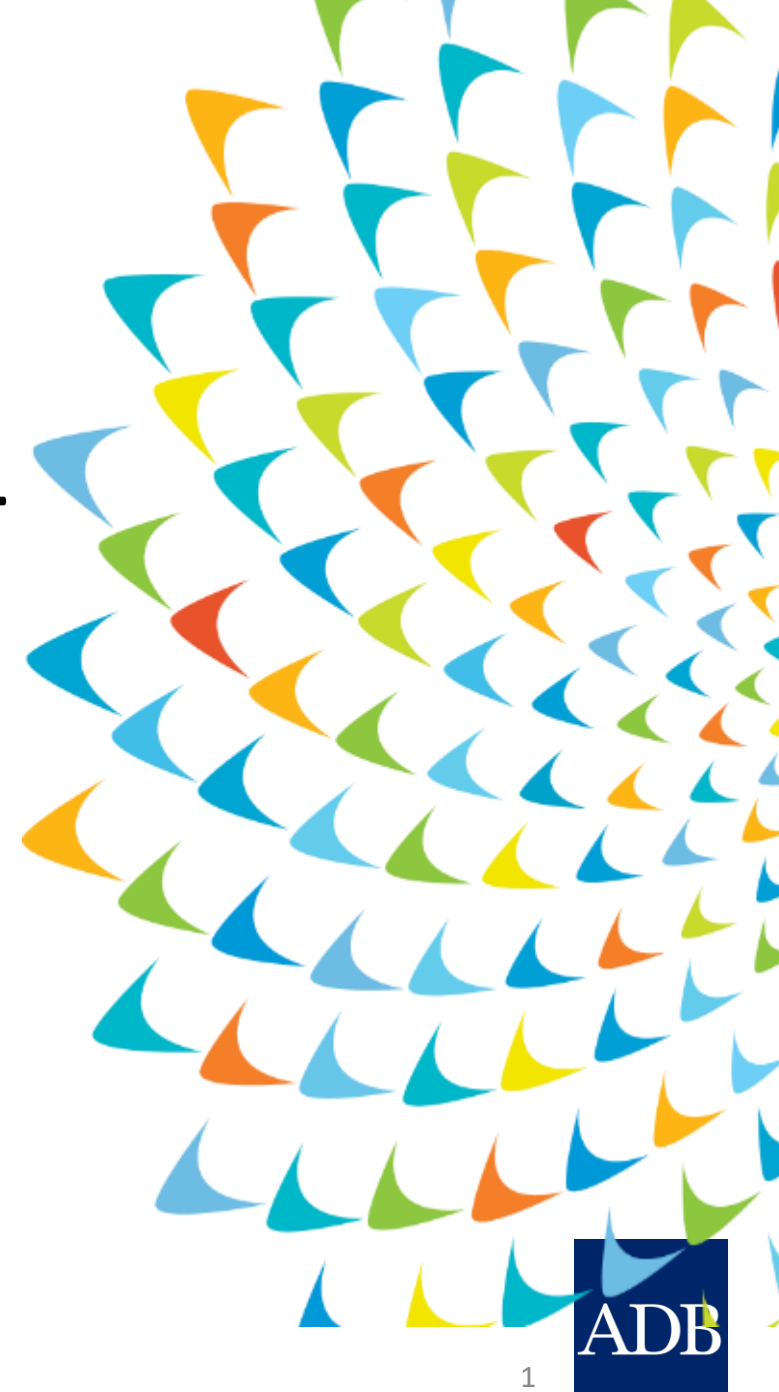


Current challenges to NPL resolution in Asia

8 December 2021





NPL Source-Cause Assessment

- Crisis periods of rising non-performing loan levels can generally be linked to prior actions/conditions or lack of actions
 - Regulatory side:
 - Inadequate legal and regulatory framework for financial institution supervision
 - Lack of consistent actions
 - Waivers and forbearance
 - Market:
 - Rapid growth
 - Chasing market share
 - New, untested areas
 - Changes in U/W and downstreaming
 - Ownership and governance
 - Economy and Cycles:
 - Not controllable - cyclical
 - Impaired risk assessment and risk management
 - Economic volatility and diversification
 - External shocks
 - COVID related



NPL Lifecycle - “Stages of NPL Grief”

- Deny, Delay, Defer, Detriment
- Exponential concerns:
 - Lack of action - augments concerns
 - Impairs financial intermediation (explicit or implicit) – direct cut to lending, change in U/W practices, risk tolerance and rejections, focus on preservation (capital)
 - Subsequent resolution - more burden on safety frameworks like deposit insurance
 - Raised complexity – SIBs and regulatory measures
 - Potential economic crisis – economic restructures need financial systems
 - Dealing with mixed ownership - government owed, controlled or linked
 - Beyond simply a systemically important bank (SIB) issue
 - Political factors
 - Ownership and interests direct or indirect, old state links,
 - Typical looking bad
 - All blame the Central Bank or supervisory agency – hold on!



NPL Lifecycle - “Stages of NPL Grief”

- Consider (hope) it is transient - “grow out of it”
- Don’t count on this – some research
 - Not all institutions survive or if can avoid systemic crisis
 - No specific number on NPLs
 - Interlinked with proper recognition, timing, actions, legal framework, etc.
 - Mix of the financial system – affecting all financing institutions, just banks (are they dominate?)
 - NPL % or % or recap to GDP



NPL Actions

Case for:

- Early-warning systems
- Forward looking analysis (NPLs are backward looking)
- Systemic risk assessments
- Regulatory mechanisms – i.e. Prompt Corrective Actions
- Cross-supervisory entity coordination
- Action, Action, Action



NPL Transparency

- Forebearance and waivers
- Real-estate owned as settlement of obligations
- Restructuring & re-ageings
- Non-accrual timing
- Evergreen lending
- Write-offs without collection
- NPL definitions & risk definitions
- Concept that provisioning solve NPLs – NOT – Underwriting and forensic assessment about how the condition arose



NPL Impact

- Drag on a bank's performance:
 - Reduction in net interest income;
 - Increase in impairments costs;
 - Additional capital requirement;
 - Lower ratings and increased cost of funding, adversely affecting equity valuations;
 - Reduced risk appetite;
 - Alternative focus - additional management time and servicing costs.
- Financial intermediation impacted
 - Needed for wholistic fix
 - Financial systems dominated by banks, lack of a well-developed capital markets, a small nonbank sector, etc.
 - NPLs constrain the supply of credit to the private sector and hinder economic activity
- Investor interest - domestic and foreign – credibility and transparency of the fix
 - NPLs increase vulnerability to further shocks
 - Systemic crisis and financial stability



NPL Actions

- Clarity on the issues and source/cause
 - Clear and holistic analysis
 - Setting sound goals, mapping plans and acting upon the plans
 - Trailing data - vintage analysis
- Need proper legal and supervisory authority
 - Including resolution powers (Basel Core Principles for Banking Supervision)
 - Willingness to enforce
 - Corporate legal reform – collateral laws, appraising (challenges in illiquid markets, independence)
 - If resolution – who leads – administrative law?
- Risk assessment, risk recognition, accounting
- Early recognition and resolution
 - Links to capital and prompt corrective actions
 - Authority to review and make changes to ratings and subsequent provisioning
- Financial stability framework
- Potential out-of-court methods - corp debt restructuring committees or mechanisms
- Special courts
- NPL sales, AMCs

Thank You

