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AN ASSESSMENT OF THE MANAGEMENT OF CREDIT RISK IN FINANCIAL INSTITUTIONS IN GHANA: A CASE STUDY OF ECOBANK GHANA LIMITED

ERIC BOAKYE

2017

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ERIC BOAKYE

A Dissertation Submitted to the Department of Accounting Studies Education, University of Education, Winneba, Kumasi Campus in partial fulfillment of the requirement for the degree of Masters of Business Administration (Accounting)

AUGUST, 2017

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DECLARATION

STUDENT'S DECLARATION

I, ERIC BOAKYE**,** hereby declare that this submission is my own work towards the MBA (Accounting) programme and that, to the best of my knowledge, it contains no material previously published by another person nor material which has been accepted for any other degree of the University, except where due acknowledgement has been made in the text.

SIGNATURE: …………………………………………………………………………….

DATE: …………………………………………………………………………………….

SUPERVISOR'S DECLARATION

I, hereby declare that the preparation and presentation of this project work was supervised in accordance with the guidelines on supervision of project work laid down by the University of Education, Winneba - Kumasi

NAME OF SUPERVISOR: MR. WILLIAMS KWASI BOACHIE

SIGNATURE: ………………………………………………

DATE: ……………………………………………………….

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DEDICATION

I dedicate this work to my parents, Mr. and Mrs. Boakye and to my entire family. I also want dedicate this dissertation to all and sundry that assisted me in completing this work.

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LIST OF ABBREVIATIONS

CAMPARI	Character, Ability, Margin, Purpose, Amount, Repayment and Insurance
CEO	Chief Executive Officer
CRM	Credit Risk Management
KYC	Knowing Your Client

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ABSTRACT

The general objective of the study was to assess the credit risk management practices in financial institutions. Along this general objective, there were some specific purposes to help achieve the overall goal of the study. They include; examining the credit management practices of Ecobank Ghana Limited; to find out whether Ecobank Ghana Limited complies with central bank regulations on credit management and to identify the problems encountered in recovery of loans granted by Ecobank Ghana Limited. Based on this both purposive and convenience sampling techniques were used to select from the different categories of personnel. The same questionnaires were administered to the management; senior staff and staff from the credit department (operations department) were interviewed and transcribed as part of responses which were used in the analysis. Other authors work relevant to the study were also considered and used. The main findings of the study indicated that the bank sometimes faces some difficulties in loan recovery, especially, clients whose repayments cannot be deducted at source. However, some measures have been installed to mitigate such difficulties. They outlined some of the problems as; the bank insures every loan that is granted to clients, the bank constantly visits and befriends its clients, and taking of collateral security to secure the loan should any default occur. The implementation of these debt recovery strategies has lead to the improvement of loan recovery over the years. The study concludes that the bank should always plan its credit programme in such a way that its interest rates will not be fluctuating any time the central bank reviews its monetary policy, even though the policy rate is beyond the control of the bank and again the credit procedures should be innovative to accommodate varied loan applications since each loan may have different requirements. It is, therefore, recommended that Management needs to ensure that the bank works within the applicable framework set by the Bank of Ghana on deposit ratios to help solve liquidity challenges, credit officers of the bank should be given more training to enable them to properly evaluate the creditworthiness of clients before loans are disbursed to them and the management of the bank should come up with a credit management policy that is geared towards the granting of current loans while cutting down drastically the approval of loans that have the potential of becoming doubtful or bad in the long run.

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CHAPTER ONE

INTRODUCTION

1.0 Overview

The main purpose of this study was to assess the management of credit risk in financial institutions in Ghana, using a case study of Ecobank Ghana in the Kumasi Metropolis. This chapter introduces the work and it consists of the background of the study, problem statement, objective of the study, research questions, hypothesis, significance, scope, limitations of the study and how the entire work has been organized.

1.1 Background of the Study

Financial institutions are companies that provide financial and non-financial services to assist individuals and organizations in their monetary and non-monetary issues. Financial institutions consist of three primary groups and these are the savers (the surplus unit), borrowers (the deficit units) and the lenders (financial institutions).Financial institutions play a major role in the management of every economy. They provide the positive functions of bearing and managing risk on behalf of their clients through the pooling of risk specialists like brokers, financial institutions, and intermediaries between savers and borrowers by collecting cash deposits from the surplus unit and lending them out to the deficit unit. They serve as capital and debt markets and are responsible for transferring funds from investors to companies in need of those funds. Broadly speaking, there are three major types of financial institutions and these are:

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- Deposit financial institutions. These are the institutions that accept and manage deposits and give out loans, including banks, building societies, credit unions, trust companies, and mortgage loan companies.
- Insurance companies who are in the insurance and assurance businesses.
- Brokers, underwriters, and investment funds.

All these major types of financial institutions facilitate the flow of money through the economy. Over the years, financial institutions have increased in Ghana; not just for investors but also for the average family. They are increasingly in need of ways to help them to decide how to balance theirbudgets through the acquisition of credit facilities.
The Bank of Ghana's credit manual for banks maintains that credit facilities may be granted for the purpose of conducting or carrying on, developing or improving farm, fishing, industrial and commercial operations to benefit the community. It continues that credit facilities may also be extended to maintain the efficiency of eligible borrowers in connection with their health, education and subsistence. Writing on the importance of the lending function, the researcher believes that, traditionally and practically, the foremost obligation of a bank is to supply the credit needs of households and business enterprises including business operations.

Nonetheless, banks are faced with risks associated with these numerous benefits being offered to clients. In 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. They include activities in the banking and trading books, and those both on and off the balance sheet. Banks are increasingly facing credit risk or counterparty risk in various financial

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instruments other than loans.All the points above support the fact that credit risk management is very important to a bank's survival as well as to the customers. If the risk associated with lending is greatly reduced, the banks will be relieved of the burden of carrying and using part of their profits to pay off bad debts and the interest of banks in granting credit will rise thereby bringing down the interest on loans and other forms of credit.It was based on the above that the researcher soughtto find appropriate measures and recommendations to be made in this subject area to eradicate some of the problems, and assess how effectively credit risk can be managed in financial institutions in Ghana.

1.2 Statement of the Problem

Financial institution is an establishment that focuses on dealing with financial transactions (collection and distribution of money) such as investments, loans and deposits and the offering of other products and non-financial services to its clients. The finance industry encompasses a broad range of organizations that deal with the management of money.Among these organizations are banks, credit card companies, insurance companies, consumer finance companies, stock brokerages, investment funds and some government sponsored enterprises.

Financial institutions have the primary motive of enhancing the financial welfare of their clients by granting them several types and forms of loans that are available on their desks. However, financial institutions are faced with the problem of high clients' turnover in an attempt to redeem their loans granted tothem. Many clients migrate and change their jobs without informing these financial institutions, which makes it very difficult for the

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financial institution in question to trace them when they default in the payment of their loans.

Client job insecurity presents challenges tofinancial institutions after granting loans.
One of the most difficult exercises for financial institutions is the cost of monitoring their clients after providing them with their requested loans. It falls on the shoulders of some financial institutions to do follow-up monitoring to see whether the loans granted to their clients are used for their intended purposes or not. Although management may adopt certain strategies to address this situation, the question remains as to how well this strategy works.As a result of the above problems, the researcher thought it necessary to assess the management of credit risk in financial institutions using ten (10) different branches of Ecobank Limited within the Kumasi Metropolis.

1.3 Objectives of the Study

The general objective of the study was the assessment of credit risk management in financial institutions and the specific objectives are outlined below:

1. To examine the credit management practices of Ecobank Ghana Limited;
2. To find out whether Ecobank Ghana Limited complies with Bank of Ghana regulations on credit management;
3. To identify the problems encountered in recovery of loans granted by Ecobank Ghana Limited.

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1.4 Research Questions

The research seeks to address the following questions related to the problem.

1. What are the credit management practices of Ecobank Ghana Limited?
2. How does Ecobank Ghana Limited comply with Bank of Ghana regulations on credit management?
3. What are the problems encountered in the recovery of loans granted to customers by Ecobank Ghana Limited?

1.5 Hypothesis of the Study

a. HO: Ecobank Limited has their laid down credit management practices.

   H1: Ecobank Limited does not have their laid own credit management practices.

b. HO: The Central Bank's monitoring and control on Ecobank operations are effective.

   H1: The Central Bank's monitoring and control on Ecobank operations are not effective.

c. HO: There are problems encountered in the recovery of loans granted to customers.

   H1: There are no problems encountered in the recovery of loans granted to customers.

1.6 Significance of the Research

The rationale of the study was to assess credit risk management and how effective credits are managed in reducing credit risk. The results of this study will help the financial

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institutions to put in place measures in granting loans, and to effectively manage institutional credit, and reduce the risk of default.

The results of this study can help the financial institutions to reconsider their ways of doing thingsso far as credit management activities are concern.

Although this research was to partially fulfill an academic requirement for the award of a master degree, recommendations made provide a complement to the policies ofthe regulatory bodies and the efforts of the financial institutions in addressing problems of default and the unnecessary legal tussles that characterizes repayments of bank facilities.

1.7 Scope of the Study

The study covered ten (10) different branches of Ecobank Limited within the Kumasi metropolis, namely,Tanoso, Tafo, Adum, Happer Road, Asokwa, Ashtown, Dr. Mensah, Asafo, Tech-Junction and Tech Commercial Area branch.

1.8 Limitations of the Study

The challenges faced in the study included resource constraints in terms of finance, time, and logistics as well as the difficulty in accessing information. However, various measures were put in place to minimize the problems that emerged in order to reach the goals of this thesis. Therefore, the research results cannot be taken to be absolute. Notwithstanding that, the researcher was of the view that the results were still adequate and useful for the purpose for which the study was undertaken.

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1.9 Organization of the Study

The study was organized into five chapters. Chapter One dealt with the introduction, which includes background of the study, the problem statement, research questions, research objectives, significance of the study, limitations and finally, organization of the study. The literature review on credit management, risk assessment and measures to be adopted in reducing credit risks are captured in Chapter Two. Chapter Three centered on the methodology used in conducting the study. This included administration of questionnaires and data collection on credit management and its associated risks while Chapter Four dealt with the analysis of the data. Finally, Chapter Five centered on the findings, conclusions and recommendations.

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CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter reviews the body of literature on the subject matter of credit risk management in Ecobank.It presents the report on the previous work that others have done in the area under research. Credit is an integral part of all phases of Ghanaian life and its importance will continue to grow. It has contributed to the development of the Ghanaian economy and to the high standard of living enjoyed by most Ghanaians. Credit is a familiar social invention that we use freely. As a result, it is essential for the financial institutions to examine the problems that can be encountered after the release of credit facilities, hence the management of credit and its associated risks.

2.1 Conceptual Framework of Credit Risk Management

Banks and their customers have different perceptions of bank credit or lending. To most bankers, credit is not a capital-market activity, yet to many corporate customers, particularly small and medium-sized companies, bank loans are their most important source of capital. The demand for medium-term or long-term lending comes mainly from commercial and industrial companies and from private individuals. However, amongst all the services provided by banks, credit creation is the main income generating activity for the banks. But this activity involves extremely high risks to both the lender (financial institution) and the borrower (client). The risk of a trading partner not fulfilling his or her obligation as per the contract can greatly hinder the smooth functioning of a bank's

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operation. On the other hand, a bank with high credit risk faces potential insolvency and this does not give depositors confidence to place deposits with it.

Credit is the trust thatallows one party to provide resources to another party where that second party does not reimburse the first party immediately (thereby generating a debt), but instead arranges either to repay or return those resources (or other material of equal value) at a later date (Sullivan *et al.,* 2003). The resources provided may either be financial (e.g. granting of loans), or they may consist of goods or services (e.g. consumer credit). Therefore credit encompasses any form of deferred payment thatis extended by a creditor (also known as the lender) to a debtor (also known as a borrower).

Credit is advanced to beneficiaries who promise to pay on a future date. Individuals, enterprises and other corporate entities have different reasons for accessing credit. Therefore, the purpose and the nature of credit have been categorized into short term, medium term and long term loans. Briefly, short term loans are advances (e.g. personal loans) extended with a repayment period of not more than five (5) years. Medium term loans (designed for Small and Medium Enterprises (SMEs) have a repayment period that falls between five (5) and ten (10) years. Long term loans (for giant corporate entities), as the name implies, have a repayment period of more than ten (10) years. In Ghana, most of the credit accessed fall within the short and the medium term. Advancing credit is key to banks' operations, weighing significantly within the asset balance file. It has the potential of generating huge profit, but is associated with equally high risk.

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Credit risk is an investor's risk of loss arising from a borrower who does not make payment as promised (Bluhn*etal.,* 2002). Risk, on the other hand, can be defined as the possibility that something unpleasant or dangerous might happen.

Management, in the simplest understood definition, can be defined as the act of planning, directing, controlling, monitoring and testing for desired results to be obtained. Or it is simply the act, manner, or practice of managing, handling, supervision, or control. Management is also to maximize a bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. When companies indulge in business, it is obvious that they will be exposed to one type of risk or another, which in most cases is an uncertainty although at times it can be certain that it will occur. Banks are one such businesses whose risk is very sure because they don't function in isolation given the dynamic environment in which they operate, the volatility of the financial markets in which they participate, diversification and the competitive environment in which they find themselves (Williams *et al.,* 2006). Even though it is certain that risk will occur, it is not always possible in most cases to eliminate, reduce or ameliorate it (Keith, 1992). So, the best possibility for companies is to try to manage the risk so as to reduce the possibility of occurrence or to reduce the consequences. These possibilities can range from "do nothing at all" to attempting to nullify the effect of every identified risk (William *et al.,* 2006). But, because of the nature of the banking activity, a bank can't find itself in a position to do nothing at all or to nullify the risk. So, all it does is to live with it, and try to find means to manage it. Given the riskiness of its activities, a bank does not wait to introduce risk management at a certain stage of its activities: it does so right from the start.

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2.2 The Regulatory Framework of Financial Institutions

Various statutes, regulations and the common law control the forms and functioning of financial institutions. Among the mass of written laws, those which affect banks are:

- Companies Code of 1963 (Act 179);
- Banking Act of 1970 (Act 339);
- The Bank of Ghana Act of 1963 (Act 182); and
- The Bank Regulations of 1973.

2.3 Monitoring and Supervision of Banks by the Central Bank

In the course of business, banks and non-banks are subjected to Bank of Ghana's supervision.The Bank of Ghana Act 1963(Act182) and the Banking Act of 1970(Act339) empowers the Bank of Ghana to supervise the activities of the banks.

Supervision is in the form of demanding periodic submission of returns to the Registrar General's office and regular visits by Bank of Ghana's officials.Financial institutions are therefore expected to submit their statement of assets and liabilities and returns on loans and overdrafts. The Companies' Act requires the banks to prepare and submit to the Registrar General names of its Board of Directors.

2.4 Overview of Credit Risk

Calomiris and Wilson (2004) indicated that risk is a potential variety in results. Risk is available in each human attempt. At the point when risk is available the result can't be estimated correctly. Therefore the vicinity of risk is expected at whatever point the results of a demonstration gives space for instability. Introduction to risk is made at whatever

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point a demonstration offers ascend to a conceivable increase or misfortune that can't be anticipated (Machiraju, 2004). It is an investor's risk of loss arising from a borrower who does not make payments as promised. It may also arise as a borrower defaults on any type of debt by failing to make payment thatit is obligated to do. The risk is primarily that of the lender and includes lost principal and interest, disruption to cash flows and increased collection costs.According to the Basel Committee (1999), credit risk is 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. As the Basel Committee (1999)puts it, banks need to manage the credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions. Banks should consider the relationships between credit risk and other risks. The effective management of credit risk is essential to the long-term success ofany banking institution.

The loss may be complete or partial and can arise in a number of circumstances; for example, a customer may fail to make a payment due on a mortgage loan, credit card, line of credit or other loans. Since exposure to credit risk continues to be the leading source of problems in banks worldwide, banks and their regulators should be able to draw useful lessons from past experiences. Banks 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. It is also vital that they are adequately compensated for the risks incurred in the running of their business. As indicated by Machiraju (2004), risk types can be pure or speculative, diversifiable and non-diversifiable risk.

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2.4.1 Pure or Speculative Risk

Customarily, authors on risk management have recognized pure and speculative risks. Pure risk exists when there is only a possibility of loss outcomebut a speculative risk exists when there is a possibility of gain outcome.Banks, similar to some other business organization, have the object of boosting profit for shareholders' ventures in the wake of meeting every one of its commitments to different partners. The fundamental result of banks is credit; they then get enthusiasm for return for the utilization of their credit. Banks, in this way, confront speculative risk since they may pick up by accepting both principal and interest (Calomiris & Wilson, 2004).

2.4.2 Diversifiable Versus Non-Diversifiable Risks

A risk is diversifiable in the event that it is conceivable to decrease it through pooling or sharing courses of action. A risk is non-diversifiable if pooling courses of action are incapable in decreasing it for the members in the pool. In finance literature, these refinements are frequently utilized – "precise and non-orderly" or "market and unique" risk – and is vital in risk management in light of the fact that it influences the adequacy of pooling or risk sharing arrangements.

The field of credit risk has increased extensive energy because of the expanded rivalry in the field and the present difficulties in money related emergency (Polson, 2008). Credit risk is one of the primary risks of commercial banks that will influence the banks' capacity of practical operation since it structures parts of their obligations. Banks accept credit risk when they go about as mediators of trusts and credit risk management lies at

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the heart of commercial banking. Studies of banking crises demonstrate that the most successive element in the disappointment of banks has been poor credit quality.

The credit risk management procedure of a bank is accepted to be a decent pointer of the bank's loan portfolio. Giesecke (2004) additionally embraced that credit risk is by a long shot the most significant risk confronted by banks and the accomplishment of their business depends upon exact estimation and productive management of this risk to a more noteworthy degree than whatever other risk.

Increments in credit risk will raise the minimal expense of obligation and value, which thus builds the expense of trusts for the bank (Basel Committee on Banking Supervision, 1999). Researchers utilized various proportions to gauge credit risk. The proportion of Loan Loss Reserves to Gross Loan (LOSRES) is a measure of a bank's advantage quality that demonstrates how a significant part of the aggregate portfolio has been accommodated however not charged off. The indicator demonstrates that the higher the proportion, the poorer the quality; and in this manner, the higher the loan's risk portfolio will be.

What's more, loan misfortune provisioning as an offer of net interest income (LOSRENI) is another measure of credit quality, which demonstrates high credit quality by indicating low figures. Acknowledged risk developed as a critical risk management issue amid the 1990s. In progressively focused markets, banks started assuming more noteworthy credit risk in this period.

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Overseeing credit risk will have to be supplemented with the distinguishing proof and estimation of credit risk. McNaughton (2001) declares that, to align the default risk exposure of its credit and venture choice and to survey its credit risk introduction in off-balance sheet contractual arrangements (for example loan responsibilities), a financial institution's administrator needs to gauge the likelihood of borrower default. The capacity to do this, to a great extent, relies on the measure of data the financial institution has about the borrower.

Principally, banks' credit risk is categorized into two, of which each category has the accompanying sub-parts;

Portfolio Risk

a. Intrinsic Risk

b. Concentration Risk

Transaction Risk

a. The bank's credit organization for which it regulates the credit capacity.

b. The bank's credit examination and investigation framework.

c. The bank's standard for guaranteeing credits.

2.5 Types of Credit Risk

There are two primary sorts of credit risk that a portfolio or position is presented with,specifically, credit default risk and credit spread risk.

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2.5.1 Credit default risk

This is the risk happening when an issuer of debt (obligor) is not able to meet its financial commitments. Where an obligor defaults, an investor for the most part acquires a loss equivalent to the sum owed by the obligor less any recuperation sum thatthe investor recoups as a consequence of abandonment, liquidation or rebuilding of the defaulted obligor. All portfolios with credit introduction display credit default risk. The extent of credit default risk is portrayed by an organization’s credit rating. The credit rating is declared after a formal investigation of the borrower. This examination is embraced by rating offices. The bestknown rating organizations are Fitch Ratings, Moody's and Standard & Poor's. To evaluate the investigation, a few issues are examined. Among these issues are: the balance sheet position and expected cash flows and revenues; quality of management;a company’s ability to meet scheduled interest and principal; and an outlook of the industry as a whole.

2.5.2 The credit spread risk

This is the over-abundance premium over the management or risk free rate needed by the business sector for tackling a certain accepted credit disclosure. Notice that the higher the credit rating, the smaller the credit spread. Changes in observed credit spreads influence the portfolio's estimation and can prompt misfortunes for brokers or under-performance for portfolio managers.

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2.6 Causes of Credit Risk

Financial institutions suffer from credit risk due to the following reasons:

Poor management practices: The practices of management of financial institutions can result inbad debts. This occurs when decisions made are not effective regarding loans.

Ineffective machinery for debt: This means the kind of mechanisms established to reduce bad debts are not effective.

Insider dealings: Some employees of financial institutions cause bad debts. This is because these employees engage in illegal activities that results to debts thatcannot be traced or recovered.

Poor credit administration: Some financial institutions have poor credit administration where decisions or techniques for reducing bad debts are made.

2.7 Sources of Credit Risk

There are two primary elementsof credit risk. These are external and internal risk factors.

2.7.1 External risk factors

Economic conditions

A liquidity crunch or money related issues can affect a borrower's capacity to satisfy their commitment. What's more, legitimate and administrative change could cause financial organizations to change how they manage an exchange and, in addition, the quality and capacity of obligation accumulation.

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Competition

Competition among financial establishments regarding development, gainfulness and the longing to be a business sector pioneer can prompt monetary organizations to bring down their gauges or dishonorably value their credit items. This could bring about a higher expense of expanding non-performing credits.

2.7.2 Internal risk factors

Underwriting standards

This is a procedure to figure out what sort of, to whom, for what reason and when credit ought to be allowed. A proper credit approbation procedure ought to include legitimate rules on both structure and philosophy in assessing borrowers' credit value, the setting up of a credit line, and imposing an interest rate suitable to borrowers' risk and credits.Tolerant credit endorsing can bring about misfortunes to financial establishments particularly when obligation reimbursement can't be requested or security can't be seized in time.

Staff competence

Credit officers without the requisiteskills to undertake the activities they are in charge of (be it credits, venture, management of problem assets or new products), can prompt poor loaning practices, incapable organizations, and inevitably bring about a loss to the financial institution.

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2.8 Credit Risk Management

According to Casu*et al.* (2006), authors of Introduction to Banking, credit risk management is explained as a management tool thatenables maximization of a bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. The authors further explained that "the need for financial institutions like banks to manage credit risk arises from individual creditors, individual transactions and the risk inherent in their entire portfolio".

The essential functions of credit risk management, according to Raghavan (2003), are to "identify, measure, and more importantly monitor the profile of the bank". By this definition, credit risk management helps financial institutions to be able to check, track and evaluate their various activities in order to prevent and correct credit risk.The author also describes risk management as a system thatis "a proactive action in the present for the future".

Furthermore, Kalapodas *et al*. (2005) describes credit risk management as a management tool thatattempts to eradicate, reduce and manage risks; increase the benefits; and avoid harm from taking risks. In effect, credit risk management prevents financial institutions from credit risk and enables them to improve in terms of financial performance. Also, CRM is described by Gestel *et al*. (2009) as primarily concerned with reducing earnings volatility and avoiding large losses in a firm. In a proper risk management process, one needs to identify the risk, measure and quantify the risk and develop strategies to manage the risk effectively.

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2.9 The Evolution of Credit Risk Management

Credit risk can be traced back thousands of years, according to Brown (2004). To him, credit is much older than writing. Hammurabi's Code, which codified legal thinking from fourthousand years ago in Mesopotamia, did not outline the basic rules of borrowing and concepts like interests, collateral and default (Brown, 2004). However, this code highlights that failure to pay a debt is a crime that should be treated as robbery and swindle.

This literature argues that the Bible had archives of enslavement for debt without discontentment; for example, the story of Elisha and the widow's oil concerns the threatened enslavement of two children because their father died without paying his debts. However,the Bible goes further than Hammurabi in limiting the collection rights of creditors – purely as a matter of mercy. The modern bankruptcy concepts of protection from creditors and extinguishment of debt are entirely absent from both the Bible and Hammurabi. Historically, credit avoidance was a misconduct thatwas punishable by death, torture etc.

Credit risk is a necessary consequence of a vibrant economy. Everyone involved in complex production processes must wait for payment until the goods or services are delivered to the final consumer. When there is a failure in the process, the loss must be allocated among producers or between producers and investors. These intermediaries can reduce the amount of risk through fractional reserves and the amount of risk through diversification.However, the delays in paying of credits leads to the promotion of credit risk. "From the 18th century to the 19th century, Lewis Tappan founded the Mercantile

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Agency which became Dun & Bradstreet. This company provided commercial information on businesses throughout the United States" (Brown, 2004).

About the same time, specialized financial press arose. This firm merged with Standard Statistics, which became Standard & Poor's. During 1916 Standard & Poor's got its official credit ratings (Brown, 2004). The first major attempt at quantification was W. Braddock Hickman's three volume study of US corporate bonds, published between 1953 and 1960. Due to economics being his field, all his facts about finance led him to the wrong conclusions. Brown (2004) argues that, as older practitioners took Hickman's wrong turn, the field of credit risk management opened up to young innovators and during the period of 1965 to 1975, people under the age of thirty were interested in credit risk management and performed jobs pertaining to credit risk.

2.10 Merits and Demerits of Credit Risk Management (CRM) Tools

A CRM system is a risk management tool that has brought success to most financial firms who are able to implement it in their day to day activities. Santomero (1997) highlights some benefits of credit risk management. He articulates that the practice of credit risk management helps to reduce the chances of idiosyncratic losses from standard banking activity by eliminating risks that are unnecessary to the institution's business purpose. Furthermore, he argues that credit risk management has led to standardized ratings across borrowers and a credit portfolio report that presents meaningful information on the overall quality of the credit portfolio. Wenner *et al*. (2007) spells out that CRM enables financial institutions to become viable and attain sustainable growth, leads to solvency, reduces costs and improves profit margins.

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Gestel *et al*. (2009) identifies reduced earnings volatility; avoidance of losses; it acts as a decision aid to bankers; better risk return; avoidance of pitfalls like credit concentrations; lack of credit discipline; aggressive underwriting to high-risk counterparts; and products at inadequate prices.On the contrary, there are demerits or costs that may prevent some financial institutions from practicing CRM. The costs (cost of expertise, time consuming, expensive to practice) can easily affect the firm's performance, but they are usually experienced in the early stages of implementation. CRM is a system that needs careful practice thatcan prevent costs from rising in a firm; it also depends on a strong relationship and total quality management with employees.

2.11 Process of Credit Risk Management

In the book Credit Risk Management by Gestel *et al*. (2009), they state that credit risk is managed in various ways. The most important techniques to manage credit risk are:

Selection: A good credit risk management starts with a good selection of counterparts and products. Effective risk assessment models and qualified credit officers are key requirements for a good selection strategy. During this stage, important credit decisions are made at credit committees. Further, for counterparts with a higher default risk, more collateral is required in order to reduce recovery risk. Recovery risk is also reduced by requiring more stringent covenants;for example, on asset sales. A good selection strategy implies a good pricing of the products in line with the estimated risk.

Limitation: This step helps to restrict the exposure of the bank to a given counterpart: it avoids the situation that one loss or a limited number of losses endanger the bank's solvency.

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The total amount of exposure to riskier counterparts is more restricted by a system of credit limits. The limit setting of the bank determines how much credit a counterpart with a given risk profile can take.

Diversification: This has got to do with the allocation process of banks, which provides a good diversification of the risk across various borrowers of different types, industry sectors and geographies. This method spreads the credit risk in order to avoid a concentration on credit risk problems. It is also easier for large and international banks.

Credit enhancement: The authors described this step as when a bank observes it is too exposed to a certain category of counterparts; it does this by buying credit protection in the form of guarantees from financial guarantors or via credit derivative products. By the protection, the credit quality of the guaranteed assets is enhanced. This is also known as credit risk mitigation.

The Basel Committee on Banking Supervision elaborated on the basic principles for the assessment bank's management of credit risk. One of the principles is establishing an appropriate credit risk environment therefore management should have responsibility for approving and periodically reviewing the credit risk strategy and important credit risk policies of the bank, and banks should be able to identify and manage credit risk inherent in all products and services. The second principle mentioned in the article is operating under a sound credit granting process: this is where banks operates under sound, well-defined credit-granting criteria. These criteria include a thorough understanding of the borrower or counterparty, as well as the purpose and structure of the credit, and its source of repayment (Basel Committee on Banking Supervision, 1999).

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According to the Basel Committee on Banking Supervision, banks should be able to establish overall credit limits at the level of individual borrowers and counterparties, and groups of connected counterparties that aggregate, in a comparable and meaningful manner, different types of exposures, both in the banking and trading book and on and off the balance sheet.

Maintaining an appropriate credit administration, measurement and monitoring process, establishing adequate controls over credit risk and the role of supervisors in order to measure, monitor and control credit risk should bepart of an overall approach to risk management. However, with these methods and principles of credit risk management, risk can be prevented or reduced among financial institutions. With effective and efficient use of these methods, financial institutions can attain high financial performance and remain solvent.

2.12 Inappropriate Evaluation of Credit Quality

This problem may come about because of aggressive weight and credit development as they tend to put a period imperative on getting precise information. Besides, quick development and/or entry into new markets can entice the management to lend without adequate financial and monetary investigation. To encourage better decision making, management may reinforce credit choices by using basic indicators of credit quality, which include borrowers' attributes, present and expected estimation of security or backing of a guardian organization or affiliated organizations.

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2.13 Credit Analysis Appraisal

The framework for analysis was guided by specific principles including the Basel Committee submission on Banking Supervision (Basel, 1999). The observation is that an effective credit approval process is the first step against excessive counter party credit risk thatshould begin with comprehensive financial and non-financial information, which provides a clear picture of the counterparty's risk profile and risk management standards. In addition, the credit assessment process should identify the purpose and structure of the transaction for which approval is requested while providing a forward looking analysis of the repayment capacity from various scenarios.

Some of the processes one might follow to identify and analyze the components of credit risk include non-financial issues such as knowledge of customer, credit referencing bureau and financial factors, namely, awareness of the purpose for credit, identification and assessment of sources of repayment, financial gearing, security analysis and assessing the business risk of the borrower.

An issue that cannot be overemphasized is a bank's knowledge of their customers: it implies that a bank should be familiar with the counter party and be confident that it is dealing with an entity of sound repute and credit worthiness (Basel Committee, 1999). This can be achieved in a number of ways such as asking for references from known parties; accessing a credit register; evaluating the customer's legal status; and becoming knowledgeable about the individual responsibility for managing the counterparty. This could enhance the integrity of the banking system by reducing the likelihood of banks

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becoming a vehicle for money laundering and so on. Also, knowing your costumer (KYC) could be facilitated by a credit referencing bureau.

A credit referencing bureau, being a repository of credit information, is an entity that collates customer credit information by soliciting creditors such as banks, insurance company and lending institutions to contribute and share the credit information of their customers. It helps lending institutions with an easy means of carrying out their KYCs and enables banks to better manage their risk exposures.Identifying the purpose of credit has to be undertaken by the bank in an effort to analyze the credit risk of the counterparty.

The purpose of the credit facility is important to the lending institutions as it enables them to assess the legality of the transaction it is contracting with customers, relative to the laws of the country in which they operate. Again, identification and assessment of sources of repayment is a major tool for analyzing credit risk of bank customers. A borrower's repayment capacity is measured by identifying the source of repayment, and carefully reviewing future cash income from that source to ensure that it is enough to meet borrower's needs and help generate enough cash flow from the core business to repay debt, pay a competitive return to shareholders or owners and replace long term operating assets.

Assessing the business risk is another way of analyzing the credit risk in banking. Business risk is the variability in operating cash flows or profit before interest (Pike *et al.,* 2006). A firm's business risk depends on the underlying economic environment within which it operates. This is a factor exogenous to the bank. A business variability in

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operating cash flows can be heavily affected by the cost structure of the business and hence the operating gearing.Financial gearing is a way banks analyze the risk of the borrower. It is the risk over and above the business risk from the use of debt capital (Pike *et al.,* 2006). It seeks to assess the impact of the credit on the capital structure of the counter party.

By financial analysis, lending institutions are able to assess the borrowing needs, capital structure and borrower's ability to meet their obligation as per the terms of contract. Financial risk analysis gives an indication of the proportion of both external and internal funding used to finance the assets of the business. Another important factor in the process is security analysis. Because business risk is always present, most financial institutions rely heavily on the security of their portfolio as a means to offset the impact of credit risk on their loan portfolio (Rose *et al.,* 2008).

The security analysis in credit risk management involves the evaluation of the marketability of the security, security control and price stability of security being offered. Kapoor *et al.* (2001) outlined five traits that must be used for such analysis, which is referred to as the five C's, namely, character, capacity, capital, collateral and conditions.

Character is the borrower's attitude towards credit obligation. Most credit managers considers character as the most important factor in predicting whether loan repayment will be made timely and ultimately.

Capacity is the borrower's ability to meet credit obligation. That is to make regular loan payment as scheduled in the credit agreement. The borrower's income and expenses are considered before credit approval.

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Capital is also the borrower's assets or net worth. Generally the greater the capital, the greater the ability to repay a loan.

Collateral is an asset that is used to pledge to obtain a loan. The asset is taken over if the borrower fails to honor the terms of the loan agreement.

Conditions means the general economic conditions that can affect the ability to repay a loan. The questions focus on security of both the job and the firm that employs the borrower.

Apart from the five Cs, another appraisal method that is mostly used is the **CAMPARI.** Itis one of the currently used analysis appraisals for financial institutions. This lending model is used in assessing clients who wish to apply for credit facilities. This model gives a broader view than the five Cs. In lending to a customer, a logical approach can be followed by taking each important factor in the lending proposition and whether the lending proposition satisfies certain criteria. The following are the principles to apply to a lending proposition:

Character: the character involves a lot of background information about the client and this involves the background and experience of the individuals or business, which can be a pointer to the potential for success. This includes integrity, past performance, and evidence of financial acumen. No business proposition can be viewed in isolation from the people who will put it into action, and the bank manager will scrutinize the following closely:

Age/health: this involves the age of the clients and his/her health conditions.

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Personal stability: types of occupation, how long the borrower has been in employment, what they hold, etc.

Integrity and honesty: lenders should check the bank records to find out how well previous borrowings have been repaid and how long the client has been known to the bank.

Personal resources: it is very difficult to establish this; but interviewing the client and visiting their home or work place might help.

Outsourcing: the indicators will be the lifestyle of the client and his/her regular expenditure. Bank records will reveal evidence of standing orders, hire purchase commitment and so forth.

Connections: The clients may be key business influencers introducing several new accounts to the bank. There might also be strong family connections. However, if repayment of the loan facility is doubtful, no matter how strong the connections are, the proposition should be declined.

Ability: For individual clients, ability and character are more or less the same since a person of good character should be able to manage his/her affairs satisfactorily. However, for business clients it is important to assess the ability to manage the affairs of the business. Clients should have the requisite skills to run the business and the likelihood of the business being able to repay the loan. This will often depend on the skills and abilities of the owners. On the personal side, intelligence, training and determination should all be considered. On the business front, the bank will look at profitability, capital requirements and, above all, cash flow of the business.

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Margin: The bank will decide on remuneration or return .i.e. interest rate, arrangement and commitment fee etc. This, however, depends on how risky they perceive the clients to be.

Purpose: The purpose of the lending must be legal e.g. working capital or personal loan. It must not be used for purposes against the government and Bank of Ghana regulations. Clients should explain in detail why they wish to borrow money. The bank will want to know that clients have thought it through, and that it seems feasible. The banker may comment on the purpose in general terms. Clients should remember that they ought to know far more about their type of business than any banker, and treat any advice accordingly. Bankers can offer you knowledge of business theory but they have no practical experience of running their own businesses. However, the bank should tell clients whether the form of finance they have asked for is the most suitable.

Amount: The bank would establish the correctness of the amount after all other considerations have been taken into account e.g. in the case of a house purchase, clients should allow for solicitors fees, stamp duty etc.

Repayment: There must be certainty about the repayment source. One will usually need to fill in the bank's cash flow forecast forms, to show that their business can afford repayments on the amount borrowed. Many lending schemes offer reducing loans over an agreed period and have a fixed rate of interest. If borrowing is on overdraft, the bank will set the interest rate to reflect its view of the risk - and what it thinks it can get.

Insurance: This is called collateral security. It is a safety net against unforeseen circumstances or when things go wrong. Risk takes us to insurance. The bank may ask if

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security is available and may also want to consider taking out insurance cover, against illness for instance. Illness of a key player can be a major risk to a new business. The bank might consider whether life, accident and sickness and other insurance products might be helpful for both the client's and the bank's benefit. These factors must be considered so as to reduce risk to the minimum and to ensure the desired profitability of the bank.

2.14 Principles for the Assessment of Banks' Management of Credit Risk

According to Basel Committee on Banking Supervision (2000), the following underlying principles help banks to do proper credit risk assessment and to effectively manage these risks. These have further been elaborated to give in-depth analysis of the various principles mentioned.

Establishing an appropriate credit risk environment:

The board of directors should have responsibility for approving and periodically reviewing the credit risk strategy and significant credit risk policies of the bank. The strategy should reflect the bank's tolerance for risk and the level of profitability the bank expects to achieve for incurring various credit risks.

Senior management should take responsibility for implementing the credit risk strategy approved by the board of directors and for developing policies and procedures for identifying, measuring, monitoring and controlling credit risk. Such policies and procedures should address credit risk in all of the bank's activities and at both the individual credit and portfolio levels.

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Banks should identify and manage credit risk inherent in all products and activities. Banks should ensure that the risks of products and activities new to them are subject to adequate risk management procedures and controls before being introduced or undertaken, and approved in advance by the board of directors or its appropriate committee.

Operating under a sound credit granting process

Banks must operate within sound, well-defined credit-granting criteria. These criteria should include a clear indication of the bank's target market and a thorough understanding of the borrower or counterparty, as well as the purpose and structure of the credit, and its source of repayment.

Banks should establish overall credit limits at the level of individual borrowers and counterparties, and groups of connected counterparties that aggregate in a comparable and meaningful manner for different types of exposures, both in the banking and trading book and on and off the balance sheet.

Banks should have a clearly-established process in place for approving new credits as well as the amendment, renewal and re-financing of existing credits.

All extensions of credit must be made on an arm'slength basis. In particular, credits to related companies and individuals must be authorized on an exception basis, monitored with particular care and other appropriate steps taken to control or mitigate the risks of non-arm's length lending.

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Maintaining an appropriate credit administration, measurement and monitoring process

Banks should have in place a system for the ongoing administration of their various credit risk-bearing portfolios.

Banks must have in place a system for monitoring the condition of individual credits, including determining the adequacy of provisions and reserves.

Banks are encouraged to develop and utilize an internal risk rating system in managing credit risk. The rating system should be consistent with the nature, size and complexity of a bank's activities.

Banks must have information systems and analytical techniques that enable management to measure the credit risk inherent in all on and offbalance sheet activities. The management information system should provide adequate information on the composition of the credit portfolio, including identification of any concentrations of risk.

Banks must have in place a system for monitoring the overall composition and quality of the credit portfolio.

Banks should take into consideration potential future changes in economic conditions when assessing individual credits and their credit portfolios, and should assess their credit risk exposures under stressful conditions.

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Ensuring adequate controls over credit risk

Banks must establish a system of independent, ongoing assessment of the bank's credit risk management processes and the results of such reviews should be communicated directly to the board of directors and senior management.

Banks 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.

Banks must have a system in place for early remedial action on deteriorating credits, managing problem credits and similar workout situations.

The role of supervisors

Supervisors should require that banks have an effective system in place to identify, measure, monitor and control credit risk as part of an overall approach to risk management.

Supervisors should conduct an independent evaluation of a bank's strategies, policies, procedures and practices related to the granting of credit and the ongoing management of the portfolio.

Supervisors should consider setting prudential limits to restrict bank exposures to single borrowers or groups of connected counterparties.

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2.15 Control and Management of Credit Risks

Credit Risk Monitoring refers to relentless monitoring of individual credits inclusive of off balance sheet exposures to obligors as well as the overall credit portfolio of the bank. Banks need to enunciate a system that enables them to monitor the quality of the credit portfolio on a day-to-day basis and take remedial measures as and when any deterioration occurs.

Such a system would enable a bank to ascertain whether loans are being serviced as per facility terms; the adequacy of provisions;whether the overall risk profile is within limits established by management; and compliance of regulatory limits.

The Basel Committee on Banking Supervision (2000), having surveyed the difficulties connected with banks management of credit globally, issued a few rules that have come to be viewed as benchmark credit risk management rehearses keeping in mind the end goal to loan sound practices for overseeing credit risk. Establishing an efficient and effective credit monitoring system would help senior management to monitor the overall quality of the total credit portfolio and its trends. The controlling and working spine of each organization is the top managerial staff as per Wheehem and Hunger (2008). As for every other area of a bank's dealings, the governing body has a genuine part to play in administering the credit granting and credit risk management elements of the bank. The governing body, as indicated by the report of the Basel Panel (2000) ought to have an obligation regarding endorsing and intermittently (in any event every year) investigating the credit risk technique and critical credit risk strategies of the bank.

Every bank ought to build up a credit risk methodology or arrangement that sets up the goals controlling its credit-giving activities and embrace the important strategies and

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techniques for directing such activities (Machiraju, 2004). The board needs to perceive that the system and strategies must cover the numerous activities of the bank in which credit introduction is a critical risk.

Saunders (2007) likewise places that these methods ought to mirror the bank's resilience for risk and the level of benefit the bank hopes to accomplish for bringing about different credit risks. The technique ought to incorporate a bank's announcement of readiness to allow credit taking into account exposure type (for instance, commercial, consumer, real estate) monetary part, geological area, currency, development and foreseen productivity (Matyszak, 2007). This may additionally incorporate the distinguishing proof of target markets and the general qualities that the bank would need to accomplish in its credit portfolio (including levels of enhancement and resistances).

The top managerial staff ought to occasionally survey the monetary consequences of the bank and, in light of these outcomes, figure out whether changes should be made to the system. The board should likewise focus the bank's level of capital ampleness (Boateng, 2004). Wilson (1998) believes that the credit risk method of any bank ought to give progression in methodology. Henceforth, the system should contemplate the intermittent parts of the economy and the resultant changes in the structure and estimation of the aggregate credit portfolio. In spite of the fact that the procedure ought to be occasionally assessed and adjusted, it ought to be doable over the long haul and through different monetary cycles (Machiraju, 2004).

Fotoh (2005) upheld that the credit risk arrangements and methods ought to be successfully imparted all through the organization. All noteworthy faculty ought to be

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obviously made to comprehend the bank's way to deal with allowing and overseeing credit and ought to be considered responsible for agreeing to built-up approaches and methodology. The board ought to guarantee that senior management is completely fit for dealing with the credit activities directed by the bank and that those activities are done inside of the risk procedure, approaches and resistances endorsed by the board (Basel Committee, 2001).

In addition the board ought to frequently (i.e. in any event yearly), either inside of the credit risk system or inside of an announcement of a credit strategy, favor the bank's general credit-allowing criteria (counting general terms and conditions). Furthermore, it ought to affirm the way in which the bank will sort out its credit-giving capacities, including autonomous audit of the credit granting and management capacity and the general portfolio (Nsiah-Agyeman, 2010).

While individuals from the directorate, especially outside directors, can be critical sources of new business to open doors for the bank, once a potential credit is presented, the bank's built up procedures ought to decide how much and at what terms credit is allowed (Machiraju, 2004), so as to stay away from irreconcilable circumstances, as declared by Wilson (1998). It is critical that board individuals don't override the credit-conceding and checking procedures of the bank.

Fotoh (2005) states that, once the governing body has turned out with a sound credit management environment, senior management, led by the CEO, ought to have an obligation regarding executing the credit risk method sanction by the directorate and for

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creating strategies and techniques for recognizing, measuring, observing and controlling credit risk.

Such approaches and systems ought to address credit risk in the greater part of the bank's activities and at both the individual credit and portfolio levels. Senior management of a bank is in charge of executing the credit risk methodology endorsed by the top managerial staff. The obligation regarding actualizing the system incorporates guaranteeing that the bank's credit-giving activities fit in with the built up methodology; that composed techniques are produced and executed; and that loan approbation and audit obligations are obviously and appropriately allocated. Senior management should likewise guarantee that there is an intermittent autonomous inner appraisal of the bank's credit-granting and management capacities.

Credit strategies make the blueprint for giving, and aide the credit-giving activities of the bank. Credit strategies ought to address such themes as target markets, portfolio blend, cost and non-value terms, the structure of cutoff points, and endorsement powers (Basel Committee, 2001). As indicated by Boateng (2004), a foundation of sheltered and sound saving money is the outline and execution of composed strategies and techniques identified with recognizing, measuring, checking and controlling credit risk. Regardless, there ought to be satisfactory checks set up to loan sound credit choices. The arrangements ought to be composed and executed inside of the connection of inner and outer elements, for example, the bank's business sector position, exchange region, staff abilities and innovation.

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Strategies and techniques that are legitimately created and executed empower the bank to:

Keep up sound credit-conceding measures,

Screen and control credit risk,

Appropriately assess new business opportunities; and

Identify and direct issue credits (Machiraju, 2004).

The banks credit policy should explicitly provide procedural guideline relating to credit risk monitoring. At the minimum it should lay down a procedure relating to:

- The roles and responsibilities of individuals responsible for credit risk monitoring.
- The assessment procedures and analysis techniques (for individual loans & overall portfolio).
- The frequency of monitoring.
- The periodic examination of collaterals and loan covenants.
- The frequency of site visits.
- The identification of any deterioration in any loan.

One critical defensive agreement that banks have used is collateralization of the borrowers' advantage for the giving bank. Guarantee is any benefit utilized as security for a credit. Mishkin (2001) expressed that "security is property guaranteed to the loan specialist if the borrower defaults". Notwithstanding, security can't be a substitute for a thorough appraisal of the borrower or counterparty, nor would it be able to make up for lacking data. It ought to be perceived that any credit authorization activities (e.g. dispossession procedures) could wipe out the overall revenue on the exchange.

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Furthermore, banks should be careful that the estimation of security may well be impeded by the same components that have prompted the reduced recoverability of the credit. Banks ought to have arrangements covering the agreeableness of different types of guarantee; methodology for the progressing valuation of such security; and a procedure to guarantee that insurance is, and keeps on being, enforceable and feasible. With respect to insurance, banks ought to assess the level of scope being given in connection to the credit quality and legitimate limit of the underwriter.Banks ought to be cautious when making suppositions about suggested backing from outsiders, for example, the management.

Resources utilized as insurance securities must be legitimately esteemed by experts who are well educated in such valuations (Brigham & Ehrhardt, 2002). This, as indicated by Teich (1997), will help prevent any future legitimate hindrances when the security solidifies. Banks must place accentuation on the power deal values as opposed to the business sector estimations of collateralized resources (Ferguson, 2001). Bielecki (2000) affirms that banks are profoundly secured where the power deal estimation of a benefit is equivalent or more than the credit sum conceded. An accomplished, devoted and an extremely productive legitimate division is a pre-essential for upholding defensive agreements.

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CHAPTER THREE

THE RESEARCH METHODOLOGY

3.0 Introduction

The main purpose of this study was to assess the management of credit risk in financial institutions in Ghana using Ecobank Ghana Limited in the Kumasi Metropolis as a case study. This chapter presents the activities and processes that were undertaken to gather data for the research work. It provides full details of how data were collected and processed for the study. It was mostly centered on the following: research design, population under study, sampling techniques, sources of data, research instruments, and method of data analysis.

3.1 The Research Design

The descriptive method of research is used to acquire data relating to the existing status of a phenomenon in order to define what already exists in the status quo. It is the framework for conducting a meaningful research. It provides the outline for data collection, its measurement and analysis. Research design provides the bond that holds the research project together. The design is used to structure the research, to show how all of the major parts of the research project (the samples or groups, measures, treatments or programs, and methods of assignment) work together in trying to address the central research questions.

This research is intended to assess credit risk management in financial institutions within the Kumasi Metropolis and, for that matter, Ghana. The choice of a descriptive qualitative design is based on the premise that the researcher seeks to gain an in-depth

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understanding ofcredit risk management practices and, as such, the survey method of data collection was employed to collect data of a qualitative and quantitative nature.

The plan adopted by the researcher was to obtain answers to research questions formulated. Questionnaires were the main instruments used to collect data. The use of the questionnaire was employed to collect data from management, senior staff and the credit department since this method is quicker forcollecting information from a number of people at the same time. Secondly, the questionnaire was the most convenient method of eliciting responses to questions.

3.2 Population of the Study

According to Mason *et a1.* (2007), the population of a study is the collection of all possible individuals, objects or measurements of interest. The target population of the study is the management, senior staff and the credit department of the ten (10) selected branches of Ecobank Limited within the Kumasi metropolis.

3.3 Sampling Frame

In selecting the respondents, both purposive and convenience sampling techniques were used to select from the different categories of personnel. In the case of the purposive sampling, also known as judgmental sampling, the researcher picks the sample that will deliver the best information in order to satisfy the research objectives in question or with a purpose in mind. For instance management staff, senior staff and credit department staff was used for the study.

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Convenience sampling (sometimes known as grab or opportunity sampling) is a type of non-probability sampling thatinvolves the sample being drawn from that part of the population thatis close to hand. The researcher used convenience sampling because of the availability of respondents that the researcher could easily reached out to, to be used for the study.

3.4 Sample Size

In research it is often impossible to study every member of the population involved. However, some researchers do overcome this difficulty in situations where the study population itself is small and also not very scattered. To address the challenge of access to the complete population, representative samples are thus prescribed and accepted in any scientific study. A sample is a finite part of a statistical population whose properties are studied to gain information about the whole.When dealing with people, it can be defined as a set of respondents (people) selected from a larger population for the purpose of a survey.

A sample can refer to a set of people or objects chosen from a larger population in order to represent that population to a greater extent (Mason *et al.,* 2007). Therefore, the size of the study sample and the way in which it is chosen will certainly have implications for the level of confidence in the results and the extent to which generalizations can be made. A sample size of fifty (50) was drawn from a target population of ten (10) selected branches of Ecobank Limited within Kumasi metropolis. The fifty (50) consist of five (5) representatives each from the ten (10) selected branches. These representatives are,

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however, made up of two (2) staff from the credit department while the remaining three (3) represents the, operation department.

3.5 Data Collection

The data collection format will depend on the kind of data to be collected. However, in this particular study both primary and secondary data were used. Primary data was sourced from the staff (top management member, finance, procurement, production and sales). The other source of information was secondary data, which was collected from textbooks, particularly in credit management, journals and other publications on credit risk and its management. The data collection methods used were as follows:

3.5.1 Questionnaire

A questionnaire is a series of questions asked to individuals to obtain statistically useful information about a given topic. When properly constructed and responsibly administered, questionnaires become a vital instrument by which statements can be made about specific groups or people or entire populations.

Questionnaires are frequently used in social research. They are a valuable method of collecting a wide range of information from a large number of individuals, often referred to as respondents. Adequate questionnaire construction is critical to the success of a survey. Inappropriate questions, incorrect ordering of questions, incorrect scaling, or bad questionnaire format can make the survey valueless, as it may not accurately reflect the views and opinions of the participants. A useful method for checking a questionnaire and

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making sure it is accurately capturing the intended information is to pre-test among a smaller subset of the target respondents.

The questionnaires were self-administered to individuals involved. The questionnaire contained both closed-ended and open-ended questions. The open-ended questions sought to encourage respondents to share as much information as possible in an unconstrained manner. The closed-ended questions, on the other hand, involved "questions" that were answered by simply checking a box or circling the proper response from a set of options that were provided. While the closed-ended questions allow for easier analysis of the data due to standardized questions, their main limitation is that they allow the researcher to determine only what the respondents are doing and not how or why they are doing it.

3.6 Validity and Reliability of Data Collection

The procedures for collecting data were valid and reliable since a primary data gathering technique was mostly used throughout to collect information for the analysis. In most cases, questionnaires proved positive because the people knew what they were doing. This manifested in the high active response rate to questionnaires.

3.7 Methods of Data Analysis

In analyzing the data, frequency tables were used as the analytical technique. Qualitative explanations were made of quantitative data to give meaning to them as well as to explain their implications. Data was organized in tables and figures based on the questionnaire given to respondents.A computer data analysis (SPSS) was used to analyze the pre-coded questions and was used to compute the percentages. The results were diagrammatically

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presented in the form of bar graphs and graph frequency tables. From these, appropriate recommendations were made on the findings of the research. The results are presented in Chapter Four of the study.

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CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.1 Introduction

This chapter applies the framework of Credit Risk Management developed by Ecobank Ghana Limited. The idea was to compare the institutions handling of Credit Risk Management with the criteria of the framework. It is comprised of the findings, analysis, and interpretation of data collected from the employees with the use of both quantitative and qualitative methods. These findings are presented in theform of pie charts, bar graphs, and frequency tables to make it easier for data obtained to be understood. The information ascertained was based on the responses from the questionnaires distributed to the employees of the bank. The findings were centered on the employee information and bank practices on credit management.

4.2 Background Information on Respondents

With the questionnaire as the main research tool to gather data from the respondents, the first section was intended to gather data on the background information of the respondents. These include sex distribution, age of respondents, level of qualification of respondents, marital status, years of service, and category of employees interviewed.

4.2.1 Sex Distribution of Respondents

The total number of respondents was fifty (50) out of which 70% were males and 30% females as indicated in the table below. The sex distribution showed that both males and

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females were represented in the study as shown below. The males, however,formthe majority of the respondents.

Table 4.1: Sex Distribution

Gender	**Frequency**	**Percentage (%)**
Male	35	70
Female	15	30
Total	**50**	**100**

Source of data: Researcher's field work (July, 2017)

Table 4.2: Age of Respondents

Respondents	**Frequency**	**Percentage (%)**
18 – 25 years	0	0
26 – 35 years	17	34
36 – 45 years	18	36
46 and above	15	30
Total	**50**	**100**

Source of data: Researcher's field work (July, 2017)

From table 4.2 and figure 4.1, of the total respondents, the 36 – 45 age groups were the highest among the respondents with 36% followed by the 26 – 35 age groups who had 34%. Fifteen (15) respondents representing 30% fell within the 46 and above age group. Finally, the 18 – 25 age groups had no respondents.

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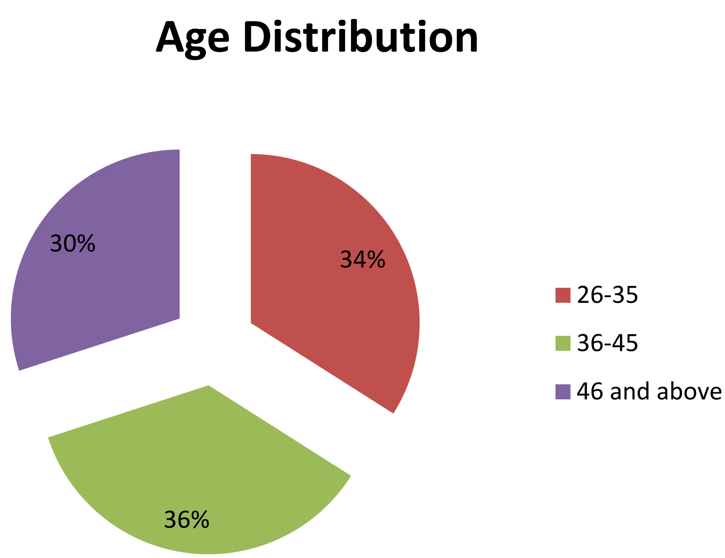
Figure 4.1: Age Distribution



Source of data: Researcher's field work (July, 2017)

4.2.2 Level of Education

From table 4.3, the analysis of this variable revealed that the majority of respondents (48%) have a masters' degree as their qualification, followed by those who have had their first degree (40%) and finally 12% have had professional qualification.The effect of this was that respondents had no problems in responding to the questionnaire.

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Table 4.3:Level of Education

Respondents	Frequency	Percentage (%)
Professional	6	12
Masters (Second degree)	24	48
Degree	20	40
Diploma	0	0
Others	0	0
Total	**50**	**100**

Source of data: Researcher's field work (July, 2017)

As far as educational attainment was concerned, the entire respondents had tertiary education. This implies that the respondents have appreciably high levels of education and for that, they could understand and appreciate the import of the study being conducted. It also means that they had the capacity and ability to adopt and comply with any financial framework of the bank as well as credit and risk management policies.

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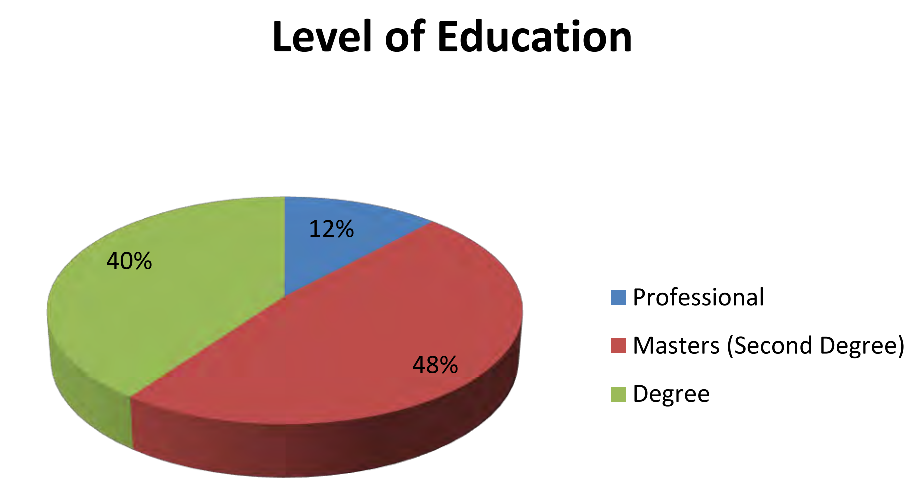
Figure 4.2: Level of Education



Source of data: Researcher's field work (July, 2017)

Table 4.4: Marital Status

Respondents	Frequency	Percentage (%)
Married with children 30		60
Married without children	8	16
Not married	7	14
Not married with children	5	10
Total	**50**	**100**

Source of data: Researcher's field work (July, 2017)

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Table 4.4 revealed that the majority of the respondents (30) representing 60% are married with children. This was followed by eight (8) respondents constituting 16% who had married but not yet have children. Seven (7) respondents representing 14% had not married and this was evident to the fact that they fell within the youthful age. Finally, five (5) respondents representing 10% indicated that, for some personal reasons, they have children but are not married.

4.2.3 Number of Years' Experience

In the quest to know how experienced the respondents were, the researcher asked the number of years the respondents have worked with the bank. The table below shows their responses indicating that twenty (20) respondents representing 40% had worked with the bank for a period of 11- 20 years. This was followed by fifteen (15) respondents with a percentage of 30% who had been with the bank for 21 – 30 years. Seven (7) respondents had been at the bank for 6 – 10 years and they represented 14% of the respondents. Five (5) of respondents had worked for a period less than 5 years representing (10%) whereas the only 3 respondents representing (6%) had been with the bank for more than 31 years.

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Table 4.5: Number of Years Worked with the Bank

Respondents	**Frequency**	**Percentage (%)**
Less than 5 years	5	10
6 – 10 years	7	14
11 – 20 years	20	40
21 – 30 years	15	30
More than 31 years	3	6
Total	**50**	**100**

Source of data: Researcher's field work (July, 2017)

In the distribution of the questionnaire no attempt was made toselect candidates based on experience groupings. It was rather thought that all representations would be credible. At the end of the study it was realized that all the respondents had spent some time with the institutions and their responses were a reflection of their experiences. This implies that the staffs of the bank werewell distributed in the various experience brackets and if well utilized a good blend of youthful energy and adult experience will help achieve the ultimate goals of the bank hence effective credit risk management. A summary of the information from the table above has been presented in the chat below.

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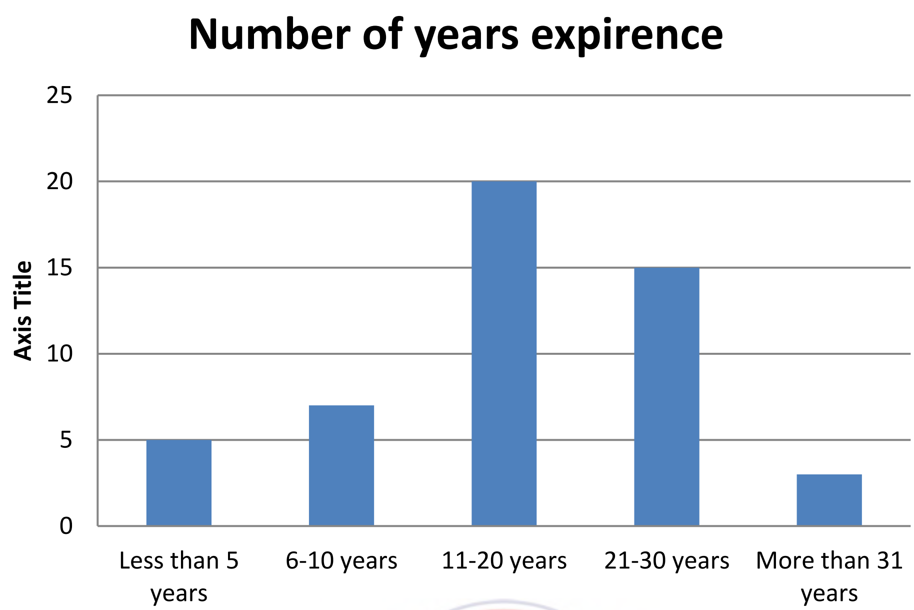
Figure 4.3: Number of Years' Experience



Source of data: Researcher's field work (July, 2017

4.2.4 Employee Status

Table 4.6: Employee Status

Respondents	**Frequency**	**Percentage (%)**
Executive	5	10
Senior staff	25	50
Credit staff	20	40
Total	**50**	**100**

Source of data: Researcher's field work (July, 2017)

Table 4.6 revealed that five (5) of the respondents representing 10% were part of the executive, thus formed part of the top management. Twenty (20) respondents constituting

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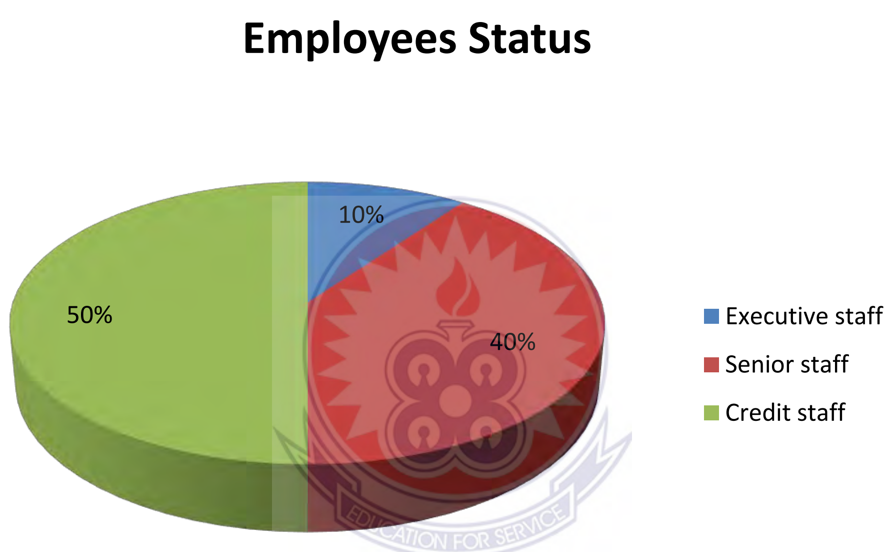
40% were found to be among the senior staff of the bank. The majority of the respondents were, however, among the junior staff. This was evident with twenty-five (25) respondents representing 50% of the total respondents. Below is a summary of the information from the table above presented in achart.

Figure 4.4: Employee Status



Source of data: Researcher's field work (July, 2017)

4.3 Types of Loans Offered by Ecobank Ltd

A loan is a temporal provision of a facility usually in a form of money with an interest rate applied. With a loan facility, the borrower initially receives or borrows an amount of money, called the principal, from the lender, and is obligated to pay back or repay an equal amount of money to the lender at an agreed time. Typically, the money is paid back

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in regular installments, or partial repayments; in an annuity, each installment is the same amount or has areducing balance. The loan is generally provided at a cost, referred to as interest on the debt, which provides an incentive for the lender to engage in the loan. In a legal loan, each of these obligations and restrictions are enforced by contract, which can place the borrower under additional restrictions known as a loan agreement. Although this article focuses on monetary loans, in practice any material object might be lent.

From one-on-one interviews conducted by the researcher with the relationship officers, the researcher was told that the institution has several loans available to its clients based on different purposes requested by them. Generally they can be grouped into;

- Short Term Loans
- Medium Term Loans
- Long Term/Financing Loans

Aside from these loans based on their duration, there are other forms of credit facilities given to their clients based on their needs. They include;

1. Customer loans, which are sometimes known as the salary loans
2. Commercial loans, which are grouped into SME loans, invoice financing, contract financing, and fully cash bank.

4.4 Credit Management Practices of Ecobank

Credit management is the process ofcontrolling and collecting payments that have been given out as loans from customers. When functioning efficiently, credit management serves as an excellent way for the bank to remain financially stable. The process of credit

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management begins with accurately assessing the credit worthiness of the customer base. A good credit management system helps to reduce the amount of capital tied up with debtors and minimize the exposure to bad debts. Good credit management is vital to the cash flow of the bank

Table 4.7: Credit Management Practices

QUESTIONS/RESPONSES	SA	A	N	D	SD	TOTAL
Clients do not necessarily need to have an account before being granted a loan	15	25	10	0	0	**50**
Loan documents are duly assessed by head office officials	20	22	8	0	0	**50**
Collateral is required when assessing loan	10	25	10	5	0	**50**
All loans are approved by a loan committee	25	20	5	0	0	**50**
There is a ceiling for the amount to be granted	25	22	3	0	0	**50**
Loan repayments deducted at source is more convenient	20	26	4	0	0	**50**
Customers repay their loans monthly	20	25	5	0	0	**50**
Guarantors are required before loans are advanced to clients	5	10	5	10	20	**50**
The bank has laid down procedures that are followed in granting credit to client	25	20	5	0	0	**50**
There are measures in place to detect early signs of bad debt	19	20	3	7	1	**50**
The Board of Directors of the bank play a role in managing the bank's exposure to credit risk	10	15	15	6	4	**50**
There are measures in place to check and reduce repayment defaults	25	21	4	0	0	**50**

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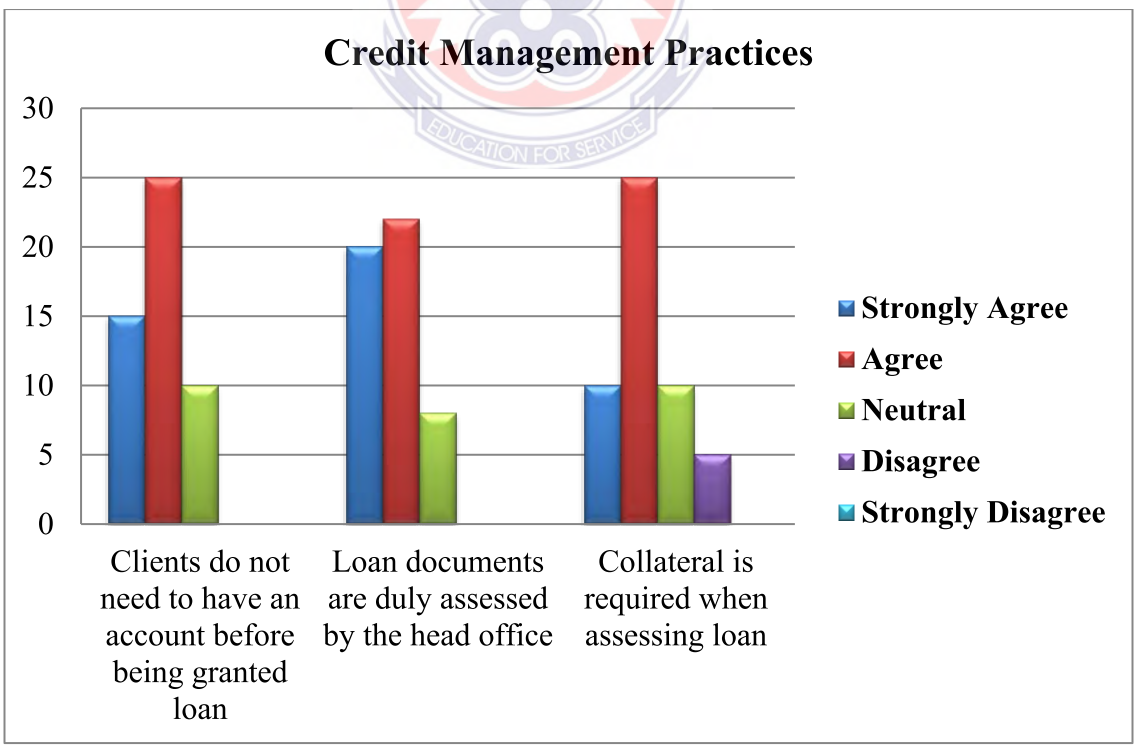
The bank evaluates its success in the granting and recovery of loans	21	23	6	0	0	**50**
Measures put in place in the checking default rate have been very effective over the years	15	20	10	3	2	**50**
Implementation of Credit Management Measures has helped to minimize bad debts	16	22	7	4	1	**50**

Source of data: Researcher's field work (July, 2017)

These variables were to test the respondent's knowledge of the credit management being implemented by the bank. It was evident from the responses in table 4.6 that the employees are well aware of practices adopted by the bank for its actualization of goals.

Figure 4.5: Credit Management Practices



Source of data: Researcher's field work (July, 2017)

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From figure 4.5, it could be seen that obtaining credit facilities from Ecobank does not require a client having a bank account with the bank. During a one on one interview with some officials from the bank they revealed that some clients only want to assess credit facilities without necessarily operating a bank account with the bank.In such cases the bank does not open an account for them to avoid the creation of dormant accounts with the bank after they have withdrawn their monies.

On the issue of loan documents being assessed by the head office, respondents made it clear that the authorization and approval of credit issupposed to be done at their head office inAccra;however,due to the huge customer base and wide range of their branches, the head office have given their branches some sort of delegated powers to assess their clients' documents to avoid undue delay of credit. The onus now lies on the branches to do a due diligence on the authenticity of information provided of their clients. Respondents revealed that there are instances where imposters had managed to acquire loans due to incorrect information provided. The researcher further inquired as to whether the bank adopts thepractice of requiring collateral. It revealed that, although it is a measure used in hedging against defaulters, it normally applies to clients whose repayments could not be deducted at source.

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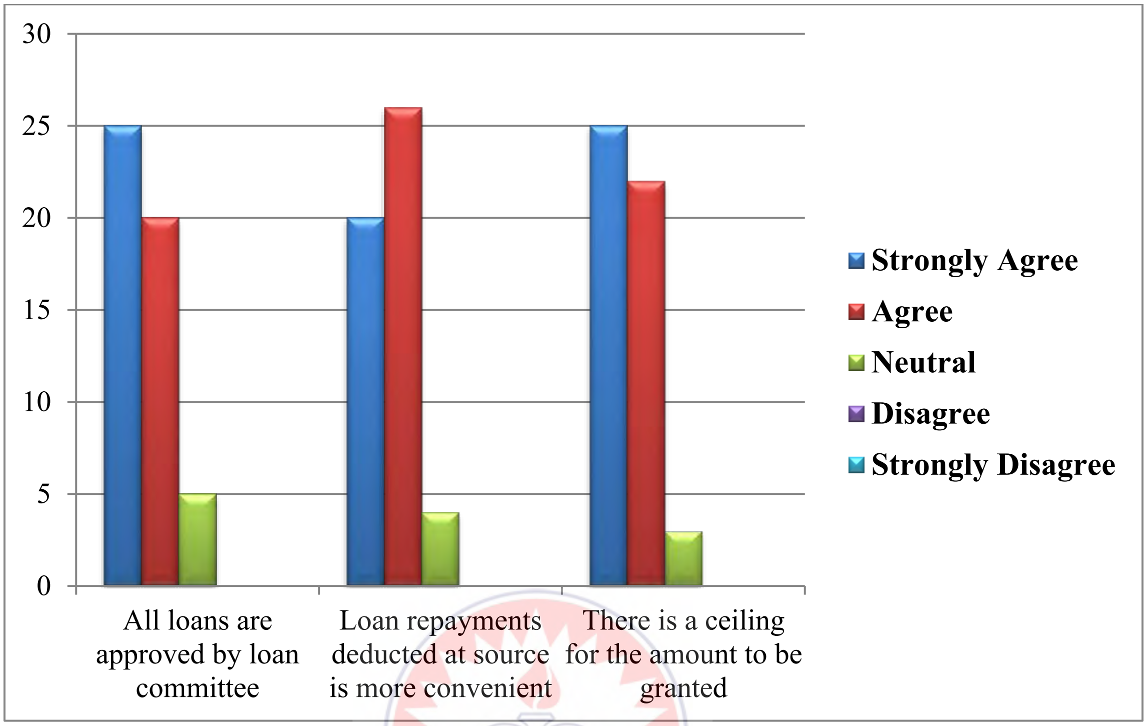
Figure 4.6: Credit Management Practices



Source of data: Researcher's field work (July, 2017)

Gup Fraser and Korari (1989) maintained that failure is usually the result of reckless lending, lack of diversification or both. To this end Hempel, Simonson and Coleman (1994) wrote that: effective organization and control of the lending function are vital to the profitability of every bank. The policy should establish lending for all loan officers and for a combination of officers and loan committees. With regard to loan approval, responses on figure 4.6 indicated that it had to pass through the loan committee to ensure adequate appraisal and proper authorization. This ensures that no decision is taken on the blind side of management.

The researcher inquired as to which form of loan repayment is more convenient. Respondents revealed that repayments deducted at source from borrower's income are

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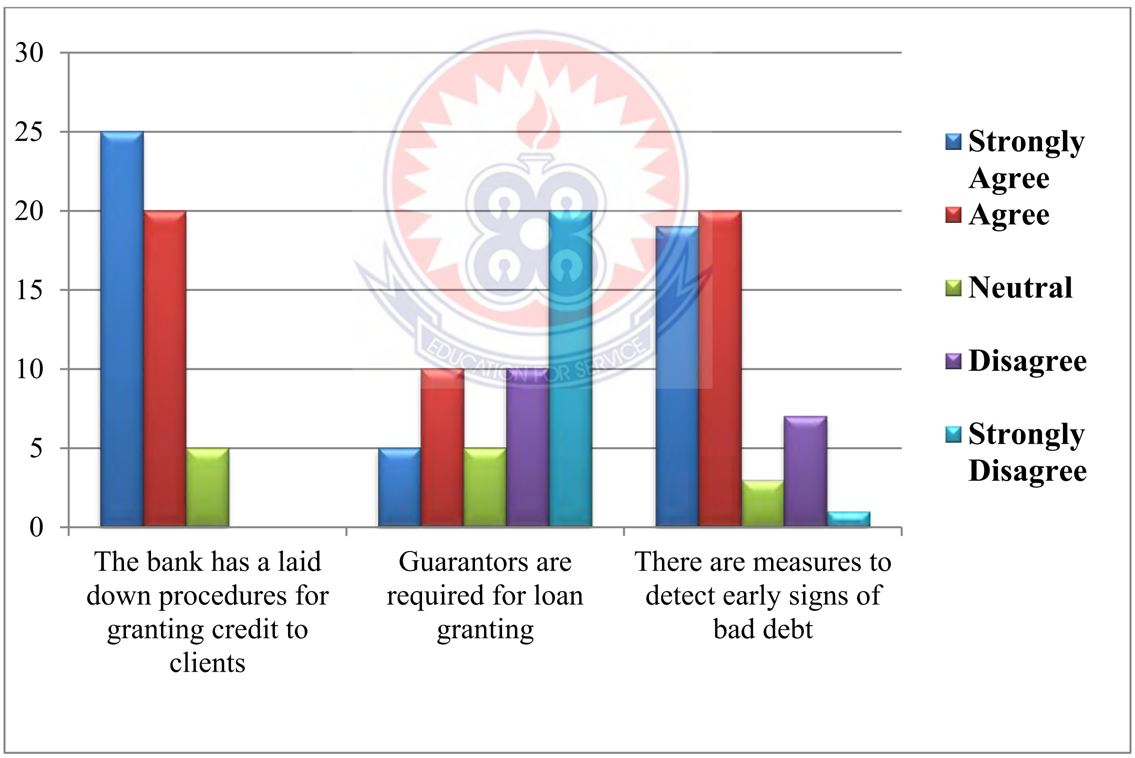
more appropriate. This confirmed the reason that most banks prefer to offer loans to government workers since they are deducted from the Controller and Accountants' General department. Notwithstanding the convenience with which deductions are made at source, respondents revealed that there is a ceiling onthe amount to be granted to clients. The credit committee conducts an effective credit appraisal of their clients and they believe this has helped in providing adequate information as to the right amount to be granted in order not to get bank monies locked up in loans.

Figure 4.7: Credit Management Procedure



Source of data: Researcher's field work (July, 2017)

It was also investigated to check whether the bank has a laid down procedure in granting credit. From the responses obtained, it revealed that policies and procedures exist to ensure that critical decisions concerning loans are made with appropriate approval.

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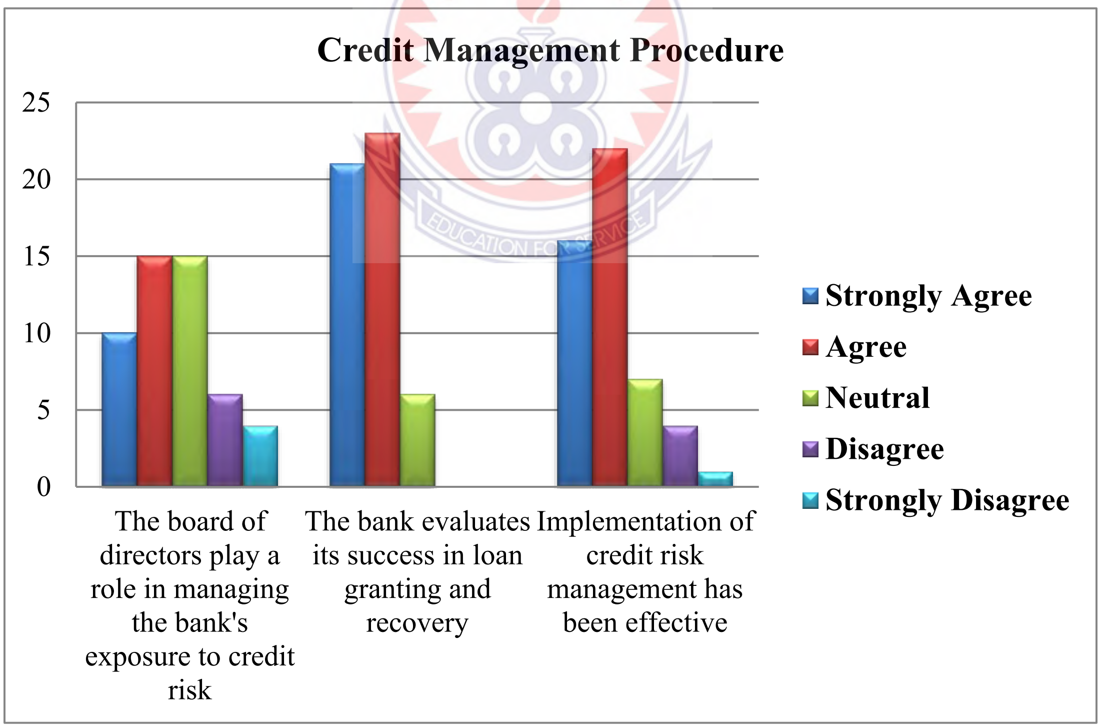
Responses from figure 4.7 revealed that one of the laid down procedures is to demand a collateral security from clients before any loan agreement. The intention of this process is to place the bank in a secured position such that, in the case of the client defaulting, whatever has been used as collateral would replace the defaulted loan. On the part of a salary worker, they use their pay slips as collateral before loans are granted. Monitoring of credit facilities granted to customers is a significant function in ensuring the success of the project for which repayment is made. Themajority of the respondents further indicated that the bank has a monitoring team that has put measures in place to check early signs of default for rescue action to be taken.

Figure 4.8: Credit Management Procedure



Source of data: Researcher's field work (July, 2017)

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The board of directors should approve and periodically review the credit strategy whilst senior management should ensure its effective implementation. A sound credit management process provides the basis for assessing the credit worthiness of beneficiaries and creates facilities to be followed through. This ensures the utilization of the credit for the intended purpose and unveils any bottlenecks, which may arise for appropriate remedial action to be enforced. This mitigates the risk of the facility not achieving the intended purpose and generating sufficient cash flows to service as well as liquidate the principal amount. To this end, the majority of the respondentsfromfigure 4.8 revealed that the board plays a significant role in ensuring that the bank's exposure to risk is at the barest minimum. Respondents revealed that this is achieved through continuous evaluation of loan portfolios and a careful implementation of policies to mitigate credit risk. They attested to the fact that it has been very effective because it has helped the bank in reducing default rates.

4.5 Compliance with Central Bank's Regulations on Credit Management

Credit risk continues to remain the largest source of risk for banking institutions in the world (Credit Bank Negara Malaysia, 2001). Effective credit management is therefore vital to ensure that a banking institution's credit activities are conducted in a prudent manner and the risk of potential bank failures are reduced. One of the basic objectives of banking supervision is to protect depositors' interest, the source of the bulk of working funds for banks. The existence of a good quality loan asset portfolio of a bank provides a guarantee for safety of deposits.

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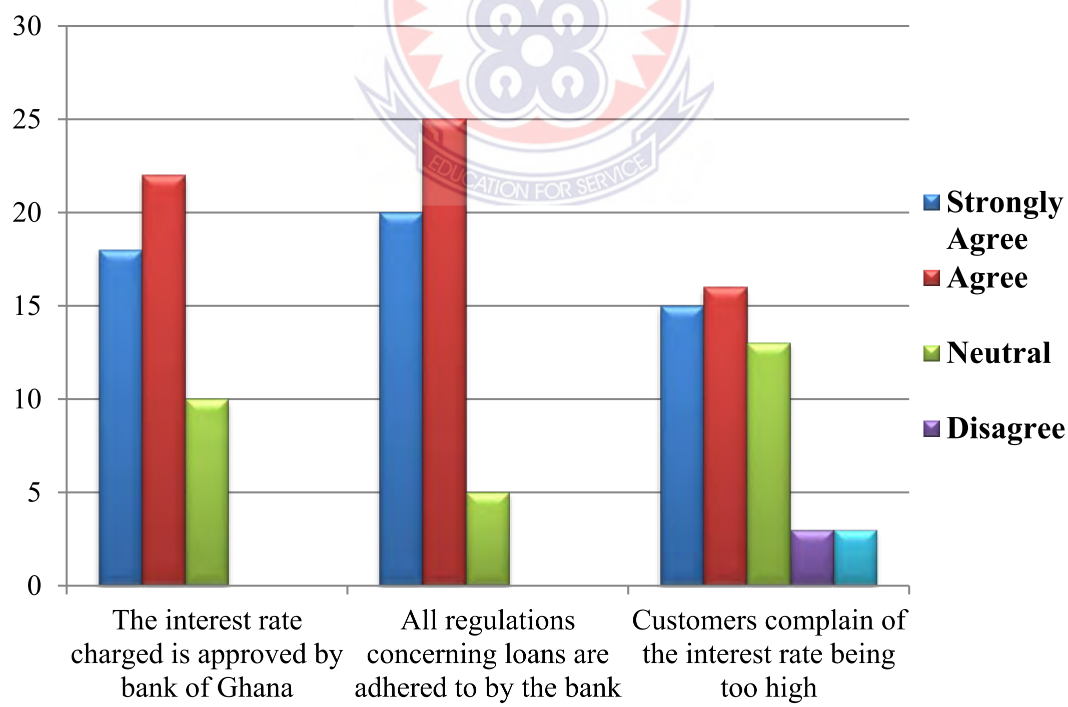
Table 4.8: Compliance with Central Bank Regulations (Bank of Ghana)

QUESTIONS/RESPONSES	SA	A	N	D	SD	TOTAL
The interest rate charged is approved by Bank of Ghana	18	22	10	0	0	**50**
All regulations concerning loans are adhered to by the bank	20	25	5	0	0	**50**
Customers complain of the interest rate being too high	15	16	13	3	3	**50**
There is regular review of internal policies by management	20	24	6	0	0	**50**
The bank conforms to the guidelines for sectorial allocation of credit issued by the bank of Ghana	12	13	16	2	2	**50**

Source of data: Researcher's field work (July, 2017)

Figure 4.9: Compliance with Central Bank Regulations



Source of data: Researcher's field work (July, 2017)

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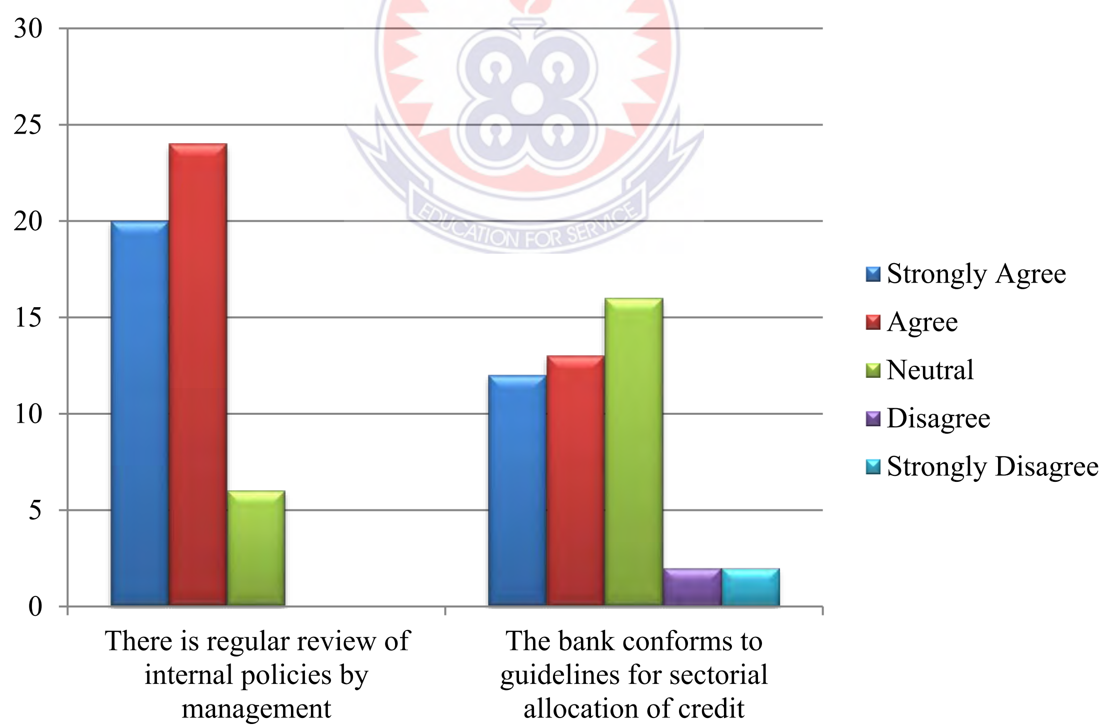
Interest rates tend to be one of the major consideration factors forclients before going in for a loan facility. Clients normally resort to comparing rates of interest of different banks before coming to terms with the one they deem the lowest. In respect of this, respondents were questioned whether the rate of interest being charged is Bank of Ghana approved and do clients complain that the rate is high. Responses fromfigure 4.9 revealed that the rate of interest charged is always approved by the central bank since it would be unethical for the bank to charge exorbitant rates of interest. This, in a way, is a form of ensuring compliance withthe regulations of the Bank of Ghana. Notwithstanding the bank's conformity to central bank regulations on interest rates, clients still agitate over it.

Figure 4.10: Compliance with Central Bank Regulations



Source of data: Researcher's field work (July, 2017)

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In order to ascertain the issues on the ground, the interviewees were asked of the difficulties that are normally encountered in complying with regulatory policies issued by the Bank of Ghana regarding credit management practices of the bank. Responses fromfigure 4.10 indicated that the Bank of Ghana has issued legislations concerning credit activity of banks, which comprises of the provision of restrictions on lending and, as such, the bank has no option other than to adhere to them. This is because the Bank of Ghana conducts periodic assessments into the operations of the Bank and that, if the bank is found to be non-complying with the regulations of Bank of Ghana regarding its credit management practices, the consequences are very demanding. Therefore, the bank operates in full compliance withthe Bank of Ghana regulations regarding credit risk management. The respondents therefore conclude that the bank does not give room for difficulties in complying with these regulations because such difficulties can affect the entire operational competencies of the bank.

4.6 Early Warning Signs of Bad or Doubtful Debt

During a personal interview the researcher had with some of the respondents, they unveiled that there are so many early signs the loan officers anticipate when clients are about to default. The ability of the bank to anticipate, detect, recognize and report problems as early as possible lies with the loan officers so that prompt corrective actions can be taken to avoid this problem. According to the respondents, the institution sometimes experienced bad or doubtful debts as a result of loans granted to its clients.

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Examples are:

- When deposits cease coming: these are loans which are granted to businessman and women and they are expected to run their accounts with proceeds from their business. The institution then ensures that regular deposits are made into the account and when these deposits cease coming, it serves as a sign to the institution that the loan could go bad or there could be something wrong with the clients business.
- When an installment agreement between the institution and the client is distorted because the client could no longer pay the agreed installment in the specified time interval. The institution therefore expects constant and frequent deposits from clients who have been granted loans. However, if the institution realizes there is a trend of deposits falling short this isnot encouraging and signifies danger of a doubtful debt.
- In the case of salary workers who use their pay slips as collateral when it is found that they have travelled and abandon their job, it gives a clear sign of a bad or doubtful debt occurring.
- Multiple Loans: when it comes to the notice of the institution that a client has taken multiple loans from other banks, it serves as a clear indication of a default or the loan could go bad.

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4.7 Challenges of Loan Recovery

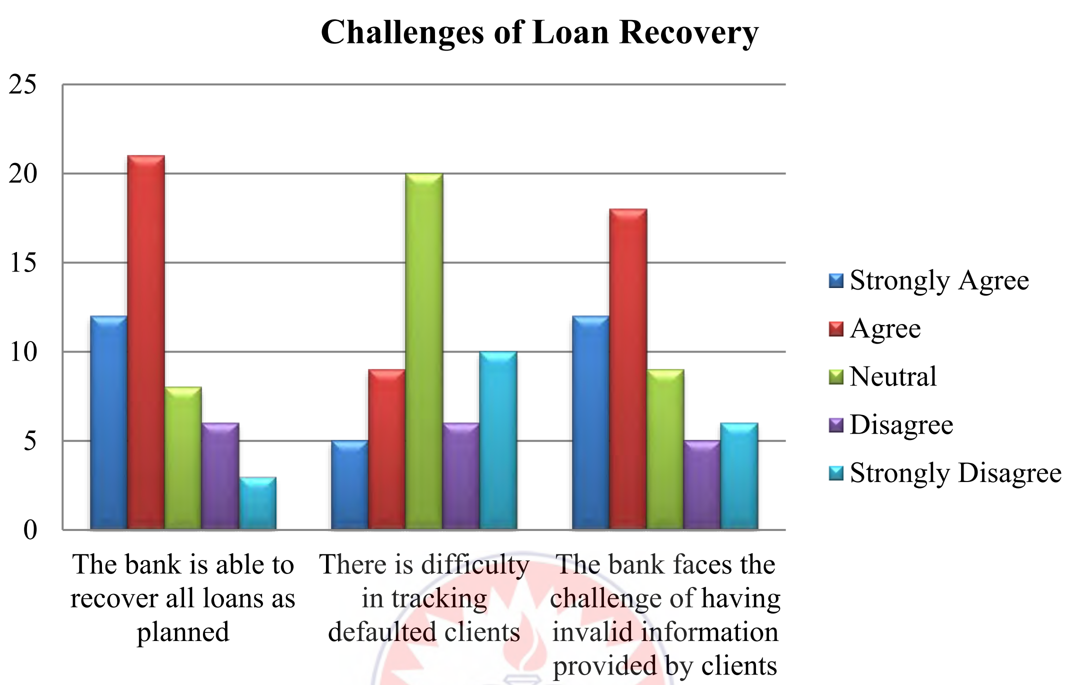
Banks in many low-income countries have problems with collecting back loans. Various loan recovery measures and inadequate information often make it difficult to determine the exact magnitude of these problems. Banks seldom have information that presents a clear picture of the aging of arrears; some observers have argued that recovery problems are not serious because most overdue payments are repaid soon after the loans' due date.

Table 4.9: Challenges of Loan Recovery

QUESTIONS/RESPONSES	SA	A	N	D	SD	TOTAL
The bank is able to recover all loans as planned	12	21	8	6	3	**50**
There is difficulty in tracking defaulted clients	5	9	20	6	10	**50**
The bank faces the challenge of having invalid information provided by clients	12	18	9	5	6	**50**
The bank encounters challenges in conforming to the guidelines issued by the Bank of Ghana for sectorial allocation of credit	5	7	10	13	15	**50**
The rate of loan recovery has improved over the years	17	18	11	3	1	**50**

Source of data: Researcher's field work (July, 2017)

Figure 4.11: Challenges of Loan Recovery



Source of data: Researcher's field work (July, 2017)

The question in relation to the bank's ability to recover all loans is intended to bring to bear the various challenges faced by the bank in its recovery of loans. From the responses fromtable 4.8 and figure 4.11, it can be seen that the majority of the respondents indicated that the bank is able to recover most of its loans due to the source deduction of repayment, which reflects positively on the bank. Some, however, acknowledged the existence of difficulties in loan recovery, especially, clients whose repayments cannot be deducted at source. Tracking of defaulted clients sometimes poses difficulties due to inaccurate information provided.

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4.8 Credit Risk Management

Based on the above discussion on the early sign of bad and doubtful debts, the researcher was again quick to know the necessary measures put in place to combat the above stated problems. During a one on one interview with some Relationship Officers, they explained the loan recovery strategies put in place by the institution as:

- Insurance on loans. There is always insurance on whatever amount that is granted to clients. Clients are made to pay some percent of the loan amount as the insurance premium in case of theft, burglary or fire outbreak in the clients businesses.
- The institution constantly visits and befriends their clients. Base on this their clients always feel free discussing their business problems withthe bank and they are given free advice and through that they are able to settle their debt as they fall due.
- The institution depends on collateral used in securing the loan by clients. This collateral isdisposed of to settle the indebtedness in the case of a bad debt.
- As the last resort, the institution summons defaulters to court for them to be brought to book. The requirement of every transaction must be within the law, and if any default occurs, the bank has the option of taking the client to court to obtaina judgment debt.

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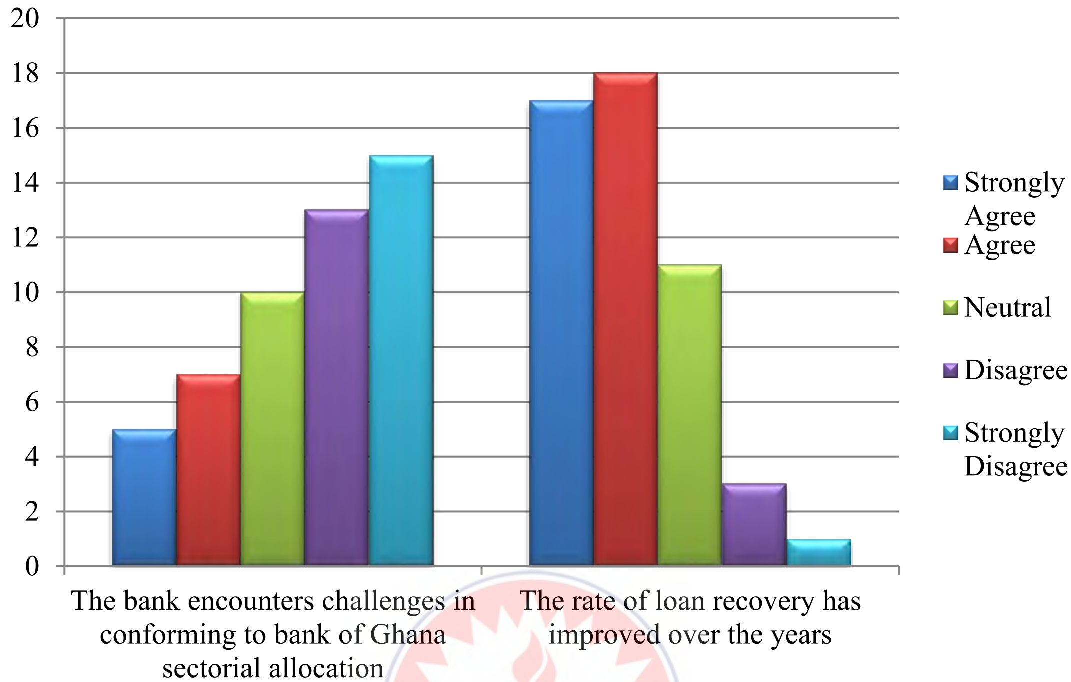
Figure 4.12: Challenges of Loan Recovery



Source of data: Researcher's field work (July, 2017)

With respect to the conformity withthe Bank of Ghana guidelines onsectorial allocation of credit, respondents iterated that, although it poses some form of challenge, the bank is still able to go by such directives. They further indicated that the rate of loan recovery had improved over the years. The reason accounting forthis is the implementation of debt recovery strategies.

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CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The broad objective of this study was the assessment of the credit management practices of Ecobank Ghana Limited. In addressing this objective, management and staff of the various departments of the bank were chosen for the study. In an effort to investigate into the general objective of the research, three (3) specific objectives were explored, namely:to assess the credit management of the bank; to find out whether Ecobank Limited complies with central bank regulations on credit management; to identify the problems encountered by Ecobank Limited; and to recommend appropriate measures to mitigate it. The researcher made use of both primary and secondary data, which included structured and unstructured questionnaires administered to the management and staff of the various departments of the bank.

5.2 Summary of Findings

The main objective of this study was to examine the credit management practices of Ecobank Limited. The study had three (3) specific objectives of establishing the procedures of granting loans, compliance with theregulations of the central bank and the problems encountered by the bank in its recovery programme.

The study distributed questionnaires, which assisted in the examination of the credit risk management practices of Ecobank Limited. This comprised of staff involved in loan

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disbursement at the bank. Data was gathered by analyzing the answers from the respondents.

The study denotes that the majority of the respondents agreed that clients do not necessarily need to have an account with the bank before accessing a loan and loan repayments deducted at source from the client's income is more convenient. The board of directors plays a significant role in managing the bank's credit risk exposure.

Clients normally resort to comparing rates of interest of different banks before finally deciding on the bank with the least interest on their loan to borrow from. In respect of this, the bank would always want to go by the Bank of Ghana rate by adding relatively little margin to the approved rate of interest. This, in a way, is a form of ensuring compliance withthe regulations of the bank of Ghana. Notwithstanding the bank's conformity withcentral bank regulations on interest rates, clients still agitate over it. The bank conforms to all the regulations the Bank of Ghana has instituted so far as banking is concerned and they do not give room for difficulties in complying with these regulations because such difficulties can affect the entire operational competencies of the bank. Based on this, there is regular review of internal policies by management to ensure that the bank is always in line with Bank of Ghanaregulations.

The personal interview between the researcher and the respondents unveiled that there are some early warning signs that prompts the bank about bad or doubtful debt occurring, which includes clients ceasing to deposit money on aregular basis, some clients travelling with their monies without informing the bank, and clients taking out more loansthan they can pay from different banks.

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Respondents hinted to the researcher that the problems usually encountered by the bank in its recovery programme include: invalid information provided by clients; challenges in conforming to the guidelines issued by the Bank of Ghana for sectorial allocation of credit; and difficulty in tracking defaulted clients.

Based on the early warning signs and recovery problems, the bank has instituted some measure to help mitigate the rate of loan defaulting by its clients. These measures include: insuring the loan taken by the client; the bank making their clients their friends and giving them advice on their business problems; sourcing to collateral securities when the need arises to clear a defaulted loan; and sometimes resorting to the court for the repayment of the loan, which seldom happens.

5.3 Conclusions

In light of the revelations from the data analysis and findings of the study, one can conclude the following, taking into account the objectives of the study; the assessment of the credit risk management practices of Ecobank Limited.It concludes that the bank has laid down procedures that are followed in granting credit to client.

Process management adopted to control credits includes ensuring compliance with internal guidelines and completeness of credit applications forms. In addition, supervision is a vital angle since it urges borrowers to confer: a truth communicated by respondents who said they considered supervision vital in loan repayments.

The study concludes that the bank should always plan its credit programme in such a way that its interest rates will not be fluctuating any time the central bank reviews its monetary policy, even though the policy rate is beyond the control of the bank. In such

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cases, the bank should mitigate the impact of the shock on financial performance. This will help enhance the monetary status of the bank and diminish the risk of granting bad loans to customers. Monitoring should be carried out on a timely basis to supervise the activities that clients are using the loan for, and credit analysis and processing should be done in an efficient and effective manner. The credit procedures should be innovative to accommodate varied loan applications since eachloan may have different requirements.

5.4 Recommendations

The study dealt with a specific end goal to assess the credit risk management practices of the bank. Keeping in mind the end goal to minimize default in repayment, the bank ought to guarantee that whomever they grant credit to must meet a base edge in resource esteem before advances are granted. The loan policy of the bank must be fashioned in a way that it will be customer oriented. It must take into account the needs and the aspiration of the customers to come out with loan products and services that will be beneficial to the customer to enhance repayment thereby helping to increase the profitability of the bank. In order for the institution to solve the numerous problems it is facing, management must be proactive rather than reactive in credit delivery activities. Others are;

1. Management needs to ensure that the bank works within the applicable framework set by the Bank of Ghana on deposit ratios to help solve liquidity challenges. The management must continually enhance the knowledge of its employees about the compliance standards of the Bank of Ghana regulations regarding credit management. That is to say, Ecobank Limited must continually remind its employees and most especially credit officers on the need to constantly

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comply with Bank of Ghana's regulations in the quest to ensure the continuity of the operations of the Bank.

2. Secondly, credit officers of Ecobank Limited must be given more training to enable them to properly evaluate the creditworthiness of clients before loans are disbursed to them. There is the need to equip credit officers properly in order to reduce the risk of loan defaults because of improper assessment of loan applicants. The bank officials,and credit officers in particular, need to be ensuring that they receive the relevant details about the loan applicant before the loan is disbursed to the applicants. This will reduce the rate of loan default.
3. Thirdly, the management of Ecobank Limited must come up with a credit management policy that is geared towards the granting of current loans while cutting down drastically the approval of loans thathave the potential of becoming doubtful or badin the long run. Through such a policy, the amount of risk associated with the granting of a credit facility to borrowers will be greatly reduced.
4. It is further suggested that loan applicants receive the loan as and when it is requested to mitigate unfortunate credit misapplication due to delays on the part of authorities. The bank, as a matter of urgency, must prevent staff and board interference to allow efficient institutional procedures to work in the credit delivery programme and the institution as a whole.
5. For the bank to meet the statutory regulations by the Bank of Ghana, all staff irrespective of their department must ensure that credits are recovered within a reasonable time because it is a key source of revenue forthe bank and the industry

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at large. Even though recovery maybe the core duties of specific officers, monitoring of customers and their businesses should be done on a daily basis to improve the loan recovery exercise of the bank.

6. The credit policy and mechanism of the bank should take into account the ideas of the customers and staff for it to become more accepting and unique in today's competitive banking environment and for the bank to meet its vision and mission. Similarly, it is prudent for the bank to make its credit policy flexible to meet the expectation of its potential and existing loan clients and thereby implementing a better administrative set up that improves credit management. The timely repayment plan of the bank should be flexible by considering the nature and operation of the applicant's business as repayment duration has an impact on the performance of loan collection.
7. It revealed in the analysis section of the study that, most of the loan applicants of the bank have complaints on the credit policy and procedures. These serious gaps have a negative effect on client reputation and that hampers the attraction of potential loan applicants. Therefore, the bank should embark on changes toits credit policy and procedures regarding these drawbacks in order to solve the current challenges and achieve client reputation and trust.

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5.5 Suggestion for Further Research

The study investigated credit risk management practices of Ecobank Ghana Limited. Other studies can be conducted with an expansion of the variables. Other variables that could be included are the diversification of assets and portfolio of asset quality in banks. A further study could be carried out to determine how credit management can increase the financial stability of banks in Ghana. This will offer a broad analysis on the impact of credit on profitability in Ghana.

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APPENDIX

QUESTIONNAIRE

Dear Sir/Madam,

As part of the requirement for the award, I am conducting a study into "the assessment of the credit management practices of Ecobank Limited". I would be very grateful if you could support this study by completing this questionnaire and your candid response will be very much appreciated.

You are assured of the anonymity of your identity and confidentiality of your response. Kindly tick (√) where appropriate and write your response where applicable. Thank You.

Section A: Background Information

1. Sex: Male ( ) Female ( )
2. Age (years) 18-25 ( ) 26-35 ( ) 36-45 ( ) 46 and above ( )
3. Highest Level of Education:
   a. Professional ICA/ACCA/CIMA/CIA ( )
   b. Masters (second degree) ( )
   c. First Degree ()
   d. Diploma ( )
   e. Others:……………………..
4. Marital Status:
   a. Married with children ( )
   b. Married without children ( )

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c. Not married ( )

d. Not married with children ( )

5. How long have you been working with the bank?

a. Less than 5years ( )
b. 6-10years ( )
c. 11-20years ( )
d. 21-30years ( )
e. More than 31years ( )

6. What category of employees do you belong to in your current place of work?

Executive ( ) Senior staff ( ) Junior staff ( )

Section B: Credit Management Practices

QUESTIONS/RESPONSES	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree	TOTAL
Clients do not necessarily need to have an account before being granted a loan.						
Loan documents are duly assessed by head office officials						
Collateral is required when assessing loan.						
All loans are approved by loan committee.						
There is a ceiling for the amount to be granted						
Loan repayments deducted at source						
Customers pay their loans monthly.						

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Guarantors are required before loans are advanced to clients.						
The bank has laid down procedures that are followed in granting credit to client.						
There are measures in place to detect early signs of bad debt.						
The Board of Directors of the bank plays a role in managing the bank's exposure to credit risk.						
There are measures in place to check and reduce repayment defaults.						
Measures are put in place to ensure that clients who access loans from the bank do not default in the repayment of their loans.						
The bank evaluates its success in the granting and recovery of loans.						
Measures put in place in checking default rate have been very effective over the years.						
Implementation of Credit Risk Management has helped to minimize bad debts.						

Section C: Compliance with Central Bank's Regulations on Credit Management

QUESTIONS/RESPONSES	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree	TOTAL
All regulations concerning loans are adhered to by the bank.						

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Customers complain of the interest rate being too high.						
There is regular review of banking regulations by management to ensure						
The bank conforms to the guidelines for sectorial allocation of credit issued by the bank of Ghana.						

Section D: Challenges of Loan Recovery

QUESTIONS/RESPONSES	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree	TOTAL
The bank is able to recover all loans as planned						
There is difficulty in tracking defaulted clients						
The bank faces the challenge of having invalid information provided by clients.						
The bank encounters challenges in conforming to the guidelines issued by the Bank of Ghana for sectorial allocation of credit.						
The rate of loan recovery has improved over the years.						