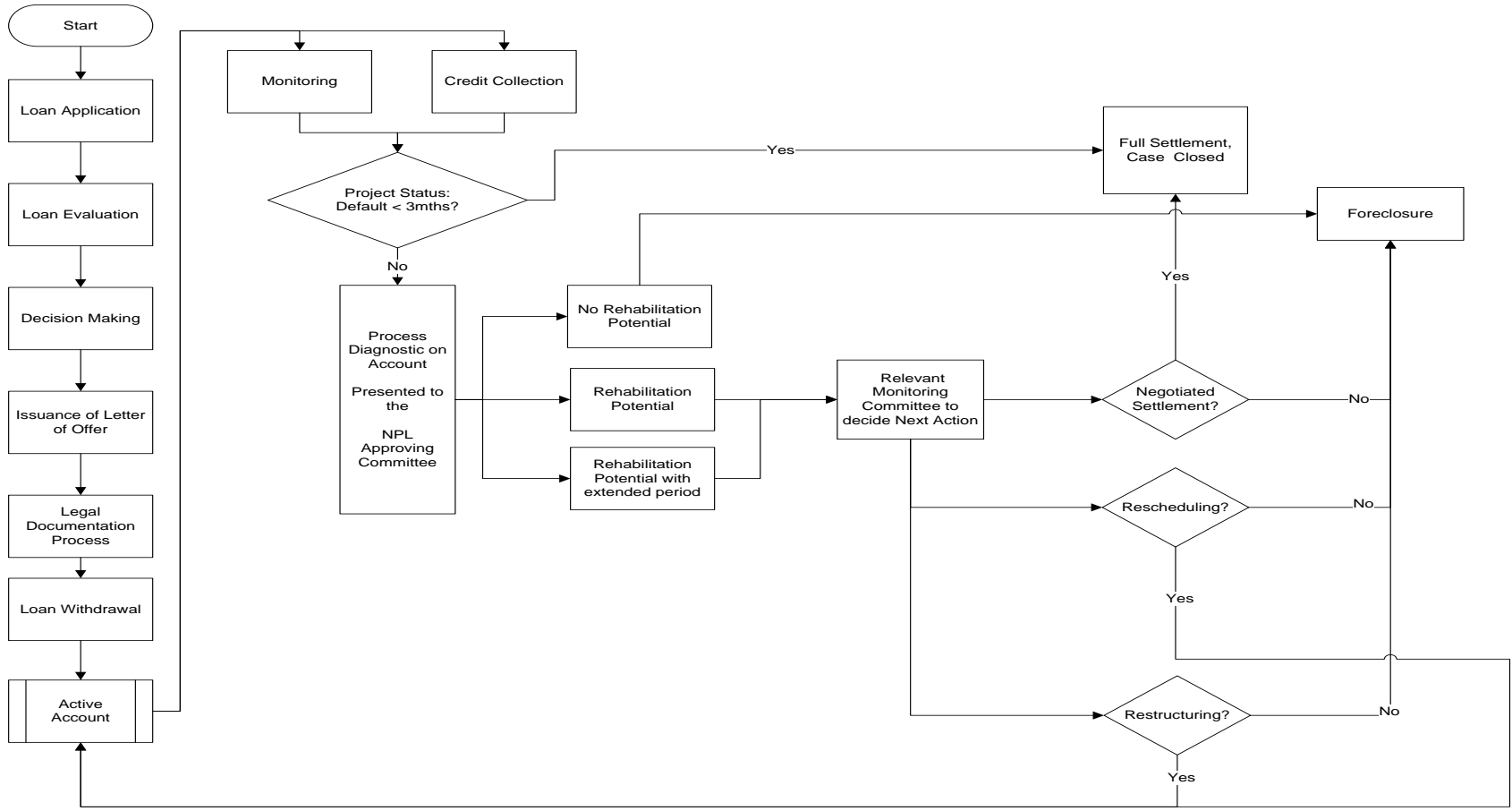


Figure 3: Current Existing Process Flow

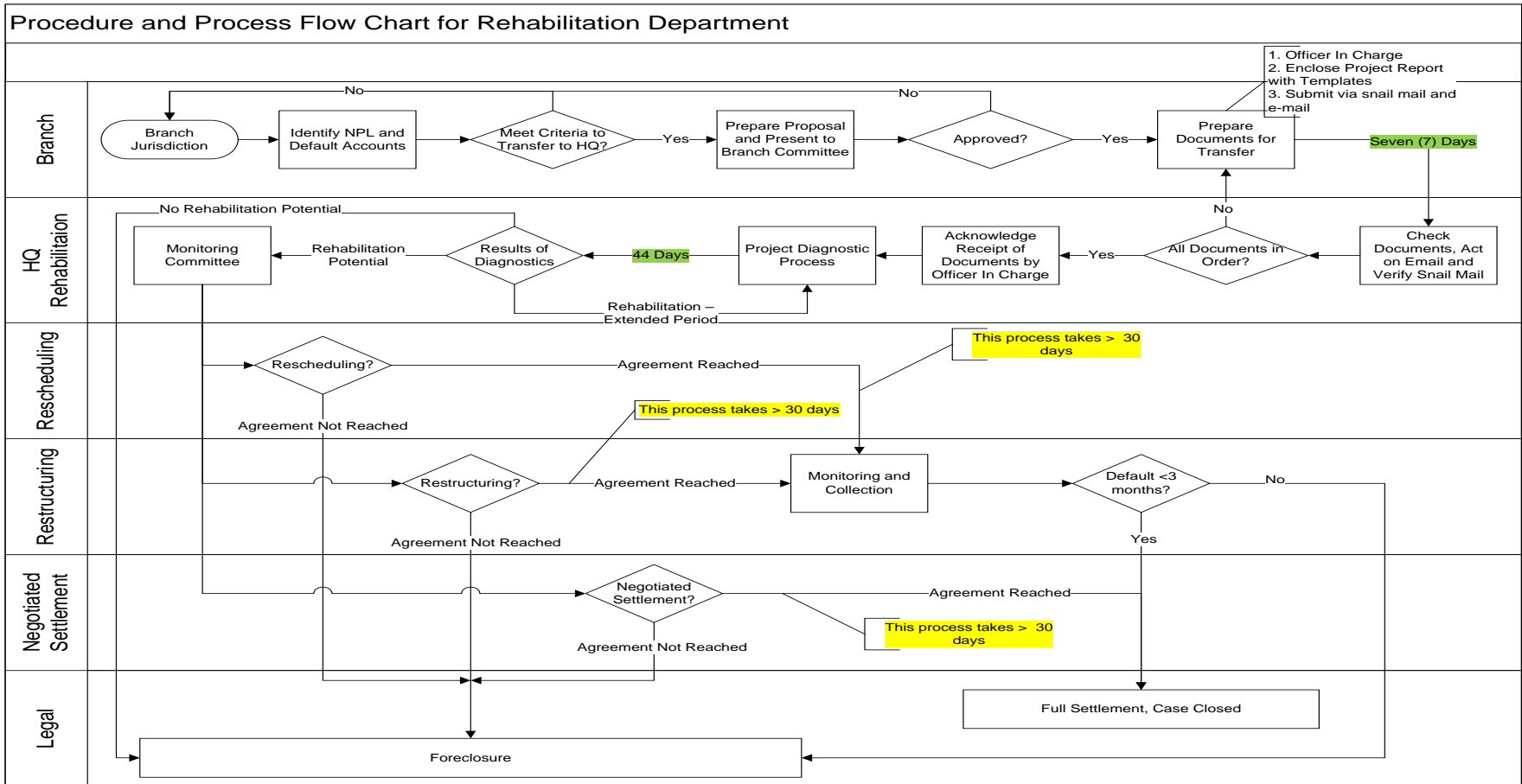


Figure 4: Existing Process Flow in Rehabilitation Department