

Delinquency, Killer Disease: What is the Board Will Power to Control?

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Delinquency, Killer Disease, What is the Board willpower to control

The co-operative credit society is also considered a financial intermediary in the economic structure. The role of the financial intermediary is to mobilize the excess of the financial resources as deposits at a certain cost, and direct them to be utilized by organizations, which have a deficit in their financial resources.

The intervention of the financial intermediary facilitates effective utilization of the financial resources of the economy. By providing capital requirements in this manner, the opportunities are created for the utilization of other physical resources more effectively. This operation brings about an increase in the National Product, creation of employment opportunities, paving the way for the inflow of more foreign exchange which is already, in short supply and on the whole, it would be instrumental in managing the inflation pressures for the acceleration of the economic development.

The efficiency in handing the recovery of advances granted to the members is of utmost importance for the achievement of these objectives.

How does the non-performing advance granted become a killer disease to the co-operative society?

- A drop in the net profit or the society becoming a loss-making unit would be the result of its interest income getting adversely affected.
- Depletion of capital funds.
- The failure of the Society to respond to the depositors' demand for withdrawals due to inadequacy of the liquidity, would result in the loss of confidence of the depositors, thereby jeopardizing the sustainability of the society.
- Failure to attract new clients / members and savings due to the loss of depositors' confidence.
- The development of the society would be getting weakened due to lack of opportunities for reinvestment.
- Where a loan default culture exists **no successful business performance** could be anticipated.
- In a situation where the defaulters are unable to obtain credit facilities for any new projects and for future development activities, such enterprises would stagnate with adverse consequences. Obviously, these projects cannot bring about an improvement in their production capacities.

- In a Society where the volume of delinquent advances is too heavy, its other business units also would get adversely affected.
- A large number defaulters in a particular society would create a bad example for the rest of the members and the defaulting habit would **spread as an epidemic**.
- In a situation where a society is compelled to engage more man power for recoveries, it would lose the available opportunity for utilizing the resources of the society, specially the human resources in new productive businesses.
- Making more provisions out of the profits in respect of bad debts, would bring about a decrease in the funds of the society.
- The possibility of spreading the default culture in one institution to the rest of the institutions in the area would ultimately create an atmosphere disastrous to the entire population.

THE PROPOSED SOLUTIONS FOR THE PROBLEM

This matter can be discussed in two perspectives as follows:

- Policy Planning
- Operational Actions

Policy Planning

A policy Framework with regard to granting of credit facilities is absolutely necessary for a credit society. This needs to be formulated by the Board of Directors of the Society with the assistance of qualified and experienced advisers. In the process of preparing such a policy document, the attention should be focused on the following Areas.

- Institutional vision, mission, Goal and the entire corporate plan.
- The contents should be in keeping with the principles of the co-operative movement.
- They should be on a par with the objectives and the policies of the Government.
- The ability to achieve the macro objectives of the Credit Society should be considered.
- They should be within the framework of the common law and the statute of the country.
- They should not be contradictory to the accepted moral values in the country.
- The prevailing opportunities for the fulfillment of the requirement of the business units of the economic structure should be taken into account.
- The availability of opportunities for effective utilization in the local resources should also be taken into consideration
- They should be in accordance with the policy guidelines of the Central Bank of Sri Lanka, which is administering the monetary policy of the country, although it has no direct involvement in the supervision of the credit society.
- They should be within the principles and expectations of the Government Co-operative Department/ Ministry which is the regulator for the Co-operative sector.
- They should be in keeping with the economic, social, and cultural needs of the members of the Society.
- To be able to **create future effective leaders** for the Society as well the co-operative movement and the country.

- The policy should also be appropriate for the economic and social development of the members and for the high performance and the sustainability the organization.

Credit Operational Actions

For the efficient management of the delinquent advances an effective credit operational mechanism is an absolutely necessary factor. This can be explained under several stages as follows.

- ◆ Identification of the borrowers.
- ◆ Collection of adequate qualitative and quantitative information of the applicants and their enterprises / project for which credit facilities are expected.
- ◆ Analyses of information collected for lending purposes.
- ◆ Preparation of credit proposal / appraisal.
- ◆ Recommendation/approval / Rejection.
- ◆ Completion of securities and release of funds.
- ◆ Monitoring the borrowers, follow up actions and recovery.
- ◆ Maintain relationships with the borrowers / clients
- ◆ Cross-selling services for clients.
- ◆ Providing non-financial services to enhance their entrepreneurial, technical and managerial skills so as to retain the customers for a longer period without leaving room for them to approach any other competing financial institution. Making provisions for looking after the economic needs of the other members of the family would also be necessary.

The importance of the willpower of the Board of Directors of the Society towards the necessary of advancement of the Society.

The will power of the Board of Directors of the society is quite important not only for the recovery of delinquent advances but also for the entire operation of the society.

The decision making with regard to the formulation of the policy framework and the operational mechanism is the duty and the responsibility of the Board of the society.

The Board of Directors of the Society should act with a strong will power in the management of loan defaults, and in all decision taken with regard to the affairs of the society as well. In this connection it is very important that the Board of Directors should be aware of the techniques of good governance to which they are required to focus their attention.

The Qualifications and the Eligibilities of the Board of Directors.

In discharging its duties, the Board of the Society is expected to exercise leadership, enterprise, integrity and judgment in directing the Co-op Society so as to achieve continuing prosperity and to act in the best interest of such society in a manner based on transparency, accountability and responsibility.

Qualification and Qualities of Directors

- ▶ A director of a Co-operative Society must be a fit and proper person to hold office as a director of a society.

Following matters are taken to determine whether the person is a fit and proper person.

- ▶ The person's probity
- ▶ The person's competence and soundness of judgement for fulfilling the responsibilities of the office of the director
- ▶ The diligence with which the person is likely to fulfill the responsibilities of the office of the director.
- ▶ Whether the interest of the members depositors or creditors or potential members, depositors or creditors of the society are or likely to be in any way threatened by person holding office of directors
- ▶ The previous conduct and activities in business and financial matters of the person
- ▶ Academic qualifications and / or professional qualifications and / or effective experience in respect of the Co-op Sector / Business / Financial Field etc.
- ▶ It is the duty of the director to act in the best interest of the society and its members with due regard to claims of other stake holders by ;
 - a. Compliance with statutory and regulatory requirements and loyalty to such institution
 - b. Independence of judgement
 - c. In the event of a conflict of interest, ensuring the interest of the Co-op Society
 - d. Ensuring fairness in dealing with different stakeholders
 - e. Exercising of care, skill, diligence and professionalism.

Possessed of qualification and eligibility stated above, that facilitate, efficient administration of the society. In an environment of this nature the function of the management of delinquent advances would not be that difficult.

In respect of what area the willpower is required?

What is willpower?

Willpower is very strong determination to do something

It is strength to direct or control once action or desires.

All members of the Board while working, as a single body should make the following decision and implement them with a collective responsibility.

- **Membership**

Deviation from offering membership to persons who are ineligible and whose integrity is doubted.

- **Posts in the Sub Committees**

No person whose knowledge / competency is inadequate for the performance of the work assigned, should be appointed to the Committee.

- **Appraisal of Credit Proposals**

A Credit Proposal for a Project should not be approved without any knowledge of the feasibility considering only the personal benefits, in a manner which would be harmful to the financial standings of the society.

- **Valuation of Securities**

The valuation of immovable properties offered as security for advances should be decided taking into consideration the amount that could be realized at a sale. It should not be influenced by outside pressures.

- **Conditions for Advances**

Conditions for the credit facility should be laid down for the purpose of minimizing the risk involved in lending. These should not be a deviation from the basic lending principles.

- **Recovery Procedure**

The ability should be there to take stern actions against the willfull defaulters taking into consideration the fact that the society should exist unharmed

- At a time where action has to be taken for the realization of security, decision to be taken would bring about mental worries. But in such situations an appropriate and balanced decisions should be taken giving due consideration to both the society and the member.

- **General**

At the time when the management team of the society detects errors, omissions, weaknesses, frauds or irregularities occurred during the course of the lending activities of the credit officers and any disciplinary action taken imperatively.

- **Sub Committees**

The sub committees should function in the proper manner. In the event any weaknesses are detected decision should be taken considering the well being of the institutions and not that of the persons concerned.

It should always be borne in mind that the Co-operative Society is an organization of the general public, it should function in accordance with the internationally accepted Co-operative principles.

Irrespective of the personal opinions and expectations where a decision is arrived at with regard to the society, it should always be in the best interest of the organization and its entire membership.

Such decisions should be made according to the consensus of the Board Members. The will power can achieve multitudes of goals. There are many Herculean tasks successfully performed and goals achieved by the person with their will power. The history bear evidence locally and globally to confirm these successes. Prince Siddartha's attainment of Buddha hood, Emperor Asoka's capture of states and the invention of the air plain by the Wright Brothers are the remarkable events we are aware of.

It is also significant to understand the consequences resulting from the weakened will power.

- It would have an adverse effect on the business performance of the society, qualitatively and quantitatively. Unstable and shaking decisions would not be appropriate for uniformity on decision making for the maintenance of the principles and policies.
- When the membership realizing that the Board Members do not have the quality of acting with a strong will power the existence of the society would be in jeopardy.
- Under these circumstances when the society does not function steadily, a tendency would develop among the members to default loan repayment, delaying settlement and for clamor for relief which may not be reasonable.
- This situation would also be an obstructions to the efficient management of the risks in lending.

CONCLUSIONS

The decision and actions of the Board of Directors would be of utmost importance with regard to the entire procedure from the time of selection of a member to the society. The behaviour of the person as a member, submission of application for advance, collection of information, credit evaluation, granting of advances, monitoring, follow up action and recovery are the stages covered by the decisions and the actions of the Board.

The basis for all the decision and performance is the will power of the members of the Board of Directors in connection with decision-making and operations. What is required is the positive will power, which could be maintained firmly without any interruption. This is the basic factor for the sustainability of the society and for the economic, social, cultural and moral upliftment of the members.

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