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Solution for Reducing Bad Debt at National Citizen Commercial Joint Stock Bank in Vietnam

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Abstract
In recent years, although the process of handling bad debts in the banking industry has achieved some successes, it also has many limitations and faces many challenges in terms of debt handling resources and legal framework. Handling secured assets, the debt trading market is not yet developed. In particular, in recent times, this activity has encountered more difficulties, due to the "frozen" real estate market and the majority of corporate customers lacking output. The "freezing" of the real estate and corporate bond markets has had a negative impact on the asset quality of the banking industry. At the same time, banks also face the risk of increasing bad debts after the time to restructure debt repayment periods for customers affected by the covid 19 epidemic according to Circular 14/2021/TT-NHNN ends. Among them, National Citizen Commercial Joint Stock Bank (NCB) is the bank with the fastest growing bad debt, this is an alarming situation for NCB Bank. This article studies the theory of bad debt, the current situation of bad debt at NCB Bank and to solve the problems raised, it is necessary to synchronously deploy solutions to create favorable conditions for handling bad debt at the bank NCB.

Keywords: Bad Debt, NCB, Sub-Standard Debt, Debt Suspected of Losing Capital, Debt with Potential Loss of Capital

1. Introduction

In recent years, bad debt is not only a "disease" of the Vietnamese banking system in particular, but has become a matter of concern for the entire global banking and financial system, especially after the financial crisis. The global financial crisis at the end of 2008 originated in the US and spread to neighboring countries and around the world. The term "bad debt" has become a topic mentioned in many studies in developed and emerging countries, including Vietnam. However, studies pay more attention to providing solutions to prevent risks caused by bad debt, as well as measures to limit the bad debt ratio for the banking and financial system through proposals. Bad debt is understood as a debt that is past the payment deadline for a certain number of days and the borrower is not able to immediately fulfill his or her repayment obligations to the lending bank. This is the result of the relationship. Imperfect credit. Bad debt violates the basic characteristics of credit, which are term and full repayment. Furthermore, it causes loss of trust between credit grantors and credit recipients. The occurrence of bad debt is inevitable, especially in the banking sector. This is a problem that all commercial banks in the world face. If the bad debt ratio is too high, banking operations will be paralyzed because banks do not have the capital to pay depositors when they arrive. Term. At a serious level, it will lead to bank bankruptcy. Therefore, credit risk management, preventing, limiting and handling bad debt is a very important task at commercial banks.

The bad debt ratio is a basic indicator to evaluate the credit quality of a bank, reflecting the difficulty of capital recovery. The bank's capital is no longer at the normal risk level but at risk. Loss of capital. Currently, according to international practice, the allowable safety rate is less than 3%. While most banks control bad debt below 3%, at NCB, this ratio jumps to 11% by 2022. NCB's 11% bad debt level is a high number in the context that most banks keep On-balance sheet bad debt ratio is below 3%. This is the reason the author researched bad debt at NCB bank.

2. Research overview

Concept of bad debt

Due to the characteristics of credit activities related to currency, there will certainly be risks related to bad debt. "Bad debt is the amount of money that commercial banks lend to customers, but when the due date comes, the debt collection deadline cannot be collected due to subjective factors from the customer's side or due to external objective causes." The higher the bad debt, the greater the risk and capital flow loss of commercial banks. Besides, commercial banks have to set aside a risk provision expense for bad debts, which affects the business results of commercial banks. In the world, there are many views on bad debt such as:

From the perspective of the European Central Commercial Bank (ECB)

Bad debts are loans that cannot be recovered or may not be fully recovered to commercial banks, including:

- Debts that have expired or debts that have no basis for claiming compensation from the debtor.
- The debtor is hiding or missing, has no assets left to pay the debt, debts where the commercial bank cannot contact the debtor or cannot find the debtor.
- Debts where the debtor terminates business operations, liquidates assets, or incurs a loss in business and the remaining assets are not enough to repay the debt.
- Debts where the debtor agreed to pay in the past, but the remainder cannot be compensated, or debts where assets are transferred to pay but the remaining value is not enough to cover the whole in debt.
- Debts that the debtor has difficulty repaying and requests a debt extension but cannot compensate the debt within the agreed time.
- Debts where the collateral is not enough to repay the debt or the collateral at the commercial bank is not legally approved, leading to the debtor being unable to fully repay the commercial bank debt.
- Debts for which the court declares the debtor bankrupt but the reimbursement is less than the outstanding debt.

Thus, from the point of view of the European Central commercial bank ECB, bad debt is defined by two factors: The loan is not capable of being recovered, and although it is recovered, the recovery value is not enough. This viewpoint is approached based on the debt collection results of commercial banks.

From the perspective of the International Monetary Fund (IMF)

The definition of bad debt has been given by the International Monetary Fund as follows: A loan is considered unprofitable (bad debt) when interest and/or principal payments are overdue for 90 days or more., or interest payments of up to 90 days or more have been restructured or rescheduled, or payments of less than 90 days but there are reasons to doubt that repayment will be made in full. With this perspective, bad debt is approached based on the overdue repayment period and the customer's ability to repay the debt. The customer's ability to repay the debt here can be the entire principal and interest or a portion of the principal and interest.

Bad debt from Vietnam's perspective

According to Clause 8, Article 3 of Circular 02/2013/TT-NHNN dated January 21, 2013 of the State Bank stipulating the classification of assets, deduction levels, methods of setting up risk provisions of the State Bank in Vietnam, bad debt is debt in group 3 (substandard debt), group 4 (doubtful debt) and group 5 (debt with potential loss of capital). In there:

- Debt group 3: Overdue period from 90 - 180 days.
- Debt group 4: Overdue period from 181 - 360 days.
- Debt group 5: Overdue period of more than 360 days.

Thus, bad debt from the State Bank of Vietnam's perspective is also determined based on two factors: Overdue for more than 90 days or worrying ability to repay debt. However, which factors commercial banks approach depends on their ability and conditions to conduct debt classification.

With the above views, the view on bad debt must be approached based on the customer's ability to repay debt. This means that a loan that is due but has signs showing that the loan's ability to repay is questionable can also be considered a bad debt and needs to be handled.

Classification of bad debt

On the CIC system (Vietnam National Credit Information Center), borrowers will be classified into 1 of the following 5 debt groups:

Group 1 (Qualified debt)

- Debts have the ability to recover both principal and interest on time.
- Current debts;
- Debts overdue less than 10 days (Customers overdue from 1 to 10 days will have to pay an additional 150% overdue interest).

Group 2 (Debts needing attention):

- Debts overdue from 10 days to less than 30 days;
- Debts restructured repayment term for the first time.

Group 3 (Substandard debt):

- Debts overdue from 30 days to less than 90 days;
- Debts restructured for the first time are overdue for less than 30 days according to the first restructured repayment term;
- Debts are exempted or have interest reduced because customers are not able to fully pay interest according to the credit contract.

Group 4 (Debts suspected of loss of capital):

- Debts overdue from 90 days to less than 180 days;
- Debts with the first restructured repayment term that are overdue from 30 days to less than 90 days according to the first restructured repayment term;
- Debts with restructured repayment terms for the second time.

Group 5 (Debts that are likely to lose capital):

- Debts overdue for 180 days or more;
- Debts that are restructured for the first time are overdue for 90 days or more according to the first restructured repayment term;
- Debts restructured repayment term for the second time are overdue according to the second restructured repayment term;
- Debts with restructured repayment terms for the third time or more, whether not yet past due or past due.

For customers ranked in groups 3, 4, 5, it will be very difficult to borrow from banks or other organizations. In fact, information about the credit history of borrowers across the system of banks and credit institutions nationwide will be remembered by the data system within 3 - 5 years from the time the borrower Full payment of principal and interest. For some banks and credit institutions with strict risk control systems, especially banks with foreign capital or branches of foreign banks in Vietnam, customers have fallen into the bad debt group. The loan may never be approved in any form.

3. Current status of bad debt at NCB Bank in Vietnam

According to a survey by Vietnam Report, Vietnam is one of the countries with a very high GDP/credit ratio, interest income from lending activities is an important income and with that comes the risk of lending. The banking system is not small either.

The third quarter 2023 financial reports of 28 leading banks in Vietnam have announced that 7 banks have had their on-balance sheet bad debt ratio exceed the 3% threshold. The total bad debt of these 28 banks also increased by more than 23% compared to the end of 2022, to more than 172,000 billion VND. The third quarter also recorded a sharp increase in the bad debt ratio (NPL), reaching 1.93%, higher than the pre-epidemic period.

According to data from the third quarter 2023 financial statements of many banks, subprime debt is increasing. Debts requiring attention (group 2) increased by 43% over the same period last year. The ratio of outstanding loans from groups 2-5/total outstanding loans increased sharply from 3.4% in the fourth quarter of 2022 to 4.4% in the third quarter of 2023.

According to Vietnam Report's assessment, special risks exist and increase stemming from the freezing of the real estate market - a sector that contributes up to 21% of the credit balance of the entire system, not to mention about 4%. Outstanding bond debt owned outside the credit system. Therefore, the goal banks aim for this year is not simply credit growth, but selective credit growth, prioritizing risk management and balancing asset quality.

Table 1: Top 10 banks with the highest bad debt balances as of the second quarter of 2023

Unit: billion VND

Numerical order	Bank	Bad debt balance		
		30/6/2023	31/12/2022	Change (%)
1	VPB	31.864	25.137	26.8%
2	Agribank	30.516	26.064	17.1%
3	BIDV	25.970	17.622	47.4%
4	Vietinbank	17.309	15.801	9.5%
5	NCB	12.374	8.556	44.6%
6	SHB	10.481	10.853	-3.4%
7	Vietcombank	9.783	7.820	25.1%
8	VIB	8.529	5.687	50.0%
9	Sacombank	8.226	4.299	91.4%
10	MB	7.480	5.031	48.7%

Source: State Bank, quarter 2/2023

In the first half of 2023, in the context of worsening economic health, bad debt balances of many banks increased rapidly. Of the 29 banks that have published financial reports, only two banks recorded a decrease in bad debt at the end of the second quarter of 2023 compared to the beginning of the year.

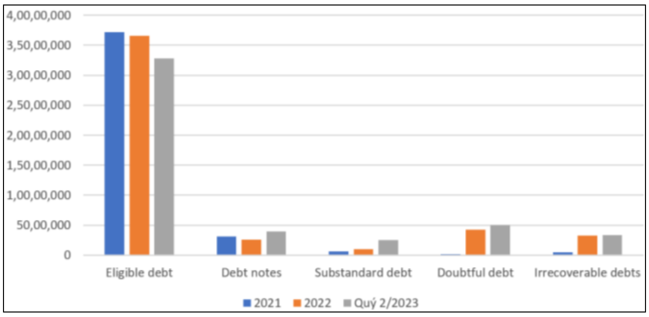
Many banks recorded double-digit growth in bad debt. In particular, there are cases where bad debt skyrocketed nearly three times, creating great pressure on risk provisions for banks.

The total bad debt balance from 29 banks increased by 33.7% within 6 months, reaching nearly 220,000 billion VND. Only two banks, SHB and Kienlongbank, recorded an improvement in bad debt balances, decreasing by 3.4% and 6.5%, respectively.

Looking at Table 1 shows that NCB's bad debt in 2022 and 2023 will reach a high rate and increase. In 2022 and 2023, NCB has promoted lending in risky areas in the context that the NIM coefficient - the percentage difference between the bank's interest income and interest expenses - is 4.5%, due to the impact of the Covid19 pandemic forced banks to provide preferential credit packages and lower lending interest rates.

An alarming situation at NCB Bank is that the bank's on-balance sheet bad debt ratio is about to reach 18%. This means that for every 100 VND this bank lends to customers, nearly 18 VND is bad debt. While most banks control the on-balance sheet bad debt ratio below 3%, NCB's bad debt level of 17.93% is truly an alarming number.

Unit: Million VND



Source: NCB financial statements for 2021, 2022, quarter 2/2023

Fig 1: Analysis of loan quality at NCB bank

As of December 31, 2022, NCB Bank's customer loans reached more than 47,722 billion VND, an increase of 14.7% compared to the beginning of the year. However, the credit quality of this bank clearly decreased when debt groups 1 and 2 decreased but debt from groups 3 to 5 increased sharply.

Specifically, compared to the beginning of the year, Group 1 debt (Qualified debt) decreased by 1.8% to VND 36,546.1 billion; Group 2 debt (Doubtful debt) decreased by 17% to VND 2,619.6 billion.

Meanwhile, Group 3 debt (Substandard debt) increased by 70.4% to VND 1,027.7 billion; Group 4 debt (Doubtful debt) skyrocketed 23.4 times to VND 4,248.1 billion; Group 5 debt (Potentially lossable debt) increased more than 7 times to reach VND 3,280.5 billion.

Therefore, NCB Bank's total bad debt reached VND 8,556.5 billion, nearly 7 times higher than at the beginning of the year, and the bank's on-balance sheet bad debt ratio is on "red alert" when it skyrocketed from 3.73% at the beginning of the year to 17.93%.

However, it is difficult to understand that although bad debt is in an alarming situation, NCB's credit risk provision costs in 2022 decreased by 59% compared to 2021 to VND 308 billion.

By the end of 2022, NCB's total assets will reach VND 89,847 billion, an increase of 21.7% compared to the beginning of the year. Of which, customer loans increased by 12.3% to VND 46,762.6 billion; Customer deposits increased 10.6% compared to the beginning of the year, reaching VND 71,350.3 billion.

According to the announcement of the Consolidated Financial Report for the second quarter of 2023, the bad debt ratio on NCB's balance sheet continues to increase sharply. As of June 30, 2023, NCB's group 1 debt decreased by 10.3% compared to the beginning of the year to VND 32,778 billion; Group 2 debt (debt that needs attention) increased by 51% to VND 3,953.6 billion.

Meanwhile, group 3 debt (substandard debt) increased by 147.4% to VND 2,542.5 billion; Group 4 debt (doubtful debt) increased by 18.7% to VND 5,043.5 billion; Group 5 debt (debt with potential loss of capital) increased by 3.1% to nearly 3,383 billion VND.

Therefore, NCB Bank's total bad debt reached nearly 10,969 billion VND, an increase of 28.2% compared to the beginning of the year and the bank's on-balance sheet bad debt ratio reached 23%. This means that out of every 100 VND loaned, NCB has up to 23 VND as bad debt.

This is not the first time this bank's bad debt ratio has exceeded 10%. Specifically, NCB's bad debt ratio at the end of quarter 2/2022 was 11.05%, at the end of quarter 3/2022 it was 14.72%, at the end of quarter 4/2022 it was 17.93% and at the end 23% Quarter 1/2023.

In addition to the figure of nearly 10,969 billion VND, NCB Bank also owns a bad debt of 5,949.6 billion VND in the form of special bonds issued by the Vietnam Debt Trading Company Limited - DATC (31.5 billion VND). Billion VND) and Vietnam Credit Institutions Asset Management Limited Liability Company (5,918 billion VND).

Causes of bad debt at NCB bank

The current bad debt situation at NCB Bank is worrying. NCB Bank faces many difficulties and challenges during its operations, although bank interest rates have cooled significantly after the State Bank's decision to lower operating interest rates. Asset quality has declined, commercial banks' bad debt control is facing many difficulties... In particular, the handling of collateral and debt recovery in practice faces many difficulties; the legal corridor for debt handling activities is not yet synchronized and unified; difficulties and problems in applying other legal regulations.

Seizure of collateral is the responsibility of the borrower and the lender. Currently, lenders are at a disadvantage because they do not have the right to seize secured assets and take them to court. There are cases where the borrower intentionally does not repay the debt, there are currently no regulations on how to handle it, and in practice, customers and borrowers who have money and collateral still do not repay the debt.

4. Solution to reduce bad debt at NCB bank

To limit bad debts, NCB can apply some solutions as follows:

Firstly, improve the qualifications, capacity and ethical qualities of NCB's appraisal staff and credit officers: If this labor source lacks the capacity, professional qualifications and professional ethics, appraisal Determining, analyzing and evaluating loans will be ineffective, causing the bank's possibility of losing capital to be very large.

Second, perfect the risk management policy: Credit and lending activities in particular always contain many risks, so NCB needs to build for itself business strategies through different periods, now and then. Sometimes strengthening, sometimes loosening management to handle bad debt skillfully.

Third, build an organizational and governance model: NCB should clearly clearly define the functions and tasks of each department so that the operation process runs smoothly and the handling of bad debts is effective. Optimal. The Board of Management and Executives is also an important factor in decisions and consistent direction for its employees.

Fourth, perform the control of lending activities: Closely supervise and closely monitor loans so that NCB can minimize risks, be proactive in identifying bad debts and take appropriate measures. Good handling. In addition, credit officers should be regularly inspected to prevent risks from their professional ethics.

Fifth, setting up high risk provisions: Risk provisions are often used in cases where organizational customers are dissolved, go bankrupt, individual customers die, go missing, and debts belonging to the group 5. If the provision is not enough to handle debt, NCB is forced to sell assets to ensure compliance with the law on debt recovery and according to commitments agreed with customers. In addition, this reserve also helps banks withstand adverse fluctuations from the market.

Sixth, financial measures: NCB should apply to recoverable debts such as extending debt, adjusting debt repayment terms, providing additional capital to customers or securitizing debts by transferring debt. Converted into equity or bonds for businesses.

Seventh, urge customers to repay debt via text, phone, email, text message or discuss directly with customers about plans, time as well as debt repayment methods. NCB should regularly review and classify bad debts to take effective measures.

Eighth, measures to handle secured assets: Apply a number of methods such as selling secured assets through forms including selling assets to buyers, selling through auctions or selling through customers.

Ninth, sue in court: If the above measures still cannot be resolved, NCB can completely ask the law to intervene so that the borrower can enforce the judgment.

In addition, there are some other special handling measures such as selling debt to VAMC or professional debt trading units, freezing debt or converting debt into equity capital at borrowing organizations,... and especially In particular, synchronous coordination is needed from the government to each individual, organization and NCB in removing difficulties for production and business, creating conditions for businesses to access capital, so that credit can develop and create a high growth rate. High bad debt coverage.

5. Conclusion

Handling bad debt is a very important part of banks' credit activities, to ensure effective credit operations and a positive impact on economic growth. Therefore, NCB is forced to drastically implement debt collection measures, use provisions to handle risks as well as improve credit quality and minimize newly arising bad debts.

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