

FACTORS AFFECTING CREDIT RISK MANAGEMENT AT AGRIBANK - BACH THONG DISTRICT BRANCH

*Nguyen Thi Thuy Dung – Nguyen Thi Ngan
Thai Nguyen University of Economics and Business Administration*

Abstract

The paper used descriptive statistical methods to evaluate the impact of factors on credit risk management at Agribank - Bach Thong district branch, Bac Kan province. By using the sample formula of Slovin (1960), the study selected a sample size of 130 customers and 05 credit officers to analyze and evaluate the factors. The research results have shown that the credit risk management of banks is influenced by 3 groups of factors: (1) objective factors; (2) the factors belong to the bank; (3) the factors belong to the customer.

Keywords: customer, bank, credit risk management, factors.

Introduction

Vietnam's economy has been increasingly integrating internationally, thereby creating favorable conditions for financial activities, contributing to promoting the strong development of the banking market. However, with the characteristics of a sensitive business sector, banking risks are unavoidable and affect the sustainable development of commercial banks in particular and the financial market system, the economy in general.

In a challenging operating environment, banks must bear significant risks to earn profits. Along with the development of science and information technology, the level of risks in credit activities is also much more diverse, complex, and sophisticated than before. It requires the managers to detect risks early, warn of risks, especially potential risks. Besides, early detection of factors affecting risk and providing risk management models are very important for modern and versatile banks today.

Vietnam Bank for Agriculture and Rural Development (Agribank) has a leading role in the rural financial market in Vietnam. It has constantly innovated and perfected in the direction of becoming more modern and more developed. It has also set out specific business strategies for each period, improving credit quality, increasing accessibility, and timely meeting capital needs for agriculture and rural areas, especially direct capital to farm households. It has regulated and transferred capital to the agricultural and rural areas, fully and promptly meet the capital needs for low-interest loans.

Agribank Vietnam - The Branch of Bach Thong district, Bac Kan is a branch under the province and plays an important role in the system of Vietnam Bank for Agriculture and Rural Development. With the characteristics of Agribank, credit activities were focused on developing from the beginning. The growth rate is very positive, however, credit activities also come with many risks such as the occurrence of overdue debts, bad debts. Therefore, evaluating the factors affecting credit risk management at Agribank Vietnam - The branch of Bach Thong district, offering solutions to improve The Bank's credit risk management in the coming years is very necessary.

Methodology of research

Secondary data

Documents are collected on agricultural production, agricultural economics, rural areas, documents on agricultural policies, policies, and regulations on bank credit, credit risk management and credit risk mitigation solutions, ... Information and materials are taken from reference books, specialized magazines, scientific reports, and professional agencies such as Agribank, State Bank of Vietnam, State Bank - Bac Kan province branch, ...

Collect primary information

To evaluate the factors affecting credit risk management at Agribank Vietnam - Branch of Bach Thong district, we collect primary information by the survey for credit officers working at Agribank Bach Thong and customers having credit transactions with Agribank Vietnam - Branch of Bach Thong district.

Sample size:

- For the branch's credit officer: the number of credit officers at the branch is 05 people. Therefore, the study conducted an overall survey.

- For customers: The number of customers being farm households accounts for over 80%, so the authors choose the object of the survey to be farmer households (currently, there are 190 business households having loan contracts at the bank). By the formula of Slovin (1960), the authors will select 130 households to investigate. The results of the sample statistics are described in Table 1 below:

Table 1. Sample statistics

Time Transaction	Survey quantity	Percentage (%)
< 1 year	21	10,15
1 - 2 years	39	30
2 – 3 years	57	43,85
> 3 years	13	10
Total	130	100

Source: The Results of Investigation, 2020

Results

Objective Reasons

To stand firm in the fierce market competition, it is required that commercial banks diversify and expand their business activities, research and bring many new products to customers, and especially improve the quality of the bank's credit. The objective reasons affecting credit risk management at Agribank Bach Thong are divided into 3 main groups: (1) the impact of the unstable economic environment; (2) the influence from the inspection and supervision of the State Bank; (3) inadequate information systems. The survey of 130 customers at the bank shows that the most important factor affecting customer credit risk management at Agribank Bach Thong is due to ineffective inspection and supervision by the State Bank of Vietnam. with an average score of 4.10. The second is an unstable economic environment with an average score of 3.66 and the least important factor is the information system with a rating of 2.95.

Table 2. The results of customer assessment on the credit risk management

	N	Minimum value	Maximum value	Mean	Variance
The impact of the unstable economic environment	130	2	5	3.66	.818
The influence from the inspection and supervision of the State Bank	130	2	5	4.10	.779
Inadequate information systems	130	1	5	2.95	.899

Source: The Results of Investigation, 2020

Subjective reasons from the bank

The result of the survey shows there are 6 factors affecting credit risk management from this bank, as follow:

Table 3. The results of customer assessment on the management of credit risk

	N	Minimum value	Maximum value	Mean	Variance
Low level of credit officers	130	2	5	4.13	.790
Banks want to develop credit quickly	130	2	5	3.00	.820
Lack of internal control	130	3	5	3.80	.618
Lack of post-landing supervision	130	2	5	3.72	.562
Unfair competition	130	3	5	3.35	.442
Bank wants to develop credit quickly	130	2	5	3.31	.806

Sources: The Results of Investigation, 2020

Table 3 shows that the reasons belong to the bank such as low level of credit officers (average 4.13); Lack of internal control (average 3.8) and lack of post-landing supervision (average 3.72) are the most influential reasons for credit risk management at branches. The least important factor is the lack of credit regulation (average 3.00).

Subjective reasons from customers

There are not only the objective factors from the business environment and the subjective factors from the bank but also customer factors that have a great influence on credit risk management at Agribank Bach Thong. The results of the survey are shown in Table 4 below:

Table 4. The results of the customers survey

	<i>N</i>	<i>Minimum value</i>	<i>Maximum value</i>	<i>Average</i>	<i>Variance</i>
Using capital for the wrong purpose	130	2	5	3.58	.544
Customers are not goodwill in loan repayment	130	1	5	3.36	.560
Business management capacity of customers	130	1	5	3.67	.914
Customer's finance is weak, lack of transparency	130	1	5	3.71	.990

Source: The Results of Investigation, 2020

Table 4 shows that the factors affecting credit risk management from customers that Agribank Bach Thong needs to focus on 3 factors:

* *Customer's finance is weak, lack of transparency*

To have a basis for assessing the customer's reputation, the Bank may look at a customer's business relationship with other economic organizations. Therefore, customers rate this factor as having the most important level (the average score in the survey factors is 3.71).

* *Business management capacity of customers*

Sources of repayment for loans are evaluated from many aspects, but most importantly, from customers' business activities. If the business customers make a loss, the source of repayment will also decrease and in a long time, they will lose their ability to repay. According to customer reviews, this factor is the second location, with an average score of 3.71 (corresponding to the "Important" on the Likert scale).

* *Using capital for the wrong purpose*

The redirected purpose of using loans is also one of the reasons affecting credit risk management at Agribank. The bank always checks closely to follow the using capital process of customers. Therefore, customers only rate this factor as the 3rd important with an average score of 3.58 (corresponding to the "Important" in the Likert scale).

To reinforce customers' comments, the authors also sent survey questionnaires to 05 credit officers at the Agribank Bach Thong district branch. The survey results are summarized in Table 5 below:

Table 5. Survey results from credit officers

	Average	Likert scale
<i>The reasons from customers</i>		
Using capital for the wrong purpose	3.2	Infrequent
Customers are not goodwill in loan repayment	4.1	Very popular
Business management capacity of customers	3.8	Regularly
Customer's finance is weak, lack of transparency	3.7	Regularly
<i>The reasons from the bank</i>		
Low level of credit officers	4.4	Very popular
Banks want to develop credit quickly	3.3	Infrequent
Lack of internal control	3.9	Regularly
Lack of post-landing supervision	2.2	Infrequent
Unfair competition	4.6	Very popular
Bank wants to develop credit quickly	3.2	Infrequent
<i>The reasons from the external environment</i>		
The impact of the unstable economic environment	3.9	Regularly
The influence from the inspection and supervision of the State Bank	3.8	Regularly
Inadequate information systems	4.0	Regularly

Source: The Results of Investigation, 2020

The survey results from credit officers also correspond to the customers: with the from customers, it is not the customer intentionally did not pay the debt but due to their difficult business situation; The reason for credit risk from banks is the weak credit officers' qualifications, the lack of inspection, control before, during and after

lending, ... Besides, by the survey questionnaires of credit officers, floating Turns up in the causes of credit management are:

- Inaccurate appraisal: it leads to errors in financing decisions, the loans are larger than the actual needs of customers.

- Due to the overwhelming workload: credit officers must ensure all phases from documentation instructions, checking records, and evaluating customers. Besides, they are pressured by time to respond to guests. Therefore, they do not have enough time to properly evaluate the current situation of customers.

- Due to the competition in the area: the competitive factor leads to the lowering of standards and principles in the appraisal, examination, and control of loan dossiers. It is also the cause of credit risk at many banks, including the Agribank - Bach Thong district branch.

- Due to the difficult handling of the asset: In fact, it is not easy to sell the asset, because it is mostly real estate, there may be many generations in the family living on the land, or the customer intentionally refuses to sign in to the record of the handover. So the bank can not sell it to recover the debt.

- Risks due to inadequate management information system: Information from CIC (credit information center) has brought a certain effect to the Bank's operations. However, there is still not have a mechanism to disclose sufficient information about customers to make the right loan decision, minimize risks in credit activities

...

Conclusion

The credit operation always contains risks. In the current period, Vietnam Bank for Agriculture and Rural Development - Bach Thong district branch is facing high credit risk due to increasing competitive pressure. Therefore, building a risk management system with effective and credit safety standards is an urgent requirement for Vietnamese commercial banks.

Credit risks are diverse, difficult to quantify, and brought about by many reasons. Credit risks cause capital loss, reduce the reputation and position of the bank.

Based on theoretical research and practical surveys at the Agribank - the branch of Bach Thong district, the study has pointed out the reasons that affect credit risk management, including objective factors, factors that belong to the bank, and the factors that belong to the bank.

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