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Distressed debt recovery methods

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ABSTRACT

The way banks recover distressed debt has become an important subject locally as well as on international level. Dedicated conferences are held annually on the benefit derived by using methods other than liquidation to recover distressed debt and many forums advocate that alternative methods could yield better returns than liquidation. Many first world countries around the world have adopted legislation (such as the well known chapter 11 in the United States) to provide the necessary protection and time for a business rescue plan to be developed and implemented as an alternative to liquidation.

Legislation to this end in South Africa is contained in the Companies Act and is known as judicial management. However, as set out in this research report, judicial management proved to be unsuccessful as a distressed debt recovery method and, historically, banks used liquidation as their only alternative to recover distressed debt.

Lately, however, in the wake of international developments in the area, banks in South Africa have become very innovative in the way they recover distressed debt. Banks realise that liquidation as the sole distressed debt recovery method does not yield acceptable returns and have been exploring other alternatives to yield better results.

To this end, this research report identifies the various distressed debt recovery methods that are available to and used by South African banks, as well as the impact of key factors on the selection of one method above another to recover distressed debt. As such, this research report developed a framework that can be used by South African banks to identify the most appropriate distressed debt recovery method given the impact of these key factors.