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# Insights



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## RECTOR'S MESSAGE



A heartiest congratulation is extended to the Faculty of Business and Management, Universiti Teknologi MARA Cawangan Kedah, Kampus Sungai Petani, on the publication of the seventh volume of FBM Insights.

This most recent volume of FBM Insights covers 25 emerging issues related to microcredit, micromanagement, marketing, consumer behaviour, social media, disability, dark tourism, and food security. This compilation demonstrates UiTM Cawangan Kedah's commitment to disseminate business-related information and relevant content to a wider audience.

I believe that this bulletin is an apt platform for members of the Faculty of Business and Management to produce more academic materials which can benefit the faculty members themselves and also other people at large. Such an initiative is indeed laudable since as academicians, writing to share information is definitely crucial to our personal and professional development.

Again, I would like to congratulate the Faculty of Business and Management and all individuals involved in the publication of FBM Insights volume 7. May FBM Insights continue to grow from strength to strength in the future.

Sincerely,

Prof. Dr. Roshima Haji Said  
Rector  
Universiti Teknologi MARA (UiTM)  
Cawangan Kedah

## FROM THE DESK OF THE HEAD OF FACULTY



Assalamualaikum w.b.t

Welcome to the 7th Edition of FBM Insights 2023. This edition presents 25 articles by the academics of Faculty of Business and Management UiTM Kedah Campus. The topics involved a broad range of business and management knowledge, including matters relating to Covid 19, entrepreneurship, microfinance, and gold investing. Congratulations to all authors for your endless support and valuable contribution to the newsletter.

FBM Insights was created in the year 2020 with the aspiration to inculcate the scholarly writing culture among FBM UiTM Kedah's lecturers. Thank you to the Almighty, this bulletin still receives a positive response for each of its editions. It is our hope this continues and that FBM Insights will one day progress to another level.

Publish or perish, one phrase that all academics must embrace. The importance of academic publication is evident when it is included in several of the university's Key Performance Index (KPI). We need to strive to produce scholarly work. I hope FBM Insights can become a small steppingstone for all FBM academics of UiTM Kedah, in our efforts to improve our publications numbers.

Congratulations again to all authors. Heartiest congratulations to the bulletin's editorial board who worked hard in making FBM Insights what it is today. I wish everyone the best and keep up the excellent work.

Dr. Yanti Aspha Ameira Mustapha  
FBM Insights Advisor

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# WHAT IS A NON-PERFORMING LOANS (NPLs) FROM THE MALAYSIAN PERSPECTIVE?

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## INTRODUCTION

A non-performing loan (NPL) is one for which the borrower has failed to make scheduled payments for a specified period. The exact definition of "non-performing" depends on the terms of the loan, but "no payment" usually means that neither the principal nor the interest has been paid.

## WHAT IS A NON-PERFORMING LOAN (NPL)?

Non-performing loans (NPLs) are defaulted on or close to default. NPLs are less likely to be repaid. Even if the debtor has not caught up, an NPL becomes a reperforming loan (RPL) if the debtor starts repaying. Ismail (2011) mentioned that NPLs happen when borrowers cannot follow the repayment schedule or fail to make a payment. In theory, a single non-repayment is a NPL, but in practice, various researchers have defined defaults differently, such as 90 days (Segal, 2022), 120 days (Gray, 1985) and 240 days (Pedalino et al., 1991).

The terms, 'NPLs', 'delayed payments', 'credit risk', 'credit portfolios', and 'delinquency', have similar meanings, and most of the previous studies have used them interchangeably (Idama, 2014). According to Adedapo (2007), a NPL refers to the inability of the borrower to fulfil and take responsibility for his or her loan obligation as and when it becomes due. According to Addae-korankye (2014), a NPL happens when a payment is late. However, according to CGAP (1999) stated that a delinquent loan is in default due to the lack of supervision, resulting in minimal recovery.

It is important to measure NPLs because it can indicate the increased risk of loss and provide a warning signal that operation is facing a problem. It can help to estimate how much of the portfolio will eventually be lost because of the repayment problem. NPLs can be better understood based on three indicators, namely: (i) the collection rate, which measures the actual amount paid relative to the amount that falls due; (ii) the arrears rate, which measures the overdue amount against the total loan amount; and (iii) the portfolio at-risk rate, which compares the total outstanding balance of loans to the entire outstanding balance of loans, and reflects the proportion of loans for which timely payments have not been received (CGAP, 1999).

In addition, NPLs occur when a debtor has not met or been responsible for his or her legal obligations according to the debt contract. For instance, a debtor has not followed the scheduled payment or has violated a loan condition of the debt contract (Ameyaw-Amankwah, 2011). Pearson and Greeff (2006) also concurred that default occurs when a debtor fails to follow the payment schedule or violates a loan condition of the debt contract. This can represent a point in time and is an indicator of repayment behavior, wherein there is a clear increase in the risk that the borrower will ultimately default by stopping all repayments.

## NPLs APPLIED IN MALAYSIA

In Malaysia, NPLs refer to loans for which the borrower has not made payments for more than three months. The judgement will take effect after six months, when the notice of demand (NOD) is released. After six months, if the borrower has still not made payment, the lender will proceed with blacklisting and bankruptcy (Bank Negara Malaysia, 2017).

For the payment, if the borrower defaults in less than three months, the borrower can pay either one or two months. However, if the payment is delayed for more than three months, the total amount of arrearage must be paid. Furthermore, if the borrower fails to make payments after being blacklisted or declared a bankrupt, the borrower must pay the entire loan amount (Hassan & Yahya, 2020).

For now, the ratio of NPLs in Malaysia is expected to climb to between 2.5% and 3.0% by the end of 2022 due to effect of Covid-19 pandemic in year 2020 and 2021(NST Business, 2022). In addition, NPLs in Malaysia have been shown an increasing trend for the last five years. The following are the specifics of the trend:

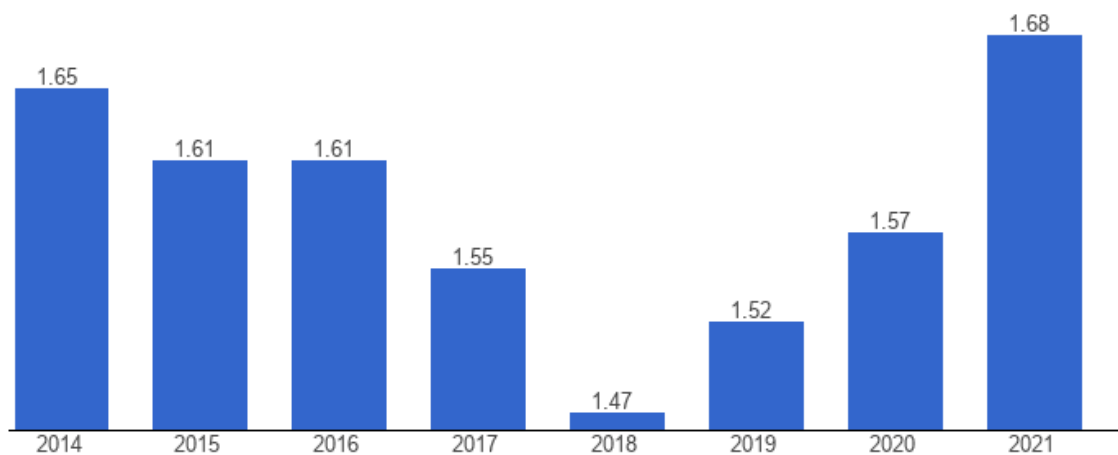


Figure 1: NPL trends in Malaysia  
Source: The World Bank (2023)

## CONCLUSION

The NPL is an important issue that must be focused on by the lender because it can affect the sustainability and performance of financial institutions, and at the same time, the lender can lose the capital as well. Finally, NPLs which are well-managed will ensure the sustainability of companies.

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