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IMPROVEMENT OF THE BANK CREDIT MANAGEMENT MECHANISM IN THE COVID-19 PANDEMIC SITUATION

ÎMBUNĂTĂȚIREA MECANISMELOR DE GESTIONARE A CREDITELOR BANCARE ÎN CONDIȚIILE PANDEMIEI COVID-19

Grecu Luminița, studentă, Specialitatea: FB
Academia de Studii Economice din Moldova
Republica Moldova, Chişinău, str. Bănulescu-Bodoni 61, www.ase.md
e-mail autor: luminita.grecu13@gmail.com

Rezumat/Abstract. *Situația de criză din economie a generat și anumite dificultăți pentru sectorul bancar, gestionarea creditelor bancare fiind unul dintre ele. Administrarea creditelor neperformante și menținerea acestora într-o cotă cât mai mică în structura portofoliului de credite a devenit o problemă mai accentuată în perioada pandemiei de COVID-19 având în vedere incertitudinea rambursării și disponibilității mijloacelor bănești de care dispun sau vor dispune clienții băncii.Banca Națională a Moldovei a luat unele măsuri pentru ameliorarea acestei situației prin diminuarea ratei rezervelor obligatorii până la 34%, oferirea flexibilității băncilor în abordarea agenților economici care au credite bancare ș.a. Cu toate acestea, implementarea scoring-ului în timp real, monitorizarea limitelor, cât și revizuirea strategiilor de gestionare a conturilor ar putea minimiza pierderile băncilor din oferirea de credite.*

Cuvinte cheie: *risc, credit, bancă, COVID-19, gestiune, rezerve, strategii*

JEL CLASSIFICATION: E58, F65, G01, G21, H12

INTRODUCTION. The administration and management of the credit portfolio has always been a challenge for the bank, as credit is the measure of trust one party has in another party's ability to receive some kind of resource now and pay for it at a designated point in the future.[1] In the condition of economic crisis caused by the COVID-19 pandemics, the banking sector felt much deeper the burden of credit management as the financial situation became unstable for most of the debtors, as well as the medium capacity of the bank to classify the debtors according to the degree of risk and the outdated mechanisms used to deal with credit risk.
The objectives of this paper are to emphasize the effects of non-performing loans, to identify the challenges and the best practices for a better credit management, to analyze the existing mechanisms that are used and the measures taken in our country and to point out some additional international measures that might be implemented in the national practice.

CONTENT. Holding a high number of NPLs relative to the total assets of the bank poses a huge risk to the company. The NPLs a bank holds in its books, the less attractive it is for potential investors because its future profitability will suffer if the lender will not earn an income from its credit business. Also, the lender will be required to set aside a portion of its profits as bad debts provisions in case it is required to write off the debts.[2]
In order to prevent losses resulted from NPLs, a good credit risk management is vital as this is the activity that a bank performs in order to prevent losses through assessing the adequacy of the capital and the reserves for credit losses (provisions). The global financial crisis – and the credit crunch that followed – put credit risk management into the regulatory spotlight. As a result, regulators began to demand more transparency. To comply with the more stringent regulatory requirements and absorb the higher capital costs for credit risk, many banks are overhauling their approaches to credit risk. But banks who view this as strictly a compliance exercise are being short-sighted. Better credit risk management also presents an opportunity to greatly improve overall performance and secure a competitive advantage.[3]
However, credit risk management deals with some challenges that specialists in this field strive to expel such as:

- Inefficient data management;
- No groupwide risk modeling framework;
- Constant rework;
- Insufficient risk tools;
- Cumbersome reporting.

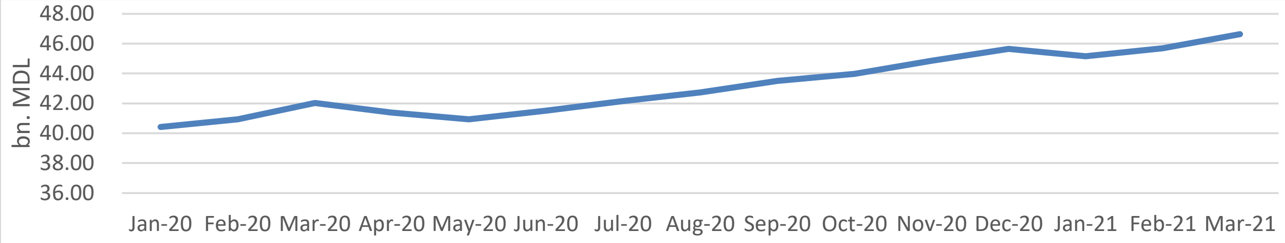
In Figure 1. it is shown the evolution of the volume of credits from January 2020 till March 2021, this being the most relevant period for analyzing the impact that COVID-19 pandemics on the banking sector. As it is seen, the volume of credits had an increasing trend till March 2020, the improvement in comparison to the beginning of the year being of 3.83%. However, after March 7, the date when the first case of coronavirus was confirmed in our country, the situation started to change, from April 2020 the volume decreasing by 1.55% and in May by another 1.1%. This was the time when our economy and the banking sector received the hardest shot, as they did not expect such a turnover of the situation.

Being already in the middle of the situation, the NBM together with the authorities, commercial banks and responsible bodies had to take measures in order to improve the situation, therefore from May 2020 till December 2020 the volume of credits increased by 10.32%.

Since the beginning of the pandemics generated by COVID-19, the National Bank of Moldova took a series of measures to mitigate the effects of the economic crisis that have both direct and indirect influence on credit management of the bank. These are:

1. The NBM continues to take incentive monetary policy measures. The NBM's series of measures aim to mitigate the impact of the pandemic and supports the recovery of the economy by boosting aggregate demand. The NBM also supports the upward trend in lending activity, ensuring sufficient adequate liquidity for this purpose, while reducing lending costs in support of the business environment.
2. The NBM offers banks flexibility in approaching the economic agents with bank loans. NBM) approved a decision that allows licensed banks to postpone or change the payment deadlines and/or the amounts of due payments on loans granted to economic agents until 30 June 2020. The measures may be applied individually by each bank, according to its internal regulations and contractual provisions with the debtors, including their payment ability.
3. The National Bank of Moldova recommends banks to refrain from paying dividends. In this context, banks are encouraged to continue promoting appropriate policies for recognition and coverage of non-performing exposures and to carry out sound capital and liquidity planning, as well a robust risk management. These measures are in line with the best international practices and are similar to the decisions promoted last period by most central banks of the European Union and of the region.
4. The NBM approved measures for supporting the individuals as banking loan consumers during the emergency period. At the same time, the NBM decision determines the need for prudent management by banks of all risks in order to maintain the stability of the banking sector and to protect depositors. [4]

Nevertheless, in January 2021 the volume again decreased, but improved latter, retaking its ascendent trend.

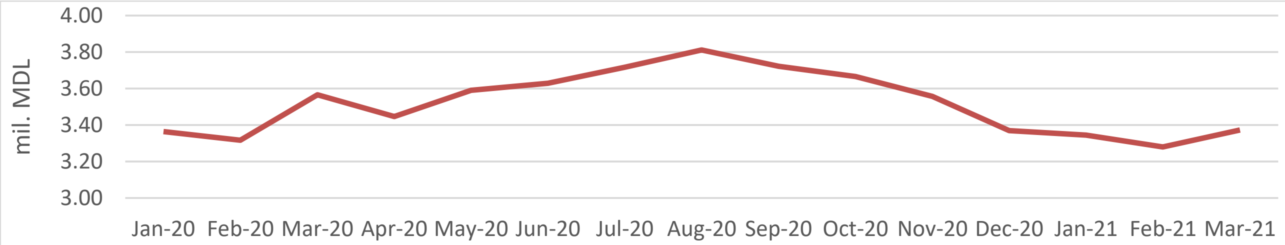


	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21
	40.42	40.93	42.03	41.39	40.94	41.51	42.15	42.73	43.50	43.98	44.85	45.65	45.16	45.69	46.64

Figure 1. Evolution of the volume of credits per Total banking sector (January 2020 - February 2021)

Source: Elaborated by the author based on the information from www.bnm.md [5]

Analyzing the part of credits under the risk of failure of reimbursing, in Figure 2 is represented how the volume of NPLs behaved during the same period. In February 2020 the volume decreased till 3.32 million MDL, but next month rocketed by 7%, as natural and legal persons begun to have financial problems and some of them were not able to reimburse the amount borrowed from the banks. In April decreased by 3.48%, but by August 2020 the volume increased by 9.45% as the measures taken by NBM did not work the expected way. However, from August 2020 till February 2021 the volume plummeted by 16.16% as a consequence of the efficiency of the solutions provided and the financial help obtained from abroad, but we can see that in March 2021 the volume increases again denoting new challenges for the banking sector.



	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21
	3.36	3.32	3.57	3.45	3.59	3.63	3.72	3.81	3.72	3.67	3.56	3.37	3.34	3.28	3.37

Figure 2. Evolution of the volume of non-performing loans per Total banking sector (January 2020 - February 2021)

Source: Elaborated by the author based on the information from www.bnm.md [5]

The solution for these challenges may be found in international practices, through understanding the behavior of risks at microeconomic (individual) and macroeconomic (portfolio) level. While banks strive for an integrated understanding of their risk profiles, much information is often scattered among business units. Without a thorough risk assessment, banks have no way of knowing if capital reserves accurately reflect risks or if loan loss reserves adequately cover potential short-term credit losses. Vulnerable banks are targets for close scrutiny by regulators and investors, as well as debilitating losses. [3]

Firstly, the bank needs to know very well its customers, to build a relationship based on trust and gather the needed information, in this way the bank insures itself that will operate with the latest details about its clients. The institution should present itself as a trustful, client oriented and understanding bank towards its customers, that is why the initial questions that the employees of the bank ask to the clients should focus on finding out information about the activities performed by the client in the case of natural persons, and about the type of company, services, suppliers, market share, ownership, history etc. in the case of legal persons.

Secondly, we should keep in mind that risks that natural persons present are much harder to mitigate as their number in comparison to legal persons is bigger and the documents and the evidences that they present to the bank are less, as the latter need to present the financial situation, collateral contract, guarantees and other specific documents that prove the eligibility of the client. Therefore, the bank has to understand the nonfinancial risks of legal persons, that are harder to determine from the financial

situations, and to make researches regarding the financial stability of the company before analyzing any numbers.
Thirdly, the financial capacity of the natural or legal person to reimburse the credit needs to be analyzed, as this is the main foundation that a bank uses to offer or reject a credit to its customers, therefore it is essential to understand the reasons that a company or an individual need to borrow money.
From the perspective of financial institutions, the conditions that the COVID-19 crisis triggered have specific implications for managing and mitigating credit risk. In the last months, banks have been adjusting to the new dynamics and exploring potential new approaches to the challenges. The analyses gauge the impact of the crisis on national or regional economies as a whole, the impact by sector and subsector, and specific credit-risk problems requiring real-time monitoring.
The key to reducing loan losses – and ensuring that capital reserves appropriately reflect the risk profile – is to implement an integrated, quantitative credit risk solution. This solution should get banks up and running quickly with simple portfolio measures. It should also accommodate a path to more sophisticated credit risk management measures as needs evolve. [6]

CONCLUSION AND RECOMMENDATIONS. The COVID-19 pandemics triggered an unstable situation for the future of the economy, and the impact that this situation will have furtherly depends on how governments and the medicine sector will deal with the virus because while the responsible authorities and the government provide support to those institutions that need it, banks have to implement the latest best practices in order to prevent losses due to credit risk and to take to the highest level the credit risk management.
Only those banks that deal in a fast and flexible way with the challenges that the present situation impose and that keep in mind the needs of their clients in this tough period will be the highest rated and demanded banks, will keep the brand loyalty of their customers and will be able to provide qualitative credits for those who need them.
As recommendations, from the international practice there are several solutions for the improvement of bank credit management mechanism, and namely:

- Reset acquisition strategies with tightening of cutoffs, limit adjustments, and expanded use of traditional and alternative data;
- Refresh account management strategies with tighter monitoring, line optimization, and account treatment;
- Better model management that spans the entire modeling life cycle.
- Real-time scoring and limits monitoring;
- Robust stress-testing capabilities;
- Data visualization capabilities and business intelligence tools that get important information into the hands of those who need it, when they need it.

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Coordonator ştiinţific: CIOBU Stela, dr., prof. univ.
Academia de Studii Economice din Moldova
Republica Moldova, Chişinău, str. Bănulescu-Bodoni 61, www.ase.md