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CKPIM BUSINESS REVIEW

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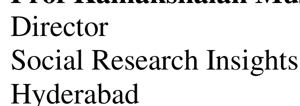

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The Impact of Credit Risk Management in the Microfinance Sector: A Case Study of UT Bank, Koforidau.

GEORGE SARPONG[1]
DR MANISH ROY TIRKEY[2]
MERCY ADUSEI BOATEMAA[3]
TETE EBENEZER[4]

Abstract

Credit Risk is the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. Managing credit risk is very important to employees and the business in particular. Issues of credit risk management have been of great interest to banks all over the World. The purpose of the study is to look at the impact of credit risk management in the microfinance sector with special reference to UT Bank, Koforidua. The objective was to find out the extent at which credit risk has been managed by UT Bank, Koforidua. The population for the study was seven (7) comprising of two (2) management and five (5) employees of the bank and all of them were involved in the study. In this study, census sampling technique of the non-probability sampling technique was used to select the management and staff of UT Bank. The researcher employed the usage of primary source of data. The primary sources included questionnaires and unstructured interviews where needed. The quantitative technique employed for this research was based on frequencies, percentages and tables. Based on the data collected and the analysis made it was discovered that the bank has been very good with the extent to which it has been able to manage it credit risk. The study also revealed that, over 80% of customers who take loans from the bank are able to repay monies without any default. Based on the findings the researcher suggest that there should be constant review of credit policies, procedures, to include modern concepts and practices, training of credit staff and proper mechanism put in place to minimize the effect of credit risk.

Key words: *Risk, Banking risk, Credit risk, Credit Assessment, Credit Risk Management.*

Introduction

Developments in the Ghanaian banking sector within the past year have given stakeholders in the Ghanaian banking industry cause to not only consider the returns made in the sector but also critically examine frameworks used to manage risks in the sector and safeguard their interests.

[1]Lecturer, All Nations University College Koforidau, Ghana
[2]Lecturer, SHIATS University- Allahabad India
[3]Lecturer, All Nations University College Koforidau, Ghana
[4]Student, All Nations University College Koforidau, Ghana

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While financial institutions have faced difficulties over the years for various of reasons, the major cause of serious banking problems continues to be directly related to credit standards for borrowers and counter parties, poor portfolio risk management, or a lack of attention to changes in economic or other circumstances that can lead to a deterioration in the credit standing of a bank's counter parties. According to Greg (2009) credit risk is most simply defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. The goal of credit risk management is to maximize a bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Banks need to manage the credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions. (Donald and Stern Steward, 2002).The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long-term success of any banking organization. (Arthur and Strickland, 2009). For most banks, loans are the largest and most obvious source of credit risk; however, other sources of credit risk exist throughout the activities of a bank, including in the banking book and in the trading book, and both on and off the balance sheet. Banks are increasingly facing credit risk (or counterparty risk) in various financial instruments other than loans, including acceptances, inter-bank transactions, trade financing, foreign exchange transactions, financial futures, swaps, bonds, equities, options, and in the extension of commitments and guarantees, and the settlement of transactions. (UT Bank Annual Report, 2009). Since exposure to credit risk continues to be the leading source of problems in banks worldwide, banks and their supervisors should be able to draw useful lessons from experiences. Banks should now have a keen awareness of the need to identify, measure, monitor and control credit risk as well as to determine that they hold adequate capital against these risks and that they are adequately compensated for risks incurred. This research was done in order to encourage banking supervisors globally to promote sound practices for managing credit risk. Although the principles contained in this research are most clearly applicable to the business of lending, they should be applied to all activities where credit risk is present. (UT Bank Annual Report, 2009).

Objective of the Study

The general objective of the study is to find out how credit risk is managed in banks. It is also aimed at finding out the extent at which credit risk management will affect the profit maximization of banks. The objectives of the study include the following.

1. To find out the extent to which credit risk has been managed by UT Bank, Koforidau.

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2. To find out the principles, policies and practices that govern the credit delivery of UT Bank, Koforidau
3. To assess how successful UT Bank, Koforidau, have been in retrieving its loans from clients.
4. To find out how profitable the credit risk management has been to UT Bank, Koforidau.

Literature Review

What is Risk?

Risk is explained as the future impact of a hazard that is not controlled or eliminated. It can be viewed as future uncertainty created by the hazard. If it involves skill sets, the same situation may yield different risk. Risk is defined in Webster's as "a hazard; a peril; exposure to loss or injury." Thus risk refers to the chance that some unfavorable event will occur. Risk is also seen as the probability of losing all or part of one's investment. According to the Risk Management Hand of U.S Department of Transportation (2009), Risk is the degree of uncertainty.

Credit Risk

Credit risk is defined as potential losses from the refusal or inability of credit customers to pay what is owned in full and on time. (Terry, 2009).The Basel Committee for Banking Supervision also define credit risk as the potential that a bank borrower or counterparty will fail to meet its obligation in accordance with agreed terms.Credit risk is considered the oldest form of risk in the financial markets. Caouette, Altman & Narayanan (2006) state that "credit risk is as old as lending itself", dating back as far as 1800 B.C. The first banks, which started in Florence seven hundred years ago, faced very similar challenges that banks face today. Although managing credit risk is their core competency, many banks failed due to over-extension of credit (Caouette et al, 2006).

Credit Risk Management

Credit risk is most simply defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. The goal of credit risk management is to maximize a bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Banks need to manage the credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions. (Dean 2009).

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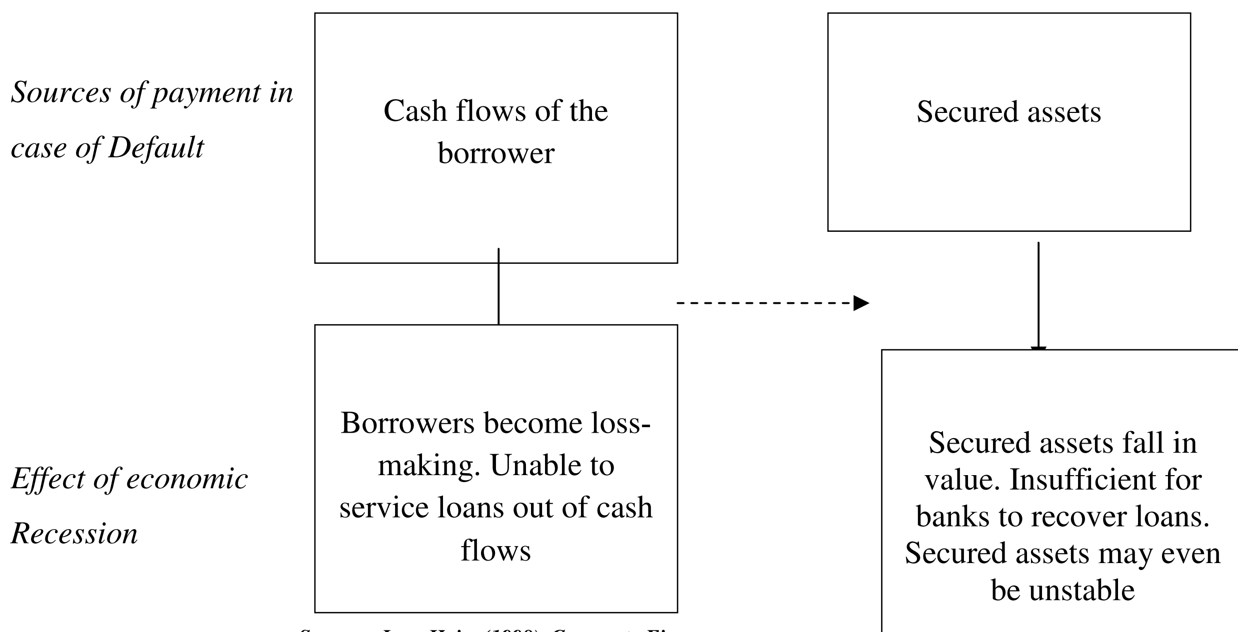
The analysis of risk management yields many definitions, but it must be understood that it is a practical approach to managing uncertainty within the organization. (Bessis 2006)Credit Risk Management basically is the process adapted to analyzing or assessing a particular credit risk and devise or develop strategies to mitigate such risk in the best possible manner that will ensure positive gain at the end. The Risk assessment is a quantitative value assigned to a task, action, or event. (Richard and Johnson, 2010)

Banks should also consider the relationships between credit risk and other risks. The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long-term success of any banking organization. For most banks, loans are the largest and most obvious source of credit risk; however, other sources of credit risk exist throughout the activities of a bank, including in the banking book and in the trading book, and both on and off the balance sheet.

Credit Risk and Secured Loans



Sources: Levy Haim (1998), Corporate Finance

Credit Risk Management Control

It is important for every bank to put some measures in place in order to control credit risks as and when they occur. As a rule this Policy document will undergo annual reviews. Among others, reviews would be on the development of new and/or revisions to credit procedures, and securing documentation. The aim is to reinforce Credit Policy to meet customer expectations, reduce credit risk, and ensure compliance with legal/regulatory requirements. In the course of the year changes to credit policies will be clearly documented by means of

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Credit**.** Risk Management circulars prior to their incorporation in the formal document during annual reviews.

This Policy seeks to instill a uniform, constructive and risk aware credit culture throughout the various banks. This culture relies on the personal integrity of lending officers/Relationship Managers and a commitment to place the long-term interest of the Group ahead of short-term interest of a particular business unit.

It is recognized that in any dynamic business environment, there are changing customer needs, competitive pressures and certain economic variables such that certain propositions may fall outside this Policy. Where there is a strong business rationale for supporting proposals that fall outside this Policy, credit applications must clearly state and, if possible, quantify the tangible benefits that will accrue if the proposition is approved.

Exceptions to Policy guidelines must be clearly listed in the appropriate section of the credit application. Policy breaches will be approved at the Credit Committee level. It is to be noted, however, that the breaches/exceptions carry higher risks and authorization of these proposals shall be recorded and monitored to determine whether credit policy needs to be revised to either prohibit or allow these cases in the future. Early consultation with the approving authority is necessary when credit proposals are likely to require policy breaches. Prior consultation does not imply approval; the normal credit approval procedures must still be followed. Prior consultation however helps to co-ordinate lending policies and also prevents commitment on individual facilities for which policy exception may later not be forthcoming.

Interpretations and Analysis of Data

Objective 1: To Find Out The Extent To Which Credit Risk Has Been Managed By UT Bank, Koforidau.

Table 1 The success level of bank's credit risk management activities?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Excellent	2	28.60	28.60	28.60
	Very good	4	57.10	57.10	85.70
	Average	1	14.30	14.30	100.0
	Total	7	100.0	100.0	

Source: Field Survey May, 2013

With regards to the bank's credit risk management success level, the researcher found out that on a whole the bank is doing very good. From the data collected it shows that four (4) respondents representing 57.1% of the total population indicated the bank is doing very good. Two (2) representing 28.6% said the bank is doing excellent, one (1) also representing 14.3%

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said the bank is doing average in its credit risk management. This is a good sign that the banks credit risk principle, policies and practices has a brighter chance for the bank in surviving future risk in the banking sector in Ghana.

Table 2 Is it necessary for the bank to manage its credit risk?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	7	100.0	100.0	100.0

Source: Field Survey May, 2013

Respondent were asked whether it is necessary for the bank to manage it credit risk and it was obvious that all the seven (7) respondent representing 100% of the total population answered yes to this question that was it necessary for them to so. The answer to this question affirms the importance that banks attach to credit risk management in the pursuit of the banks operation.

Table 2.1 If Yes, in the above question what is its impact on the bank.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Survival of the bank	4	57.10	57.10	57.10
	To minimize rate of default	3	42.90	42.90	100.0
	Total	7	100.0	100.0	

Source: Field Survey May, 2013

The researcher asked a follow up question to the effect of what is the impact of the bank being able to manage it credit risk. Four (4) of the respondent representing 57.1% of the total population said it necessary for the survival of the bank and the other three (3) which also representing 42.9% also said that it is necessary so as to minimize the rate of default on the bank .The analysis here shows that bank attach greater importance to the management of it credit risk this is because if it is not managed it can lead to the collapse of the banks entire operations. This confirms the literature by Grant (2008) that management of credit risk is mainly to ensure the survival of financial instructions and also to help avoid and if possibly reduce default. This is done be ensuring ability to pay etc. by the client or customer.

Table 3Does the bank do any form of credit analysis of customers before loan are granted?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	7	100.0	100.0	100.0

Source: Field Survey May, 2013

On the issue of whether the bank performs any form of credit appraisal, it was evident that the bank does so. All respondents said yes to the question and this represents 100% of the population. This means that the bank takes into consideration all risk associated with credit. It also means that with such policy, the bank has a clear understanding when it comes to giving out credit to customers in an effort to manage the bank's credit risk.

Table 4Are there skilled work forces or specialist to ensure effective credit risk management of loans given to customers?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	7	100.0	100.0	100.0

Source: Field Survey May, 2013

On the issue of whether the bank has skilled work forces to ensure effective credit risk management of loan to customers, all the respondent representing 100% of the population said yes they have credit specialist. This mean that all employees at the credit risk department have the technical know-how about their work and that in analyzing this fact has brought to bear the success level of the bank's credit risk department practices in table 1 shown above.

Objective 2: To find out The Principle, Policies and Practices That Governs The Credit Risk Department In Exercising Its Duties.

Table 5 The principles, practices and policies guiding the credit risk department?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	willingness to pay	2	28.6	28.6	28.6
	ability to repay	3	43.0	43.0	71.6
	Purpose	1	14.2	14.2	85.8
	regular income	1	14.2	14.2	100.0
	Total	7	100.0	100.0	

Source: Field Survey May, 2013

Respondent were asked that what are the principles, practices and policies guide lending. From the data collected it shows that two (2) respondents representing 28.6% expressed that the willingness of the client to pay back the loan is the most important factor considered by the bank, three (3) respondents representing 43% also expressed in his answer that the ability of the client to repay his loan is also considered and that with the ability to repay they are looking at whether the client has adequate cash to meet repayment of the loan, one (1) respondents representing 14.2% also expressed in his answers that the purpose of the loan should be definitely be defined by the client before the loan will approved ,and one (1) respondents also representing 14.2% wrote that the client should have a regular source of

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income before loan exerted to the client .The first two points of these principles, practices and policies guiding lending by the bank stands to confer CAMPARI model of credit evaluation which was reviewed by the researcher in his literature review.

Table 6 Does the bank review its lending policies?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	7	100.0	100.0	100.0

Source: Field Survey May, 2013

In soliciting for information with regards to whether the bank review it lending policies, the researcher found out that the entire respondent indicated yes. From the analysis, all seven (7) respondents representing 100% said yes. This is because the banking industry is very dynamic and it is subjected to regular change therefore the need to review it lending policies to at hand to meet the industry changes.

Table 6.1 If yes in the above question, how often?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid At times	7	100.0	100.0	100.0

Source: Field Survey May, 2013

Per the question asked above with references to the review of the banks' lending policies the entire respondents said at times, meaning not very often and this number of respondents represents 100% of the population size. This is because they are achieving result with their lending policies as shown in table 1 which shows the success level of the credit risk management department. To them once a while the bank changes it policies governing lending when the need arise. However, they agreed that the changes are done keeping in mind the nature of the clients. (Reserved person or spending)

Table 7 Does the bank demand for insurance cover on loans?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Sometimes	7	100.0	100.0	100.0

Source: Field Survey May, 2013

The researchers asked respondent whether the bank demands for any kind of insurance cover on loan. From the data collated it proved that the bank sometime. From the analysis all 7 respondents representing 100% of the population said that. The respondent said sometime because the collateral serves as insurance to the loan and sometime when there is no collateral which can amount to the loan in case of default, than the bank will take up

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insurance from an insurance company to cover the loan. Again in other cases the all respondents agreed that when the amount requested is not too much, and with a good track record of payment, no collateral is required.

Table 8 Types collateral required for loans to be granted?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Building	3	42.9	42.9	42.9
	Land	3	42.9	42.9	85.8
	Investment	1	14.2	14.2	100.0
	Total	7	100.0	100.0	

Source: Field Survey May, 2014

In response to the question about the type of collateral required for loans, the researcher found out that land and building constitute more and this represents 42.9%each of the total population. One (1) respondent representing (14.2%) indicated in his answer that the bank requires certain investment as collateral. According to Sinkey, (2004) the collateral should be marketable, realizable, adequate, risk free and must possess value. The data provided shows clearly that what the bank requires from client is really in line with what Sinkey (2004) says.

Table 9 Process to ensure effective credit risk management?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	identifying potential risk	4	57.1	57.1	57.1
	Choose efficient methods of controlling	2	28.6	28.6	85.7
	Monitor outcome	1	14.3	20.0	100.0
	Total	7	100.0	100.0	

Source: Field Survey May, 2014

Respondents were asked question about process which ensures effective credit risk management of the bank. From the data collected it shows that four (4) respondents representing 57.1% indicated in their answers that the first step is for them to be able to identify potential risk that the bank is exposure to which they call the identification stage, two (2) of the respondents also representing 28.6% indicated that the second step is to choose an efficient method of controlling the risk that they are exposures to and the most efficient will be selected and implemented, one (1) respondents also representing 14.3% also indicated

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in his answers that the final stage is to monitor the outcome of the method which was implemented and if possible make changes when the need arise.

Objective 3: To Examine The Success That The Bank Have Been In Retrieving Its Loans From Borrowers.

Table 10 How successful has the bank been in retrieving loans from customers?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very good	4	57.1	57.1	57.1
	Good	3	42.9	42.9	100.0
	Total	7	100.0	100.0	

Source: Field Survey May, 2014

In soliciting information from respondents with regard to the success level in retrieving loans form customer, four (4) respondents representing 57.1% expressed that it has been very good, three (3) respondents representing 42.9% said it is good. This means that the bank is doing much in terms of retrieving loans from customers and therefore it is able to manage it credit risk effectively which is shown in Table 1 above of the distribution.

Table 11 Are customers able to meet repayment requirement?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	5	71.4	71.4	71.4
	Not always	2	28.6	28.6	100.0
	Total	7	100.0	100.0	

Source: Field Survey May, 2014

On the issue of whether customers are able to meet repayment requirement by the bank, the response collected shows that most customers are able to meet the requirement. Five(5) respondents representing 71.4% of the population indicated yes. Two(2) respondents indicated not always and this represents 28.6% of the population. By this the researcher found out that it was due to the sound principle, policies and practices that governs the credit risk department of the bank which has contributed to that success on the other hand too not all customer are able to meet there repayment requirement in fully.

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Table 12 How the bank makes sure that loans granted are used for the purpose(s) for which they are acquired?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Regular follow ups	4	57.1	57.1	57.1
	Require for monthly report on project	2	28.6	28.6	85.7
	Monthly income statement	1	14.3	14.3	100.0
	Total	7	100.0	100.0	

Source: Field Survey May, 2014

On the question of how the bank makes sure that loan granted are used for the purpose for which they are acquired. From the response collected it shows that four (4) respondents representing 57.1% of the population indicated that they undertake a regular follow up on the customer to check whether the loan is used for the purpose for which it was granted, two (2) respondents representing 28.6% also indicated that the monthly report on the progress of the project is to been submitted by the customer to the bank and one (1) respondents also representing 14.3% also answered that monthly income statement which show the outflow and inflow of cash is to be submitted to bank if the project is wall establish in the case of a business.

Table 13 The impact of high default of loan on bank's operations?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Makes lending difficult	2	28.6	28.6	28.6
	Reduces profit	5	71.4	71.4	100.0
	Total	7	100.0	100.0	

Source: Field Survey May, 2014

Respondents were asked the impact of high default of loan on banks operation. It can infer from the analysis that it really poses a great challenge to the bank. A large portion of the (5) five respondents representing 71.4% said high default rate of loan payment reduces profit of the bank, 28.6% which represents two (2) of the respondents said it makes lending difficult. This is quite obvious and true that nonpayment of loans by customers cripples the bank in so many ways. The inference is that high default makes bank operations difficult.

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Table 14 What is done by the bank to reduce high default rate on loan?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Advance to people who really need it.	3	42.9	42.9	42.9
	spread loan over long period	3	42.9	42.9	85.8
	approved by committee	1	14.2	14.2	100.0
	Total	7	100.0	100.0	

Source: Field Survey May, 2014

Respondents were asked what measures are in place for the bank to reduce high rate of default on loan. From the respondents collected it shows that and per the analysis three (3) respondents representing 42.9% answered that they advance loan to people who really need it is the first rule ,three (3) again representing 42.9% also answered the credit will be approved by a committee before it is extended to the customer this is so because they believe sometimes an individual can overlook certain things when approving the loan and one (1) respondents also representing 14.2% answered the loan is made easy for the customer to repay by spreading the principal and the interest charge over some period of time for fully payment of the loan and these are the framework which governs lending in the bank.

Objective 4: To Find Out How Profitable Credit Risk Management Has Been To The Banks.

Table 15 Has it's been profitable for bank in the management of it credit risk?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	7	100.0	100.0	100.0

Source: Field Survey May, 2014

The researcher wanted to find out if the bank has been profitable in the management of it credit risk it was obvious that all the seven (7) respondent representing 100% of the total population indicated yes to this question. The answer to this question has it evident in the improvement in the repayment of loans. Which also implies that bank is being profitable in the management of it credit risk.

Table 16 The functions of credit risk management department of the bank?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	credit analysis	3	42.8	42.8	42.8
	monitoring and control risk	2	28.6	28.6	71.4
	arranging secure methods of payment	2	28.6	28.6	100.0
	Total	7	100.0	100.0	

Source: Field Survey May, 2014

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In soliciting information from respondents with regard to the functions of the credit risk department of the bank three (3) respondents representing 42.8% made the researcher aware that they are responsible for the overall credit analysis of each customer who what to access loan from the bank , two (2) respondents representing 28.6% also said monitoring and controlling risk is also another function which is performed by them and that with this function they seek to balance the deposit reserve of the bank and credit they can make available to customer with the right balance achieved the bank can be in operation, two (2) respondents also representing 28.6% answered that they seek to put measure in place to recover their loan in case of default.

Table 17 Has there been improvement in repayment of loans?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	7	100.0	100.0	100.0

Source: Field Survey May, 2014

On the question of whether there has been improvement in repayment of loan, the whole population indicated yes and this represent 7 respondents making 100% of the total population. With this confirmation by the respondent the researcher can infer that the management of banks credit risk is being profitable as shown in table 17.

Table 18If yes, in the above question what measures are taken to ensure that, if no why?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Collateral	3	42.9	42.9	42.9
	Spreading loan	4	57.1	57.1	100.0
	Total	7	100.0	100.0	

Source: Field Survey May, 2014

In soliciting for information with regards to measures taken to ensure repayment of loan by customers, the analysis shows that spreading of the loan is the best way of doing so. From the response collected four (4) respondent representing 57.1% of population answered so. To them is the best way because the amount to be repaid is spread over a long period of time to reduce the pain of paying so much within the shortest possible time which sometimes they cannot afford. Three (3) representing 42.9% also said another best way is through collateral securities. The collateral is also another way because customers do not what to lose their valuable assets to the bank.

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Table 19 How the bank assess the performance of the credit risk management department

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	performance of loan repayment	4	57.1	57.1	57.1
	level of default rate	2	28.6	28.6	85.7
	profit margin on loan	1	14.3	14.3	100.0
	Total	7	100.0	100.0	

Source: Field Survey May, 2014

The researcher wanted to know how the performance of credit risk management department is assessed. Four (4) respondents representing 57.1% of the total population expressed that the performance of loan repayment will serve as a means of assessing their performance, this is because if customers are able to go through all the stages that guides lending successfully and credit is exerted to them and they are not able to repay than the department is not being profitable on the other hand if customer are able meet the terms of the credit agreement than they are being profitable, two (2) respondents representing 28.6% also expressed that the level of defaulters will also be another means of assessing their performance this is because when the rate at which customers are defaulting is too high than they not profitable in their core duets and vice versa.

One (1) respondent also representing 14.3% expressed in his answers that if the profit margin between the cost of exerting credit and what is received as the principal and the interest charged can also be a means of assessing their performance. This is because if the bank incurs so much cost to make credit available to customer and at the end of the period what they receive back as the principal and the interest does not amount to cover the cost incurred to exert the credit then the department is not being profitable.

Summary of Findings, Suggestions and Conclusions

Summary of Findings

Credit risk means the risk of credit loss that result from the failure of a borrower to honour the borrower's credit obligation to the financial institution. Looking at the way credit risk is being managed or assessed, there has been remarkable progress in the area of credit risk

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prevention over the years. The bank has put in place prevention techniques and tools to measure and evaluate credit risk.

The research objective was to assess the principle, policies and practices guiding the credit office. In addition, it also aimed at examining the extent to which the bank has being in managing it credit risk, the success level of the bank in retrieving of loan from borrowers and how profitable credit risk management has been to the bank operation.

The study identified the importance of managing credit risk in banking. To do this successfully, primary data source was used for the analysis. The research encountered some problems in the course of the study. Among them were limited time and unwillingness on the part of the correspondents to offer information concerning banking operations, they considered the possibility of such information being leaked to other competitors, although they were assured the research was purely for academic purposes.

Objective One "To find out the extent to which credit risk has been managed by UT Bank, Koforidau"

From the research conducted, it was discovered that the bank has been very good with the extent to which it has been able to manage it credit risk. In spite all this bank seen it to be very necessary to manage their credit risk if they want to stay in business and therefore to be able to manage their credit risk they make sure that all client are subjected to credit analysis before loans are exerted to them. Due to the complex nature of the analysis there are skilled personal employed by the bank to undertake the analysis in the effective management of the risk.

Objective Two "To find out the principles, policies and practices that govern the credit delivery of UT Bank, Koforidau."

With respect to this objective the researcher discovered that the principle, policies and practices which govern the credit risk department of the bank were:

1) Willingness to pay loan by the customer which is also called character of the customer which looks at the willingness to pay versus ability to pay.
2) Ability to repay the loan by the customer which also looks at the adequacy of cash by the customer to meet repayment of loan.
3) Purpose of the loan must be defined and that speculative purposes are considered risky and will not be entertained by the bank.
4) Regular source of income by the customer is also looked at.

Moreover the researcher found out that collateral or securities required for loans to be granted should be marketable, realizable, adequate, risk free and must possess value, which has been

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registered. An example is land and building. This way, customers were in the position to meet the requirements of the bank and more people would be able to assess loan.

The banking industry has become very vibrant and competitive, and if the terms and conditions of assessing and granting loans are not attractive enough, the customers of the bank may resort to taking loans from other banks whose terms and conditions are more favorable. For this reason, the study revealed that the bank very often reviewed it lending policies to meet the dynamic and the competitive nature of the banking sector in Ghana. The bank does this taking into consideration the standards and requirements defined by the Central Bank. The researcher also found out the practices or the process which is employed by the bank to also ensure effective credit risk management. The first of the process is what the bank calls the identification stage. With this stage the bank is able to identify potential risk which they are exposure to, the second is for the bank to choose an efficient method of controlling the risk which they are exposure to and implement it and the final stage is to monitor the outcome of the implementation and if possible make some changes if need arise.

Objective Three "To assess how successful UT Bank, Koforidau has been in retrieving its loans from borrowers"

The research revealed that the bank has been successful in retrieving loans from borrowers and that the success level was over 80% and this is due to the fact that over 80% of customers have been able to repay back their loan. Notwithstanding this fact, not always are customers able to meet the repayment of loans this is so because the banks' credit risk management activities have succeeded in minimizing the credit risk from appraisal to the disbursement of loan facilities.

The bank also made sure that loan granted are used for the purpose for which it was granted through regular follow ups on the customer to check, the bank also requested for monthly report on the progress of the project. The bank also requested for monthly income statement and also made sure that to reduce high default on loans; credits were given to client who really needed it, making it easy for repayment by way of spreading it over a period of time depending on the amount involved.

Objective Four "To find out how profitable the credit risk management has been to UT Bank, Koforidau."

With regards to this objective, the study showed that there has been an improvement in the repayment of loans and also the effective performance of the functions of the credit risk department of the bank has also contributed to performance of it banks operation in terms of

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profitability. The study revealed that, over 80% of customers who take loans from the bank are able to repay the monies without any default.

Again, the study showed that UT Bank, Koforidau has been successful in reducing default rate through it risk management processes. This made it possible for loans to be given to individuals who really needed the money and can repay it back. This showed that the credit risk management has been of great help to the bank.

Conclusion

It is difficult to draw a general conclusion from the study of credit risk management of banks to all other banks in Ghana, because credit risk management varies from one bank to another due to various internal conditions. Nevertheless, since banks are regulated and operate within the same economic, political and social environment, there is the likelihood of banks sharing some common features regarding credit risk management. Therefore, UT Bank, Koforidau always operates within the definitions of the regulatory body which is the Central Bank and also operates in fulfillment of the missions and purpose of its establishment.

To conclude, it must be noted that the long-term survival of banks depended largely on the profit derived from its lending activities, which in turn depended on how effective credit risk activities and practice have been managed. In a nutshell, managing credit risk is a fundamental component in the safe and sound management of banks. Credit risk management involves establishing a credit risk philosophy, policies and procedures for prudently managing such risks.

Suggestions

This discusses the possible ways that banks could take to improve their profits, reduce cost and make good appraisal of loans. One success factor for successful management of business is having the act of effective management risk. Although credit risk management differs among companies, for a comprehensive credit risk management, these suggestions should be considered by the bank.

Identifying existing or potential credit risk to which the bank is exposed to in conducting its investments, lending activities and developing and implementing sound and prudent credit policies to effectively manage and control these risks.

UT Bank, Koforidau should develop and implement effective credit granting, documentation and collection procedures. For instance, Name lending is to be avoided for all customers. Name lending means granting credit based on actual or perceived wealth, connections,

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pecentage, etc. of the borrower. Reliance on names (rather than full risk assessment) breaches basic credit principles and results in losses to the bank. The rules governing leading should apply to all customers at all times.

Developing and implementing procedures to efficiently monitor and control the nature characteristics and quality of the credit portfolio. UT Bank must ensure that the credit granting function is being properly managed and that credit exposures are within levels consistent with prudential standards and internal limits. Banks should establish and enforce internal controls and other practices to ensure that exceptions to policies, procedures and limits are reported in a timely manner to the appropriate level of management for action.

Developing alternative sources of payment from customers to reduce default rate. The collateral may serves as sources of securities to the banks in case of default of loan requirement, but the bank should focus more on the ability to pay than collateral.

Establishing a credit risk philosophy. UT Bank, Koforidau should establish a Credit risk philosophy, which is a statement of principles and objectives that outlines a company's tolerance of credit risk and which varies with the nature and complexity of its business, due extent of losses and the minimum expected return acceptable for a specific level of risk. This should be communicated to all who matter within the bank.

Annual reviews of policies should be encouraged for all loan facilities, and annual reports on default should be reviewed. Such reviews are to take into account all known and relevant facts including other facilities offered by the bank. Loans having tenors in excess of one year are to be reviewed annually to ensure that repayment agreements are being followed.

Again the researcher suggests that there should be constant review of credit policies, procedures to include modern concepts and practices, training of credit staff and proper mechanism put in place to minimize the effect of credit risk. In addition, in order to reduce default rate on loans, early identification of credit risk at all level of credit delivery, constant monitoring of loans and regular customer visit should be enforced. In effect, credit risk management standard should be maintained, notwithstanding pressure for increased profitability, marketing considerations and vastly more complex financial environment.

The bank can also adopt insuring loans as means of hedging its risk. Credit insurance protects the holder from non-payment of the loan by the customer. Credit insurance helps to minimize organisation's exposure to credit risk for the debts covered by the insurance policy. The bank must ensure that all assets offered as security to the Bank must be adequately insured.

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