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The Role of Credit Management in the Issue of Bad Debt in Nigerian's Commercial Bank

By

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Masters (of Arts) in Finance

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Research Advisor

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A dissertation submitted as a partial fulfilment of the requirements for the Master of Finance degree

Declaration

I hereby attest that the content I am submitting for evaluation of the program of study leading to the award of the Master of Arts in Finance is entirely my own work and has not been lifted from the work of others, except where cited and acknowledged within my work.

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Abstract

The study investigated how banks handled loans, advances, and bank recoveries. It also examined how credit evaluation affected the amount of bad debt that banks held as well as how bad debts affected bank profitability in Nigeria. This was done to evaluate how credit management affected the problem with bad debt that Nigerian commercial banks were dealing with.

Questionnaires were used to collect the study's primary data. The online Google Form application was used to distribute the questionnaires, and 102 respondents responded. The responses were gathered for data analysis.

The results show that several tactics, including credit terms and customer risk assessment, can help prevent bad debts.

According to the study, an effective credit management system entails creating a suitable credit risk environment, operating under a sound credit granting process, and maintaining an appropriate credit administration that includes monitoring, processing, and adequate credit risk controls. This is important for dealing with and controlling bad debt issues as well as helping to measure and optimize bank profitability.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

Commercial banks have a big impact on how an economy distributes its resources across a country. Deposits, loans, and interest are the three major services provided by banks. Gatonye (1995) identified three crucial economic functions carried out by the banking industry. Among these include enabling the transfer of money between savers and borrowers, enforcing monetary policy through managing the money supply, and fostering the interaction and flow of diverse economic activities. Commercial banks facilitate the mobilization of deposits for capital, promote commerce and industry, assist agriculture, and create jobs, all of which have a large positive impact on the economic growth of a country.

It is crucial to stress that the primary duties of commercial banks are to receive deposits, lend money, manage payments, issue bank draughts and cheques, and provide safe deposit boxes for goods and documents. The economic growth of a country is substantially impacted by the financial performance of banks. However, failing banks lead to financial disaster and bank failure. The performance of commercial banks is influenced by internal management choices and external national factors, which are typically beyond the bank's control. One of the most vital sources of income for banks is the interest from loan advances.

Ingham (2004) defined the supply of credit as the transfer of resources, such as a loan, by one party to another party when the second party makes plans to repay or return those resources or materials of equivalent value later rather than immediately making a payment, thereby creating a debt. However, before loans are given to people or businesses, the necessary appraisal must be completed. Banks carry out credit assessments, which are investigations or evaluations, before agreeing to any loans, advances, or project finance responsibilities. The project's financial strategy, commercial viability, financial viability, and technical viability are all examined, along with the potential uses for primary and collateral security to recuperate those funds. The practice of assessing the risks associated with issuing a credit facility is known as credit assessment. Financial institutions that offer consumer financing are frequently in charge of it.

1.1 Background to the Study

Credit management is one of the most challenging tasks confronting banks around the world, and this is especially true in Nigeria, where inefficient credit management has been identified as a key source of bank failures throughout the country's history. Instructively, such inadequate lending resulted in the accumulation of bad loans on such banks' accounts. Credit management is a strategy used by bank executives to plan, control, and monitor loans and advances made to their customers to keep them from becoming non-performing loans or bad debts. Owolabi and Obida (2012) recommended that management should control credit to ensure adequate liquidity by developing appropriate credit model that would provide a collection of receivables at the due date. The strategy includes credit terms and customers' risk assessment, credit collection, and enhanced debt recovery at low cost.

Credit management's major goal is to ensure that the bank recovers its investment in loan issuing while also stimulating a steady flow of income from advances. Banks must develop a strategy for effective credit management to avoid non-performing loans, which could lead to illiquidity (Alphonsus 2019). A substantial percentage of the liquidity difficulties was due to inability of customers to honour their obligation as they fall due. To maximize debt recovery, reduce credit costs, and only grant credit to deserving clients, management uses superior credit services. This helps to lower bad debts and boost cash flow. However, a business should make use of credit analytical tools and strategies created by credit professionals because they help with the assessment, management, and avoidance of bad debts.

Credit as the name implies is described as the right to receive payments or the obligation to make payments on demand or at some future date on account of the immediate transfer of goods or money another (Uwuigbe, Uwalomwa and Ben- Caleb, 2012). It is based on the faith and confidence, which the creditor reposes in the ability and willingness of the debtor to fulfill his promise to pay. In a credit transaction the right to receive payment and the obligation to make payments originate at the same time. Management of credit is simply the application of four management principles which are planning, organizing directing and controlling to credit concept. Commercial banks are major players in the financial sector of every country's economy.

The failure or success of these banks will to a large extent affect the financial sector and the economy at large. In recent times some commercial banks have been wound up leaving customers to their fate. It is important to note that the main reason of the liquidating of most of these banks is their inefficient and ineffective management of their capital-funds and credits. Many of them write off huge amounts of debt yearly and reflect some going concern issues that relate to their management of credit and finance. In order to assess, manage, and prevent bad debts, a business needs use analytical tools and techniques for credit produced by credit professionals.

To increase debt collection, save credit costs, and only extend credit to deserving customers, management uses effective credit marketing strategy. Therefore, effective credit management reduces bad debts while boosting cash flow. Businesses should offer competitive lending terms to stay ahead of the competition (Ofoegbu, Duru, & Onodugo, 2016). Owolabi and Obida (2012) assert that management should manage credit to preserve adequate liquidity by developing a suitable credit model that would provide a collection of receivables at the proper time. The package includes better debt recovery, credit collection, and evaluation of client risk for a reasonable charge.

According to Ifurueze (2013), sufficient liquidity significantly moderating an organization's profitability. This supposition has sparked discussion on the impact of credit management measures on profit and liquidity.

1.2 Statement of the Problem

Credit risk, which arises from defaulters failing to repay loans, is a major issue for financial institutions in Nigeria. Bhattarai (2019) asserts that neglecting to manage bad loans results in the failure and loss of financial institutions. Most bank revenues came from lending, and the profit and credit risk rose in direct proportion to the amount of lending facilities made accessible to their clients. It's important to remember that all lending alternatives carry some level of risk, and any loan advances should be thoroughly investigated for risk considerations by the lender. In the banking industry, dishonest bank credit management techniques hasten the accumulation of bad loans. But this might result in a decline in confidence in the financial sector and the formation of systemic banking crises. In essence, the bank should monitor the customer's business carefully and provide knowledgeable counsel to prevent it from being liquidated, which would result in a financial loss.

Credit risk management is very vital to measuring and optimizing the profitability of banks because effective credit risk management system involves establishing a suitable credit risk environment, operating under a sound credit granting process, maintaining an appropriate credit administration that involves monitoring, processing as well as enough controls over credit risk. When there is effective credit assessment, the level of a company bad debts will be reduced because appropriate procedures will be maintained before granting loans, advances, and proper monitoring to aid to aid recovery procedures, which will improve the profitability of banks. The crucial problem of defaulters not repaying credits granted is rather a sign of pending bank failure than a pointer to bank profitability and failure to manage bad debts leads to insolvency and losses among financial institutions. However, it is against this backdrop that the research work seeks to address the relationship between credit management and issues of bad debt among commercial banks in Nigeria. This is the gap in which the research work tends to cover.

1.3 Objectives of the Study

The study's overall goal is to evaluate the influence of credit management in bad debt concerns in Nigeria's commercial banks. The specific objectives are to:

i. research the effects of credit evaluation on the level of bank's bad debt.

ii. investigate bank practices in granting loans and advances and their recovery procedures

iii. examine the extent to which bad debt affects the profitability of banks in Nigeria

1.4 Significance of the Study

The study will prove useful to the banker as they appreciate the appraisal of their lending and control mechanism under tight monetary conditions. The study will assist management and regulatory authorities in ensuring safe banking since the development of the country's economy are tied to the performance of financial institutions. The study will also prove useful to the economy because if the level of bad debts is reduced, banks will be left with more profit to enable them to make the expected contributions to the development of the economy. The work will no doubt add and contribute to the already similar literature in abound.

1.5 Scope of the Study

In the Study to investigate the role of credit management in the issue of Bad debts in Nigeria Commercial banks, five banks will be selected for analysis purposes which include Guaranty Trust Bank, First Bank Plc, Access Bank, Zenith Bank Plc and United Bank for Africa in which questionnaires will be administered.

1.6 Definition of Terms

Credit management: is an act of a person employed by an organization to manage the credit department and make decisions concerning credit limit, acceptable levels of risk, terms of payment and enforcement actions with their customers.

Bad debt: Bad debt is debt that is not collectable and therefore worthless to the creditor. Bad debt is usually a product of the debtor going into bankruptcy but may also occur when the creditors cost of pursuing the debt collection activities is more than the amount of the debt.

Commercial banks: A commercial bank is an institution that provides services such as accepting deposits, providing business loans, and offering basic investment products. The main function of a commercial bank is to accept deposit from the public for the purpose of lending money to the borrowers.

CHAPTER TWO

LITERATURE REVIEW

2.1 Conceptual Review

2.1.1 Bad and Doubtful Debt in Banks

Bragg (2022) defines bad debt as a monetary cost. It's a sum of money that borrowers are unlikely to pay. Payment of the loan and advance is improbable, as evidenced in borrowers' actions probably due to their inescapable obstacles (European Central Bank, 2021). One solid way to avoid bad debt is to refuse to give any loans or advances. Loans and advances are the main among other products of a commercial banks through which revenue and profit are generated. If commercial banks do avoid granting to these products, the issue of profitability goes away, and the primary purpose of business, which is profit maximization, is defeated. As a result, commercial banks have no choice but to give loan and advance. For banks to stay in business, loan and advances must be properly managed, which can be accomplished through prudent lending.

2.1.2 Credit Management

Credit management can be defined as a set of written instructions that define the terms and circumstances for supplying items on credit, customer qualification criteria, collection procedures, and what to do if a customer defaults. Credit management's main goal is to guarantee that a company's needs are identified early enough to avert a cash flow catastrophe (Horner (2013). A good credit management system reduces the amount of money owed to debtors and keeps bad debts to a minimum. Credit management and profitability have a positive link, according to Horner (2013).

However, to raise cash from customer deposits, banks must assess the risk they encounter regularly while lending (Harle et. al., 2015). Effective Credit Management serves to prevent late payment or non-payment, the two being the greatest risks commercial banks face when conducting their operations. According to Sanders (2014), the credit management process needs to be understood and followed with adequate checks made on “creditworthiness” of new and existing customers, and ‘credit limits’ (how much credit is allowed and for how long) must be set.

The timely recovery of debt is one of the primary responsibilities of the credit management function at banks, according to Natalija et al. (2016). To prevent losses, any signs of client default are promptly addressed, and any past-due credit obligations are "chased." He thinks that effective credit management is crucial for the banking industry since it improves the bank's liquidity or financial position. Credit risk management, capital adequacy, and credit policy are all included under credit management in the current study.

2.1.3. Credit Policy

The credit policy encompasses the settings under which a commercial bank extends credit to its customers and defines organizational desired outcomes of credit activities by governing the actions and procedures to be undertaken to attain that goal. According to Weihausen (2017) policies are rules that are made by entities, to achieve their aims and goals. Collins English Dictionary (2018) defines a policy is a set of ideas or plans that is used as a basis for making decisions, especially in politics, economics, or business. The term may apply to government, private sector organizations and groups, as well as individuals. Presidential executive orders, corporate privacy policies, and parliamentary rules of order are all examples of policy.

Policy differs from a regulation or law. While a regulation can compel or prohibit behaviors (e.g., a regulation requiring the payment of taxes on income), policy merely guides actions toward those that are most likely to achieve a desired outcome. It may also be referred to the process of making important organizational decisions, including the identification of different alternatives such as programs or spending priorities, and choosing among them based on the impact they will have. They can be understood as political, managerial, financial, and administrative mechanisms arranged to reach explicit goals. In public corporate finance, a critical accounting policy is a policy for a firm/company or an industry that is considered to have a notably high subjective element, and that has a material impact on the financial statements (Ogilo, 2012). Credit policy encompasses both the credit terms and the collection policy set up by the organization to attain its goals (Antoine, 2015)

2.1.4 Loans and Advances Management Strategies

The terms "policy" and "strategy" have been used interchangeably. A strategy is a thorough plan developed to achieve a market position and the company's objectives, whereas a policy is a set of guidelines established by an organization to allow for reasoned decision-making. As a result, strategy comes before policies. When giving credit to clients, the company must adhere to many operational criteria for the credit sales process as outlined in the credit management policy (Taiwo & Abayomi, 2013). Debt can be classified as good, questionable, or horrible based on the borrowers' ability to make payments.

The quality of the borrowers' available paperwork, the economic situation of the borrowers and his country, and credit management procedures affect the amount of questionable or bad debt losses in a financial institution (Uzoh, 2012). The risk of shady and bad debts is decreased when debtors are handled appropriately. Banks' poor credit management causes them to make significant provisions for questionable and bad loans. Bad debt losses happen when a bank is unable to collect its accounts receivable (Agu & Basil, 2013).

Proper controlling strategy of loans and advances minimizes level of bad debt experienced by commercial banks (European Central Bank, 2017). Establishment of credit conditions, analysis of credit information and scoring to evaluate credit worthiness of borrowers and their businesses assist in development of strategies that facilitate receivable collections when due (Ifurueze 2013). Credit information analysis and scoring are two approaches for identifying the creditworthiness of a potential client (whether a company or a person) and affecting the credit quality supplied to the bank's customers (Ifurueze, 2013). A frequent source of information used to establish a customer's creditworthiness is their financial accounts. Customers' creditworthiness is assessed through credit analysis ratio. This enhances the evaluation of capability of the borrower to fulfil his financial obligation. Credibility is assessed through profitability ratio, leverage ratio, coverage ratio and liquidity ratio assessment.

Credit reports are reviewed as source of information to the bank, and it enhance establishment of credit management strategies. It provides relative information for consideration in attending to loan application. It revealed applicant's loan repayment history, critical assets value, at least three trade credit references, and the complete information of all directors, partners, or owners (Central Bank of Ireland, 2013).

Credit bond should be required by commercial bank from loans and advances' applicants most especially when there is a sense of financial trouble. (Akinsulire, 2017). This requisition assists in assessment and decision-making process as to whether loan request should be provided. The loans and advances management strategy ensures that default risks are controlled, and bad debt losses are minimized. The standard procedures include establishing terms of loans and advances, credit information analysis and scoring to determine credit worth firms and individuals and setting credit plans to aid receivable collections when due.

2.1.5 Establishment of terms of loan and advances

The terms and conditions of borrowing money are referred to as loan terms. This can include information such as the loan's payback term, interest rate, and fees, as well as any penalty costs that may be imposed on borrowers and any other special circumstances that may apply. Terms of loan and advances vary among banks, depends on type of loan and advances and economic situation of the country. However, in general, all banks assess the various risks exposure which reflect on the interest rate requirement. The length of repayment plays a crucial role in determinant of the interest rate. When considering the payback term of the loan, banks evaluate the probability history of the borrower, default risk, repayment capability as well as the durability of the collateral (Dunn, 2009). The bank risk manager's primary role is to create policies that define and control the terms and conditions of loan and advance grants. The effectiveness of this obligation would have a significant impact on commercial banks' bad debt management (Harle et al, 2015).

2.1.6. Credit information analysis and scoring

Wang, 2022 revealed that Credit risk analysis has great impact on commercial banks. Commercial bank credit risk assessment is a typical confusing problem since credit risk is influenced by a variety of factors, and each element often has numerous degrees. Most credit assessment models in use today are based on discriminant analysis-estimated simple credit scoring functions (Boyle, Hoffman & Low, 1989). A prospective customer's (company or individual) creditworthiness is established by scoring, which defines the caliber of customers to whom the business extends credit (Ifurueze, 2013).

Prospective credit customers' financial statements are frequently used to assess their creditworthiness. The decision to grant or deny credit is decided based on this information. Credit risk appraisal criteria, according to Ifurueze (2013), should be based on the "5Cs" of credit, which include character, capacity, capital, collateral, and condition. Character refers to the client's willingness to meet credit agreements. The capacity of the consumer represents his ability to pay his debts from operating cash flows. To quantify capital, general financial ratio analysis is utilized, with a focus on risk ratios such as debt-to-asset ratios, current ratios, and interest-earned ratios.

This criterion shows whether the customer's capital is adequate. In addition, collateral describes the assets that customers have pledged as security for the credit extended. Finally, the condition has to do with preventing national and economic issues that can affect a customer's ability to pay.

2.1.7 Credit Documentation

Another part of credit risk management is credit documentation and distribution. It requires putting in place crucial exposure control methods to guarantee that securities and paperwork are gathered before money is paid and that any credit facility alterations are authorized in accordance with credit policy. It also entails keeping organized, current credit files, collecting appropriate payments, updating records, and getting notice of upcoming credit reviews and renewal dates in advance. According to Neiman M. and his colleagues (2019), loan paperwork also comprises legal analysis, document review, collateral evaluations, and term waivers. The disbursement function makes sure that the documentation for the credit facility is filled out correctly and confirms the validity of the notes.

The credit terms, or the conditions attached to the loan once the borrower's loan application has been authorized, are expressly stated in the credit documentation. Some of them are:

2.1.7.1 Collateral

Assets that a borrower pledges as security for a loan are often referred to as collateral. These assets can be seized by the lender if the borrower defaults on the loan payments; this gives the lender some security. Therefore, using collateral may help companies get loans to finance their investments. This is the property that the borrower provided as security for the loan. Before making consumer loans available, banks require collateral. Collateral must always be worth more than the loan amount to guarantee loan repayment. By encouraging borrowers to put more effort into their work, the use of collateral decreases borrowing costs. However, it also increases borrowing costs because it costs money to transfer control and the collateral may be worth more to the borrower than to the lender.

2.1.7.2 Loan Size

The loan size is the sum of money granted to the client. It might be little, medium, or large. Banks prefer larger loans because they have cheaper processing costs. To increase company performance, the borrower's ability to repay should be considered while selecting an efficient loan size. Extensive credit rationing, which gives insufficient credit to many borrowers, is an example of bad loan size. Larger loans, on the other hand, may entice borrowers to use part of the funds for personal purposes.

2.1.7.3 Reason for Loan Application

Due to the dangers associated with lending, the bank takes the reason for the loan request very seriously. Banks aim to maximize profits while minimizing risks since they are profit-driven institutions. This seeming contradiction forces banks to consider loan repayment chances in addition to project profitability. Banks have been seen to prefer lending money for low-risk activities such as trade financing, short-term working capital, and self-liquidating in many different nations. They may be more willing to support high-risk projects with protracted payback periods as well as tiny forms with insufficient collateral, even though these businesses are more inventive and promising than others.

2.1.7.4 Interest Rate

The cost of borrowing money is represented by the interest rate, which is used to distribute credit and establish investment restrictions. The rate of interest charged on borrowed funds can have a major influence on one's capacity to repay debt. Borrowers, according to financial companies, are capable and ready to repay their debts when interest rates are low. High interest rates, on the other hand, discourage loan applications and payments. Borrowers are more likely to default on loans when interest rates rise faster than consumer income. Borrowers and lenders might see interest rates from several perspectives.

Before selecting whether to obtain a loan, a borrower weighs all costs, including interest rates and potential returns. The lender determines the interest rate after considering factors including labour costs, the rate of inflation, administrative expenses, personnel costs, loan loss contingencies, and capital growth. The rate charged must be high enough to pay costs and support the financial institution. Financial organizations charge varied interest rates based on their unique circumstances.

2.2 Theoretical Review

2.2.1 Credit Risk Management Theory

Credit risk creates economic downturns by causing banks to collapse due to client default risk, which has had a detrimental impact on many countries' economic progress (Reinhart & Rogoff, 2008). Credit risk is defined as the possibility of a borrower defaulting on a loan. Credit risk management theory aims at reducing the effect of related risk on commercial banks (Brigham et all., 2016). Nowadays, commercial banks are becoming increasingly vulnerable to credit risk (Olson and Zoubi, 2017). Therefore, appropriate atmosphere, functioning under a sound credit granting process, and maintaining an effective credit administration that includes monitoring and satisfactory control mechanisms over credit risk must be established (Gaitho, 2013).

Credit risk management in the banking industry focuses on risk identification, measurement, assessment, monitoring, and control. It entails identifying potential risk factors, evaluating their consequences, monitoring activities exposed to the identified risk factors, and instituting control measures to prevent or reduce the unwanted effects. This process is used within the bank's strategic and operational framework.

According to Weber et al, (2008), process of credit risk management can be structure into five phases, namely rating, costing, pricing, monitoring, and workout phase. The rating's primary goal is to confirm the borrower's risk of default. A credit rating is a determination of a borrower's creditworthiness to avoid the risk of default and financial loss. The information about the borrower is important when making a loan decision. Before lending money to a client, loan managers perform a credit check using this method. However, rating officers must consider the borrower's financial situation and ability to repay the debt in a balanced and objective manner.

To quantify the expected loss from the loan if the borrower becomes insolvent or bankrupt, costing is required. The statistical loss, or average loss as a result of default ("expected loss"), and the cost of losses in excess of the average loss make up the cost of risk. The statistical loss is the average default loss (or "expected loss") expressed as a percentage of the loan balance. The expected loss is determined by the credit risk of the borrower. During the pricing phase, the identified costs are incorporated into credit conditions. The average loan loss can be offset by charging each borrower a premium based on the expected loss. As a result, the bank will suffer little in the event of a loss (Weber et al., 2008)

It's critical to keep track of customers who are given loans. Monitoring entails frequent contact with customers to create an environment in which the bank can be seen as a problem solver and trusted advisor. Loan administrators oversee keeping track of repayment rates and procedures. The loan repayment rate is improved by regular reviews of the borrower's loan information, as well as frequent on-site visits to update the borrower's credit files. The credit is carefully monitored throughout the loan period, and any changes in credit risk are investigated (Weber et al., 2008).

The goal of the work-out phase is to reduce losses and, if possible, return the borrower to financial stability. If a borrower's expected loss increases, the cause(s) should be identified, investigated, and corrective action taken to avoid the problem. The bank's work-out division oversees bad debt management. In times of difficulty, the solutions provided to borrowers vary by individual, company, or entity (Weber et al., 2008). As a result, each subsequent stage of the credit risk management process is critical to the bank's success.

2.2.2 Demand and Supply of Commercial Loan theory

Large-scale models of the entire economy contain most of the econometric work on the supply of commercial bank loans to date. Most models in these theories were obtained through simple simultaneous equation method which estimates supply and demand of bank loans. Starting at the microeconomic level, the equation for the demand for commercial bank loans was derived from general theory. Previously, the practice had been to proceed directly to the aggregate demand for commercial bank loans and to introduce arguments such as components of investment or national income with little explanation (Wallis, Kenneth F., John D. W., 1991).

Any hypothesis of a positive relationship between national income and commercial bank loans would be difficult to justify. Allowing banks to lend more due to national reserves is difficult to justify. However. It is worth noting that any request for a commercial bank loan is inevitably the result of a larger credit-seeking decision. As a result, there is good reason to go from an individual demand for credit to an aggregate demand for commercial bank loans, as we try to do. Irving Fisher's model of individual credit behavior is used as our foundation for an individual demand for credit, as it appears to be the most powerful tool applicable to the problem. Theoretically the two main variables as scale constraint on demand for commercial bank loans are permanent income and transitory income. Permanent income has a positive influence while transitory income has negative influence on demand.

Contrary to demand for commercial bank loan, supply of commercial bank loan could be examined without consideration for aggregate credit supply. The factors that determine the supply of commercial bank loans can be divided into four categories: (1) scale constraints; (2) commercial bank loan yields; (3) alternative commercial bank earning assets yields; and (4) the cost per dollar of bank deposit liabilities. (Betubisa E. N, Leatham D. J., 1995)

When dealing with the supply of individual products, a scale constraint is frequently overlooked because the firm believes it can obtain an unlimited amount of credit. However, in the case of commercial banking, this treatment is clearly inadequate, because the industry can only obtain credit from the central bank if banks are unable to influence currency demand. A legal reserve requirement also applies to the industry. In general, there must be a limit on total commercial bank capacity to buy earning assets if there is significant central bank control. (Betubisa E. N, Leatham D. J., 1995)

The impact of yields on commercial bank loans and alternative earning assets on the supply of commercial bank loans is minor enough that it does not require separate consideration. However, the cost per dollar of bank deposits necessitates special consideration. The lower the return on total commercial bank activity, the higher this cost is. However, as this cost rises, if the structure of bank deposits remains unchanged, so does the risk implicit in the banks' total balance sheet position. As a result, banks will be willing to take on more risk in exchange for higher expected returns, based on the common postulate of preference for variety (underlying the concavity of indifference curves). Because expected returns and risks on assets will remain unchanged, banks will seek to replace high-yielding, high-risk assets with others, or to shift away from securities and excess legal reserves and toward loans (Betubisa E. N, Leatham D. J., 1995).

The supply of bank loans is influenced by the assumption of a change in constant bank liability structure due to a change in the cost per dollar of deposits. Because the cost of servicing demand deposits is largely compensated by service charges, the cost per dollar of deposits should reflect primarily interest payments on savings deposits. The higher the cost per dollar of deposits, generally for most of the relevant period, the lower the bank risks per dollar of deposits. The higher the cost per dollar of deposits, generally for most of the relevant period, the lower the bank risks per dollar of deposits (Betubisa E. N, Leatham D. J., 1995).

The theory of demand and supply review the composition of influential factors of demand and supply of commercial loan. It carefully addresses the link between demand and supply. The identified factors required proper consideration as it is rooted in the risk management decision and structure. If its evaluation is abuse, it could promote mismanagement of bank receivables which result into increment in bad debt.

2.2.3 Commercial loan theory

The commercial loan concept, also referred to as the real bill's idea, is one of the earliest theories in banking. The commercial loan hypothesis says that banks should only lend on short-term, self-liquidating commercial paper. According to Hosna and Manzura (2009), the commercial loan theory aims to affect both bank lending and more general economic activity. According to the precise application of this theory, it will serve as a money supply in reaction to changes in overall economic activity. There is no doubt that Nigerian deposit-taking institutions frequently hold this theory. Nigerian bankers hold the opinion that short-term loans should be made with depositors' cash since it can be quickly reimbursed.

Since there were little or no secondary reserve assets that would have functioned as a liquidity buffer for the bank at the time the theory was dominant, Nawal M. (2012) claims that the strong links to this idea are pretty conventional. This line of thinking concerning developing nations like Nigeria has a flaw in that it ignores the credit requirements of the nation's emerging economy. It hasn't compelled banks to make loans for the purchase of buildings, machinery, land, or homes. The theory fails to acknowledge the relative stability of bank deposits when it insists that all loans should be repaid in the usual course of business.

2.3 Empirical Review

Okpala (2019) used ten years of bank data from 2006 to 2010 to investigate the link between credit management, liquidity situation, and profitability of certain chosen Nigerian banks. The alternative risk absorption hypothesis, according to the study, stipulates efficient credit management, which improves enterprises' capacity to produce liquidity. Furthermore, it was discovered that return on assets had a considerable positive impact on the current ratio, corroborating the financial fragility crowding-out argument.

Muritala and Taiwo (2013) in their studies used ten years of bank data from 2001 to 2010 to examine the relationship between credit management, liquidity position and profitability of some selected banks in Nigeria. The alternative risk absorption hypothesis, according to the study, stipulates efficient credit management, which improves enterprises' ability to create liquidity. Furthermore, it was discovered that return on assets has a large positive impact on current ratio, corroborating the financial fragility crowding out concept. However, Kithinji (2010) investigated the profitability of Kenyan commercial banks in relation to credit risk management. The findings suggested that other factors besides credit and non-performing loans had an impact on profitability and that the amount of credit and non-performing loans did not significantly affect most commercial banks' earnings.

Nawal M. (2012) investigated the effects of credit risk on the profitability of Nigerian banks. The results of the study demonstrated that credit risk management significantly affects the profitability of Nigerian banks. They asserted that as a result, there is a significant danger of illiquidity and distress for banks due to the levels of deposits, advances, non-performing loans, and loans having a negative association with bank profitability. The relationship between finance and credit management and bank liquidity position has been extensively studied, but in developing nations like Nigeria, where there is a relative dearth of research in this field and significant institutional divergence from other developed nations, this is not the case. Therefore, the goal of this study was to look at the connection between Nigerian bank performance and credit management.

2.4 Gaps in the literature

Many studies have generally established a connection between credit management, liquidity, and profitability in the banking industry, according to the literature review in the previous paragraph (Muritala & Taiwo, 2013; Nduwayo 2015; Akinsulire 2017). However, very few studies in Nigeria have connected credit management to problems with bad debt in the banking industry. In the body of knowledge in Nigeria's listed sector, it is obvious that the connection between credit management strategy, credit policy, and bad debts sub-variables has been overlooked. This absence left holes, which the present study sought to fill. The following research questions were created to investigate the relationship between the elements to fill in any gaps in the literature.

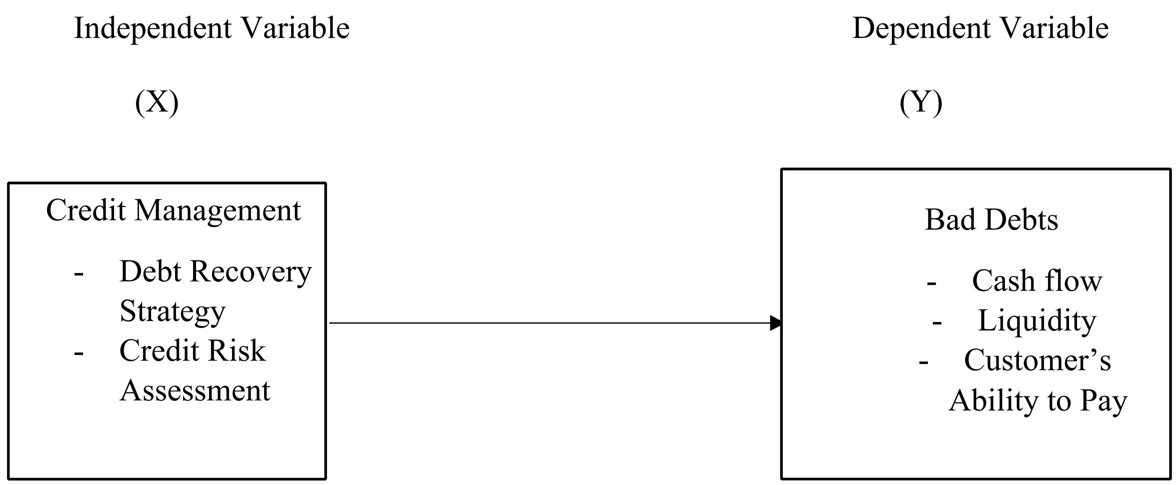
i. What is the effect of credit assessment on the level of the company's bad debt?

ii. What are bank practices in granting loans and advances and their recovery procedure?

iii. to what extent does bad debt affect the profitability of banks in Nigeria?

2.5 Conceptual Model

This study will make use of the conceptual model in which Credit Management will be regarded as the independent variable, while Bad Debt will be regarded as the dependent variable.


Independent Variable
(X)
Dependent Variable
(Y)
Credit Management
- Debt Recovery Strategy
- Credit Risk Assessment
Bad Debts
- Cash flow
- Liquidity
- Customer's Ability to Pay

CHAPTER THREE

METHODOLOGY

This chapter detailed the process to be used in carrying out this research work; it, therefore, moves forward around the methods to be used to reach methodological conclusions.

3.1 Research Design

The method of data collection will involve administering questionnaires to respondents and systematical collection of responses using content analysis. Thus, a qualitative method of data collection and analysis will be chosen as it allows for more flexibility for findings that may not have been considered by the researcher.

3.2 Sampling and Sample Size

A simple random sampling was employed in selecting the sample size. This sampling (method) technique was adopted to give all elements within the target population equal chance of been interviewed. A purposive sampling technique was however applied to select others that information could be sourced from as well.

The study considers a total of 150 credit officers' population in the banks. Five (5) Nigerian commercial banks are selected which are Guaranteed Trust Bank Plc, Zenith Bank Plc, United Bank of Africa Plc, Access bank Plc and First Bank of Nigeria Plc. Out of these figure, 102 respondents were selected as the sample population. 20 responses were expected to be gathered from each of the selected banks' credit officers.

3.3 Source of Data collection

The study will rely mainly on primary data which is data that will be generated by the researcher for the research through the usage of questionnaires. Questionnaires will be administered to respondents and the responses will be gathered for analysis.

3.4 Research Instrument

The instrument used to gather the data was a questionnaire. To collect information from people, a self-report questionnaire is employed. It is used to assess credit officers' understanding of and opinions on the role of credit management in cases of bad debt. Surveys were chosen for the following reasons:

- It aids the achievement of high response rate by distributing questionnaires to respondents to complete and collecting them personally by the researcher.
- It was easier to administer and required less time.
- It provided the option of anonymity because individuals' identities were not required on completed surveys.
- There was less room for prejudice because they were presented consistently.
- Most of the survey questions had closed responses, which made it easier to compare how each question was answered.

In addition to the advantages, surveys also have certain disadvantages, such as the validity and accuracy concerns. Because replies are typically brief, it is possible that subjects may not communicate their true sentiments but will instead give a satisfactory response to the researcher. Most of the survey questions were closed-ended. Closed-ended questions were introduced since they are simpler to administer and analyze. They are also more efficient in the sense that a respondent can complete more closed-ended items than open-ended items in each period. The questionnaires were in English. The questionnaires consisted of 4 sections. Section 1 was aimed at gaining demographic data such as level of education, gender, work experience and special courses undertaken. Section 2 was aimed at determining the credit appraisal techniques used by the bank. Evaluation of bank practices in loan and advances granting recovery procedure is the target for section 3. Section 4 assesses the extent to which bad debt affect the banks profitability. Instruction guidelines were attached to the questionnaires to guide the subjects as to whether to circle or tick the chosen response.

Guided instructions about the 5-point Likert rating scale were given with "1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree". The research instrument for this study which is the questionnaire would be validated using appropriate validity tests. The validity test for this study would be content validity. The content validity would be carried out by viewing the questionnaire items by international literature and the research objectives of the study.

3.5 Method of Data Analysis

The data extracted from the questionnaire that will be administered to respondents will be analyzed using the systematic technique of both qualitative and quantitative content analysis. Qualitative content analysis is concerned with analyzing the content and meaning of selected data, aiming to formulate a holistic understanding of the phenomenon or problem in question. Quantitative content analysis will involve analyzing the frequencies of specified expressions or words within the selected data and the results will be presented statistically.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION OF FINDINGS

4.1 Introduction

This chapter presents the results obtained from the research study together with the appropriate interpretations and the discussion of the findings. The chapter presents the main findings of the research study based on the main research objective which was to investigate the role of credit management in the issue of bad debt in Nigerian's commercial banks.

One hundred respondents (100) filled the questionnaire on the google form and this represented 100% of the respondents which is presented in this section. The methods of analysis employed in this study to achieve the broad objectives which are descriptive and inferential statistics. Data gathered through the questionnaire was subjected to frequency counts. In other words, the subjects' responses for each individual question were added together to find the highest frequency of occurrence (i.e., the number of times that a particular response occurs). These responses to the questions, which are quantified, are then presented in percentage forms, and presented in tabular form. This chapter presents the findings/results of data collected for the study. The analysis was done in line with the research objectives earlier stated. Each of the research objectives will be analyzed using appropriate statistical techniques. The analysis utilized descriptive statistics showing the percentage distribution of respondent's demographic characteristics, and other frequency of each of variables.

4.2 Socio-Demographic Information

The respondent's demographic characteristics were relevant to the researcher for this investigation. The respondents were thus asked to provide information on their educational background, gender, employment history, and if they had received any formal credit management training before taking on their roles as credit assessment officers.

4.2.1 Educational Qualifications

The researcher was interested to know about the educational qualifications of the respondents. This was important for the research study because the education level is a predictor of the ability to understand well the issues that were the subject of the study. The respondents were therefore requested to indicate their highest academic educational qualifications. The findings were summarized, tabulated, and presented as shown in table

Table 4.2.1 Educational Qualifications

Variables	Frequency	Percentage
OND/NCE	3	2.94%
BSC/MSC	71	69.61%
MBA/MSC	19	18.63%
Professional Qualification	9	8.82%
Total	**102**	**100.00%**

Source: field data, July 2022.

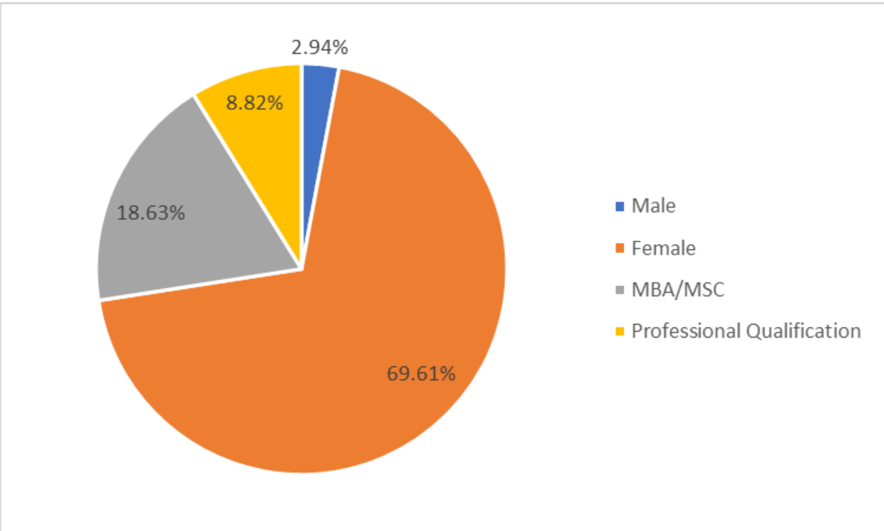


Fig. 1: *Educational Qualification of respondents*

The findings were evident that the minimum qualification for credit control officials was university level education. There was a total of 90(88.24%) respondents whose maximum education qualification was MBA/MSC degree. There were 12(11.76%) respondents who were holders of OND/NCE degree and professional qualifications. The researcher was therefore satisfied that the respondents were knowledgeable enough to provide information that would be relevant to answering the questions raised under the study.

4.2.2 Gender

The researcher was also interested in the gender of the respondents to ascertain the balance of gender in the bank's credit department.

Table 4.2.2 Gender

Variables	Frequency	Percentage
Male	58	56.86%
Female	44	43.14%
Total	**102**	**100.00%**

Source: field data, July 2022.

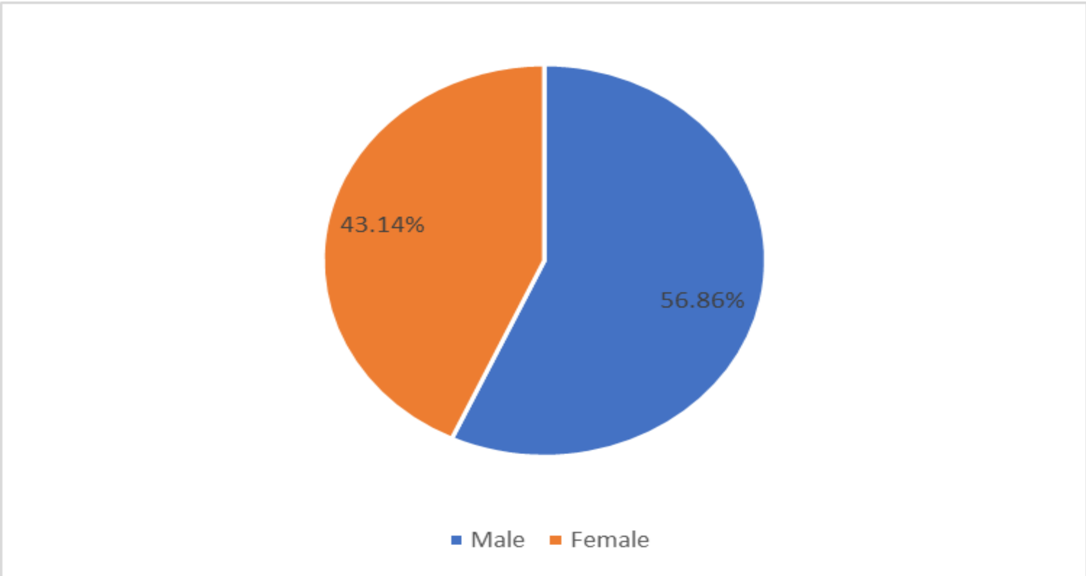


Fig. 2: Gender of respondents

From the table and figure above, male respondents were majority in the credit management unit of the banks. Fifty-Eight (58) of the total number of respondents were male representing 56.86% of the sample size. The female respondents were only forty-four (44) which represents 43.14%.

4.2.3 Ages

The researcher was also interested in the age group of the respondents to ascertain the balance of age group in the bank's credit management department.

Table 4.2.2 Age Group

Variables	Frequency	Percentage
21 - 30 years	56	54.90%
31 - 40 years	36	35.29%
41 - 50 years	7	6.86%
Above 50 years	3	2.94%
Total	**102**	**100.00%**

Source: field data, July 2022.

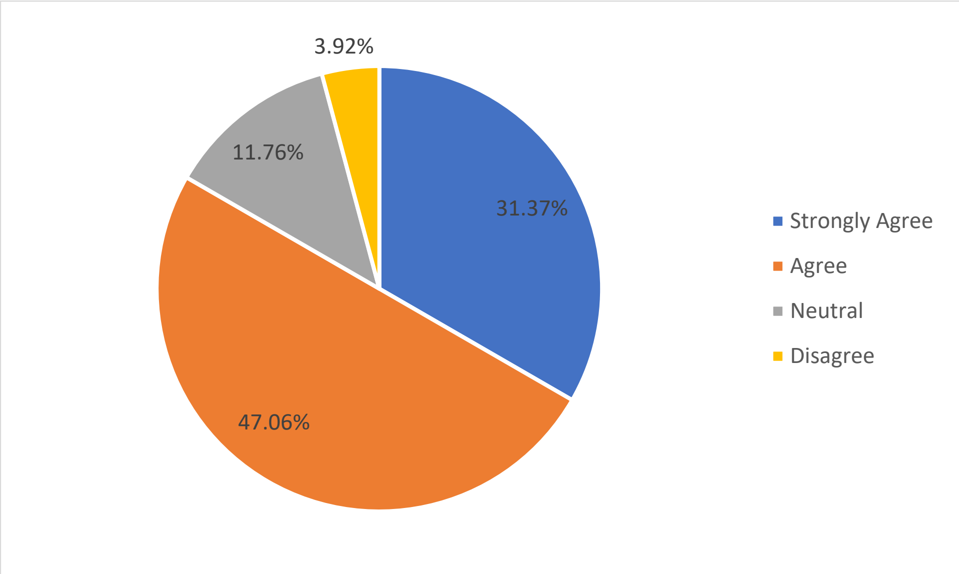


Fig. 3: *Age Group*

4.3 Effects of Credit Evaluation on the Level of Banks' Bad Debt

The primary objective of the study was to determine how credit assessment affected the volume of bad debt held by banks. According to the study, a key step in proving the impartiality and accuracy of the credit management process was the credit evaluation technique. Thus, respondents were required to investigate how credit evaluation affected the total amount of bank debt.

Table 4.3.1 Credit Assessment Strength Contribution in Bad debt Control

Variables	Frequency	Percentage
Strongly Agree	52	50.98%
Agree	28	27.45%
Neutral	11	10.78%
Disagree	5	4.90%
Strongly Disagree	6	5.88%
Total	**102**	**100.00%**

Source: field data, July 2022.

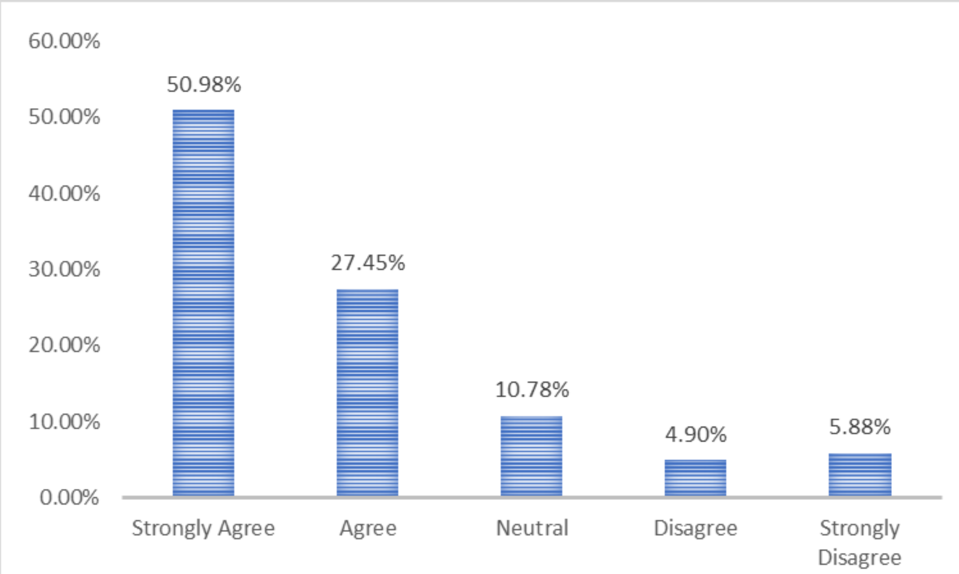


Fig. 4 Credit Assessment Strength Contribution in Bad debt Control

The study's finding revealed that the credit evaluation process uses by banks is very strong in controlling the level of bad debt experience. This is evidence in that 52 (50.98%) of the respondents strongly agree, 28 (27.45%) of the respondents agree, 11 (10.78%) are neutral, 5 (4.90%) disagrees and 6 (5.88%) strongly disagree.

Table 4.3.2 Credit Assessment Contribution in Debt Recovery Enhancement

Variables	Frequency	Percentage
Strongly Agree	40	39.22%
Agree	45	44.12%
Neutral	8	7.84%
Disagree	5	4.90%
Strongly Disagree	4	3.92%
Total	**102**	**100.00%**

Source: field data, July 2022.

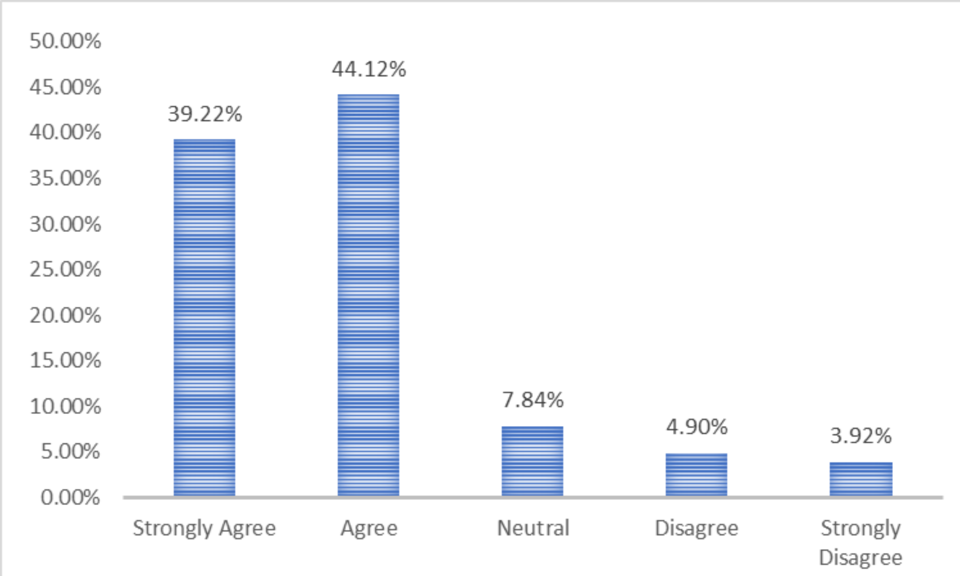


Fig. 5: Credit Assessment Contribution in Debt Recovery Enhancement

The results of the study showed that improving debt recovery is facilitated by credit assessment. This is demonstrated by the fact that 40 respondents (39.22%) strongly agree, 45 respondents (44.12%) agree, 8 respondents (7.84%) are neutral, 5 respondents (4.90%) disagree, and 4 respondents (3.92%) disagree severely.

Table 4.3.3 Effective Credit Evaluation Techniques Reduce the Cost of Debt Collection.

Variables	Frequency	Percentage
Strongly Agree	33	32.35%
Agree	43	42.16%
Neutral	12	11.76%
Disagree	7	6.86%
Strongly Disagree	7	6.86%
Total	**102**	**100.00%**

Source: field data, July 2022.

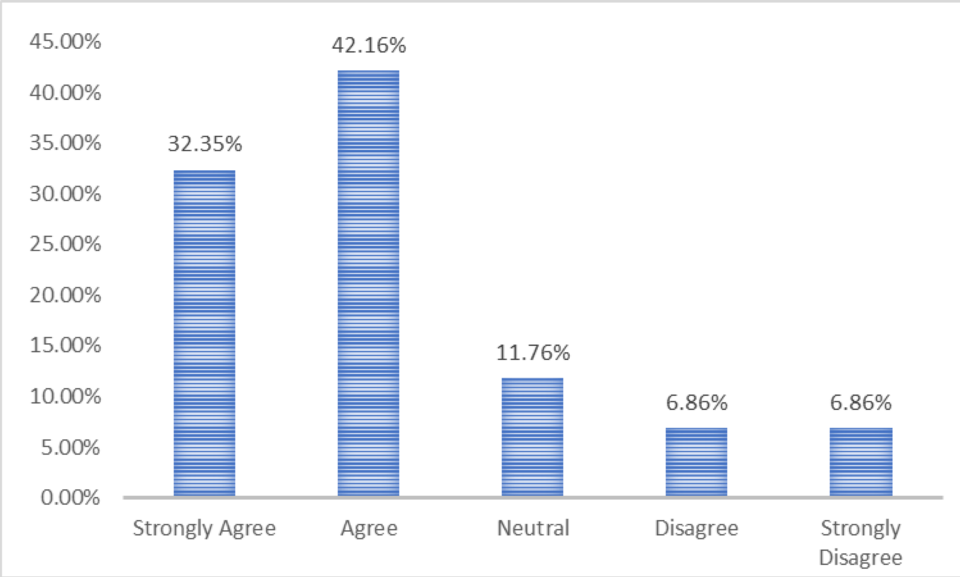


Fig. 6: Effective Credit Evaluation Techniques Reduce the Cost of Debt Collection.

The results of the study show that banks' use of strong credit rating practices is particularly successful at lowering the cost of debt collection. The fact that 33 respondents (32.35%) strongly agree, 43 respondents (42.16%) agree, 12 respondents (11.76%) are neutral, 7 respondents (6.86%) disagree, and 7 respondents (6.86%) disagree strongly serves as evidence for this.

Table 4.3.4 Credit Evaluation Facilitates Risk Tolerance and Exposure Analysis

Variables	Frequency	Percentage
Strongly Agree	30	29.41%
Agree	49	48.04%
Neutral	12	11.76%
Disagree	4	3.92%
Strongly Disagree	7	6.86%
Total	**102**	**100.00%**

Source: field data, July 2022.

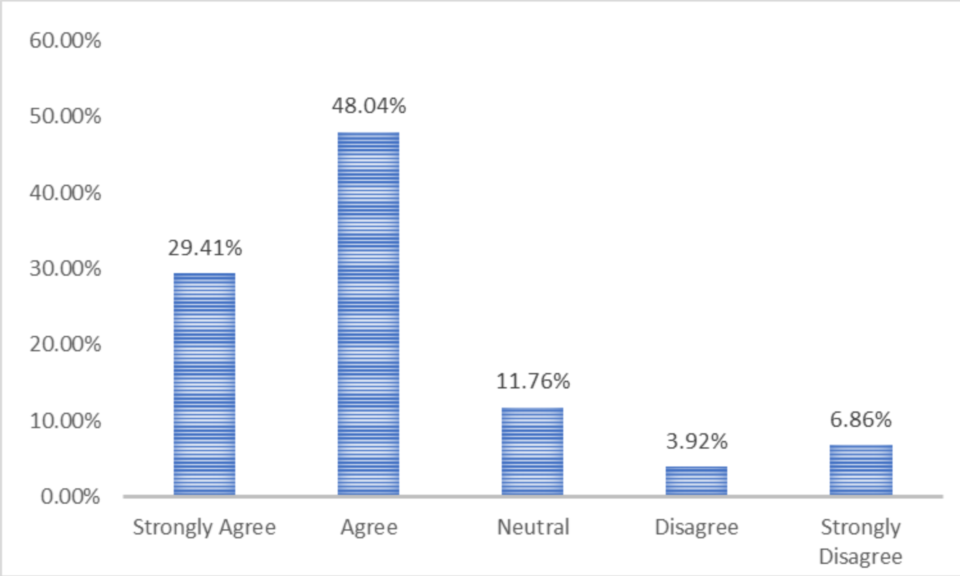


Fig. 7: Credit Evaluation Facilitates Risk Tolerance and Exposure Analysis

The study's findings suggest that credit evaluation by banks improves risk acceptance and exposure analysis. This is clearly corroborated by the facts that 30 respondents (29.41%) strongly agree, 49 respondents (48.04%) agree, 12 respondents (11.76%) are indifferent, 4 respondents (3.92%) disagree, and 7 respondents (6.86%) strongly disagree.

Table 4.3.5 Credit Assessment is Essential in bad Debt Reduction

Variables	Frequency	Percentage
Strongly Agree	44	43.14%
Agree	36	35.29%
Neutral	8	7.84%
Disagree	6	5.88%
Strongly Disagree	8	7.84%
Total	**102**	**100.00%**

Source: field data, July 2022.

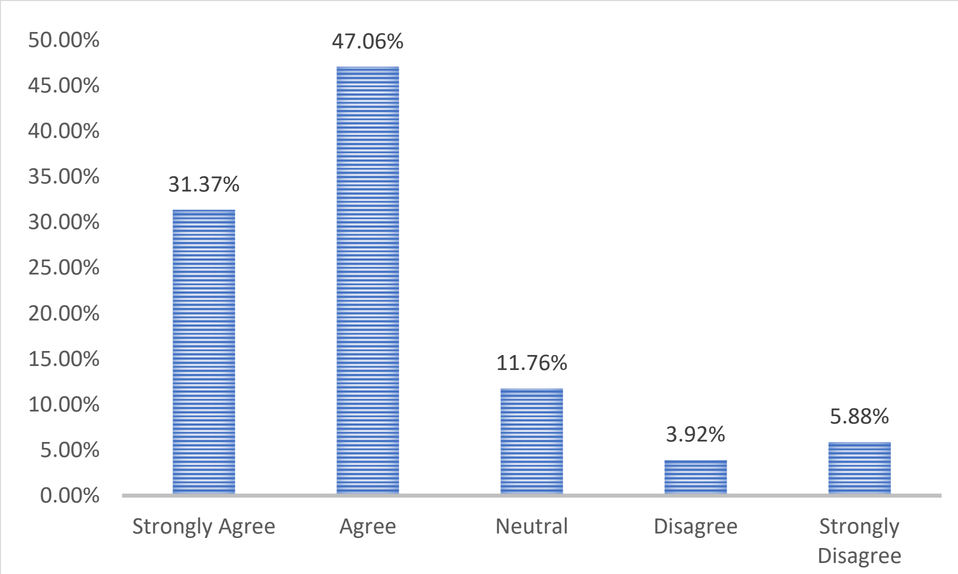


Fig. 8: Credit Assessment is Essential in Bad Debt Reduction

According to the study's conclusions, credit assessment is crucial to reducing bad debt in banks. This is clearly supported by the data, which shows that 44 respondents (43.14%) strongly agree, 36 respondents (35.29%) agree, 8 respondents (7.84%) are neutral, 6 respondents (5.88%) disagree, and 8 respondents (7.84%) severely disagree.

Table 4.3.7 Credit Assessment Promote Loan and Advances Control

Variables	Frequency	Percentage
Strongly Agree	37	36.27%
Agree	44	43.14%
Neutral	14	13.73%
Disagree	3	2.94%
Strongly Disagree	4	3.92%
Total	**102**	**100.00%**

Source: field data, July 2022.

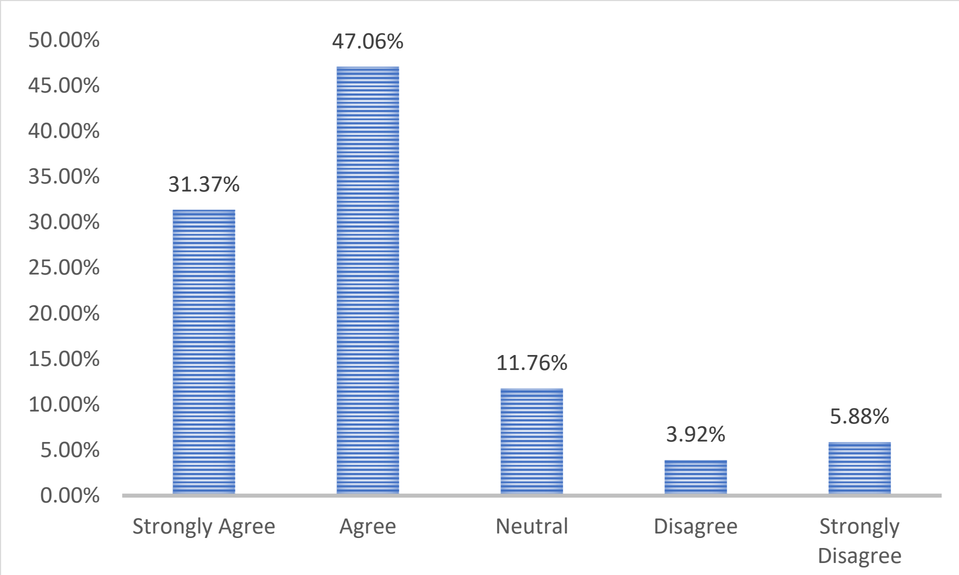


Fig. 9: Credit Assessment Promote Loan and Advances Control

The results of the study indicate that credit assessment offers strategies for guaranteeing loan and advance control. The numbers, which show that 37 respondents (36.27%) strongly agree, 44 respondents (43.14%) agree, 14 respondents (13.73%) are neutral, 3 respondents (2.94%) disagree, and 4 respondents (3.92%) certainly disagree, clearly support this.

Table 4.3.8 Credit Assessment Aids Credit Policy Development

Variables	Frequency	Percentage
Strongly Agree	42	41.18%
Agree	39	38.24%
Neutral	11	10.78%
Disagree	5	4.90%
Strongly Disagree	5	4.90%
Total	**102**	**100.00%**

Source: field data, July 2022.

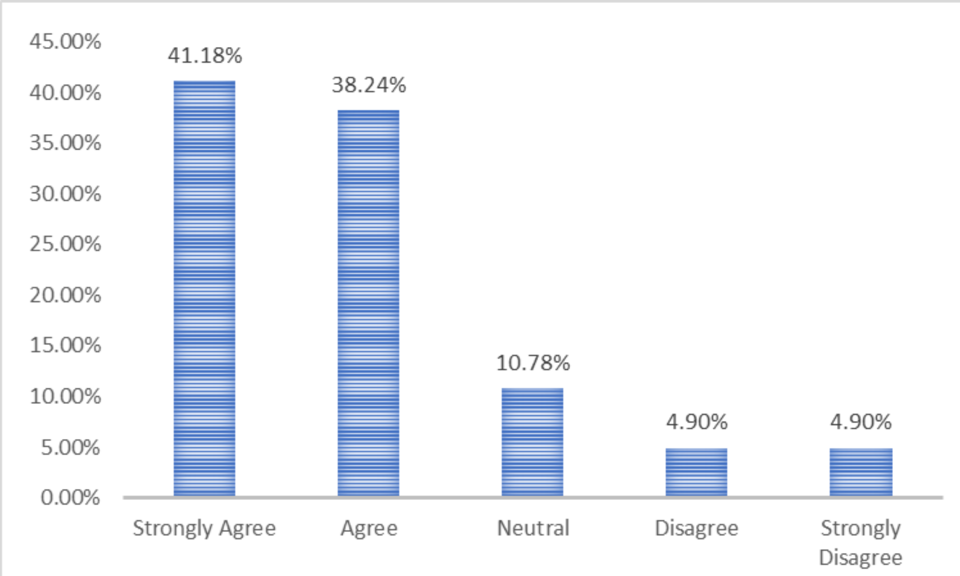


Fig. 10: Credit Assessment Aids Credit Policy Development

According to the study's findings, credit evaluation methodologies assist commercial banks in formulating appropriate loan policies. According to the data, 42 respondents (41.18%) strongly agree, 39 respondents (38.24%) agree, 11 respondents (10.78%) are indifferent, 5 respondents (4.90%) disagree, and 5 respondents (4.90%) disagree with a significant majority.

Table 4.3.9 Credit Assessment Aids Credit Data Analysis

Variables	Frequency	Percentage
Strongly Agree	42	41.18%
Agree	39	38.24%
Neutral	11	10.78%
Disagree	4	3.92%
Strongly Disagree	6	5.88%
Total	**102**	**100.00%**

Source: field data, July 2022.

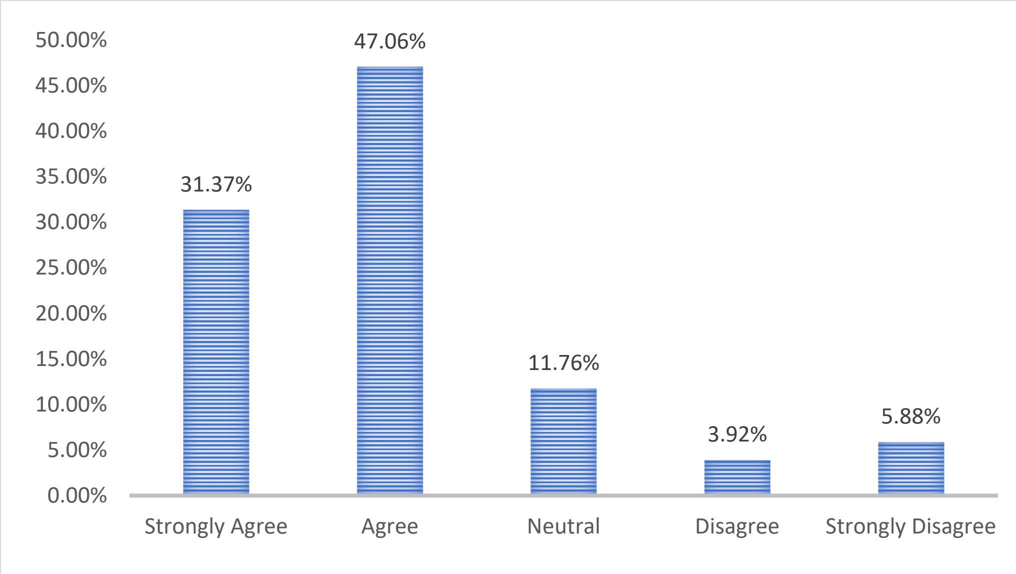


Fig. 11: Credit Assessment Aids Credit Data Analysis

The results of the study show that credit assessment makes credit data analysis easier. According to the statistics, a considerable majority is agreed upon by 42 respondents (41.18 %), 39 respondents (38.24 %), 11 respondents (10.78 %), 4 respondents (3.92 %), and 6 respondents (5.88 %) with a strong majority.

Table 4.3.10 Credit Assessment Aids Credit Strategies Development to Ease Receivable Collection

Variables	Frequency	Percentage
Strongly Agree	35	34.31%
Agree	42	41.18%
Neutral	14	13.73%
Disagree	7	6.86%
Strongly Disagree	4	3.92%
Total	**102**	**100.00%**

Source: field data, July 2022.

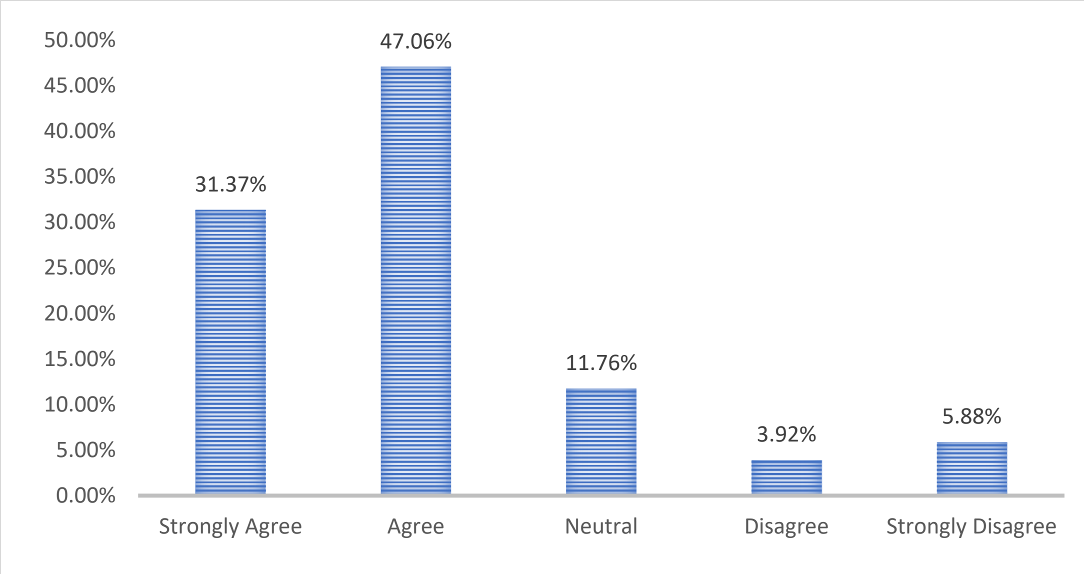


Fig. 12: Credit Assessment Aids Credit Strategies Development to Ease Receivable Collection

The results of the study show that credit evaluation helps in the creation of credit plans that help in the recovery of receivables when they become due. The figures show that there is a strong majority among 35 respondents (34.31%), 42 respondents (41.18%), 14 respondents (13.73%), 7 respondents (6.86%), and 4 respondents (3.92%).

Effects of Credit Evaluation on the Level of Banks' Bad Debt

Conclusion could be drawn from the above findings that Credit assessment play a significant impact on the volume of bad debt in Nigerian' commercial banks.

4.4 Objective Two: BANK PRACTICES IN GRANTING LOANS AND ADVANCES AND THEIR RECOVERY PROCEDURES

The study's main goal was to ascertain how credit management influenced the amount of bad debt banks maintained. Examining the process for awarding and recovering loans and advances is a crucial step, according to the report. This clarifies how banks operate when making loans and advances as well as their credit management practices for recovering bad debt for banks. Respondents were therefore prompted to think about how the process of approving and collecting loans and advances affects the overall level of bank debt. Table 4.4 and Figures 4.4 illustrate the results.

Table 4.4.1 Bank Analysis of Loan Request and Risk Implication of Advances within Risk Appetite

Variables	Frequency	Percentage
Strongly Agree	23	22.55%
Agree	44	43.14%
Neutral	26	25.49%
Disagree	5	4.90%
Strongly Disagree	4	3.92%
Total	**102**	**100.00%**

Source: field data, July 2022.

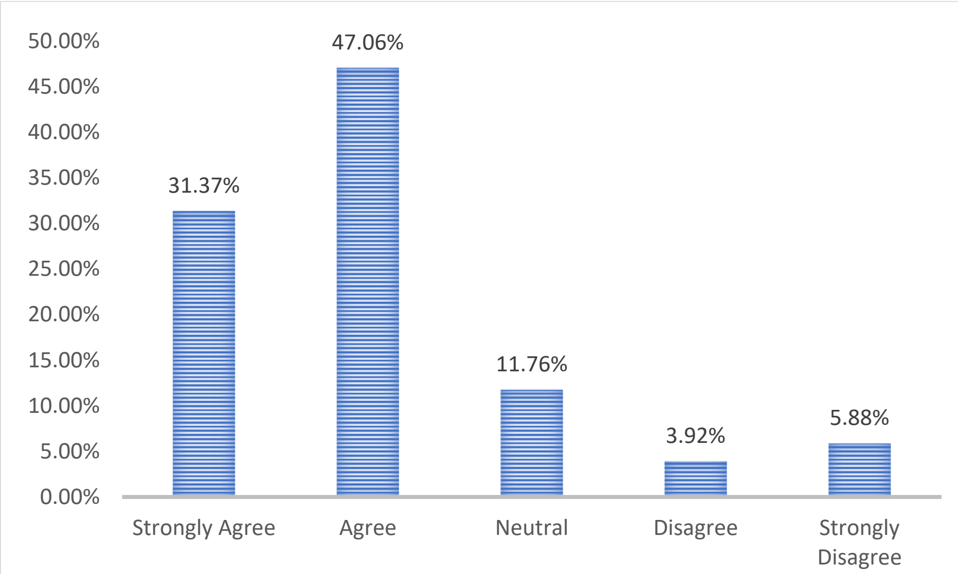


Fig. 13. Bank Analysis of Loan Request and Risk Implication of Advances within Risk Appetite

The results of the study show that banks' evaluation of loan requests and the risks associated with them in the context of the bank's risk appetite enhances credit management in the context of bad debt policy. According to the data, 5 respondents (4.90 %) strongly disagree, 4 respondents (3.92 %) disagree, 23 respondents (22.55 %) strongly agree, 44 respondents (43.14 %) agree, 26 respondents (25.49 %) are indifferent.

Table 4.4.2 Banks' Credit Policies' Flexibility is Insufficient to Encourages Successful Credit Risk Management

Variables	Frequency	Percentage
Strongly Agree	11	10.78%
Agree	23	22.55%
Neutral	29	28.43%
Disagree	29	28.43%
Strongly Disagree	10	9.80%
Total	**102**	**100.00%**

Source: field data, July 2022.

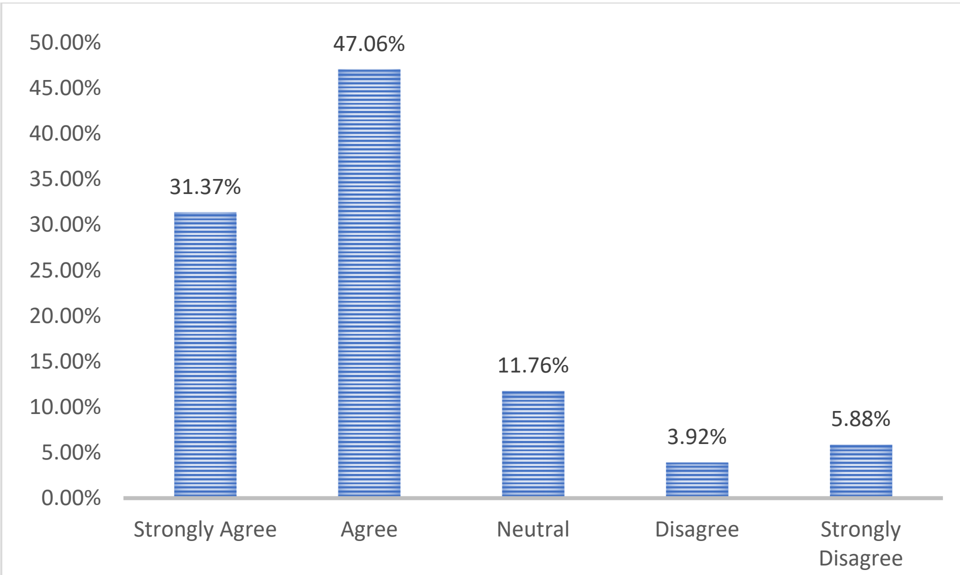


Fig. 14: Banks' Credit Policies' Flexibility is Insufficient to Encourages Successful Credit Risk Management

The results of the study show that flexibility of bank lending rules is reasonably sufficient as a support for efficient credit risk management. According to the data, 10 respondents (9.80%) strongly disagree, 29 respondents (28.43%) disagree, 11 respondents (10.78%) strongly agree, 23 respondents (22.55%) agree, 29 respondents (28.43%) are indifferent.

Table 4.4.3 Assessment of Borrowers' Credit Profiles as Consideration for Granting Loan and Advance Request

Variables	Frequency	Percentage
Strongly Agree	39	38.24%
Agree	38	37.25%
Neutral	14	13.73%
Disagree	6	5.88%
Strongly Disagree	5	4.90%
Total	**102**	**100.00%**

Source: field data, July 2022.

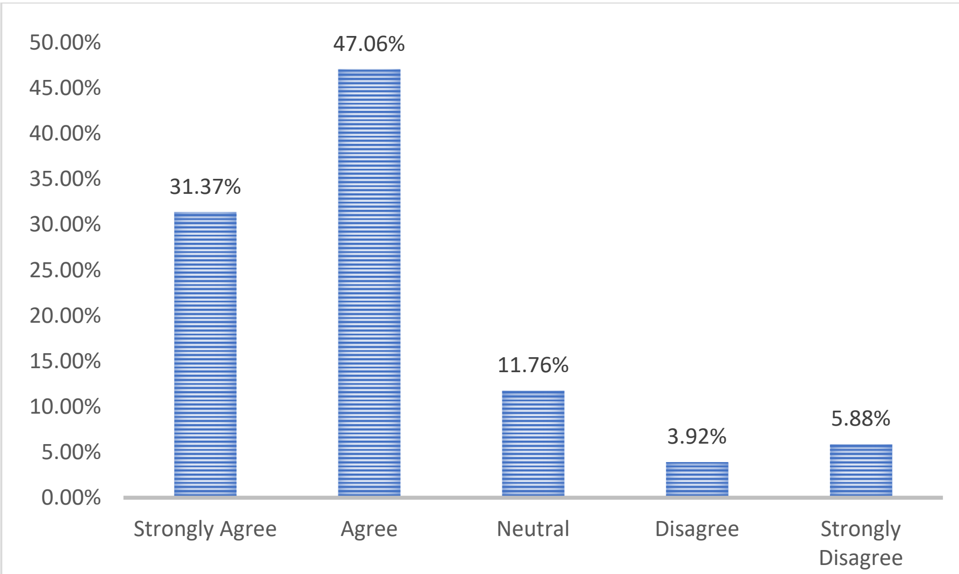


Fig. 15: Assessment of Borrowers' Credit Profiles as Consideration for Granting Loan and Advance Request

The study's findings show how strongly banks believe that considering clients' credit histories before processing requests will help them control their bad debt through credit management. According to the data, 6 respondents (5.88%) and 5 respondents (4.90%) have considerable disputes, 39 respondents (38.24%) and 38 respondents (37.25%) have strong agreement, and 14 respondents (13.73%) have no view.

Table 4.4.4 Assessment of Customer's Repayment Ability and Plans as Consideration for Granting Loan and Advance Request

Variables	Frequency	Percentage
Strongly Agree	47	46.08%
Agree	35	34.31%
Neutral	8	7.84%
Disagree	6	5.88%
Strongly Disagree	6	5.88%
Total	**102**	**100.00%**

Source: field data, July 2022.

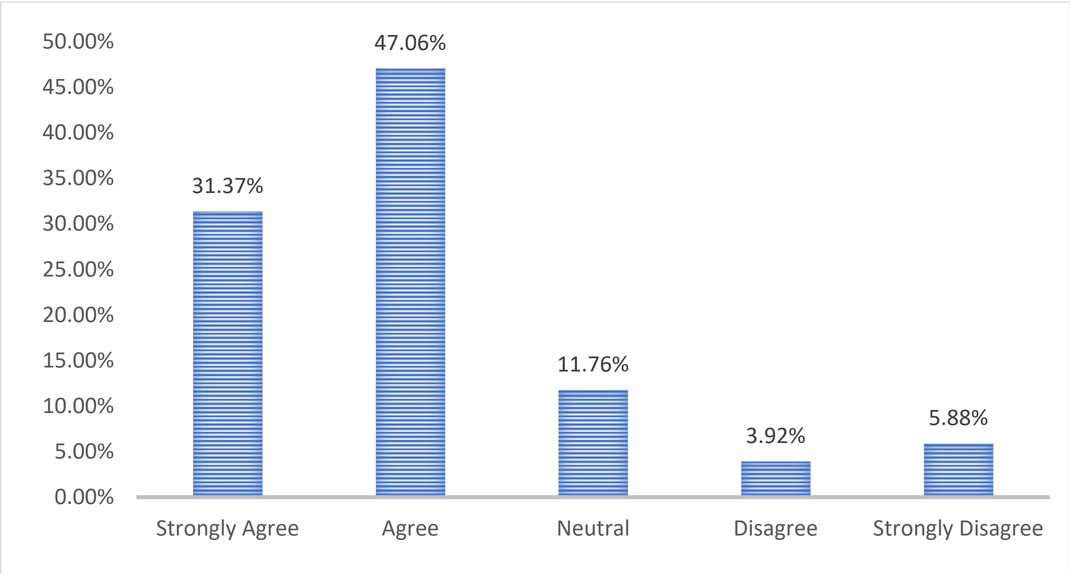


Fig. 16: Assessment of Customer's Repayment Ability and Plans as Consideration for Granting Loan and Advance Request

The study's findings show how strongly banks believe that verifying clients' capacity to repay loans and repayment plans before approving requests will enable them to manage their credit risk and reduce bad debt. Statistics show that there are major differences between 6 and 6 respondents (5.88%), considerable agreement between 47 and 35 respondents (46.08 and 34.31%), and no opinion from 8 respondents (7.84%).

Table 4.4.5 Review of Value, Existence and Durability of Collateral as Consideration for Granting Loan and Advance Request

Variables	Frequency	Percentage
Strongly Agree	47	46.08%
Agree	37	36.27%
Neutral	10	9.80%
Disagree	4	3.92%
Strongly Disagree	4	3.92%
Total	**102**	**100.00%**

Source: field data, July 2022.

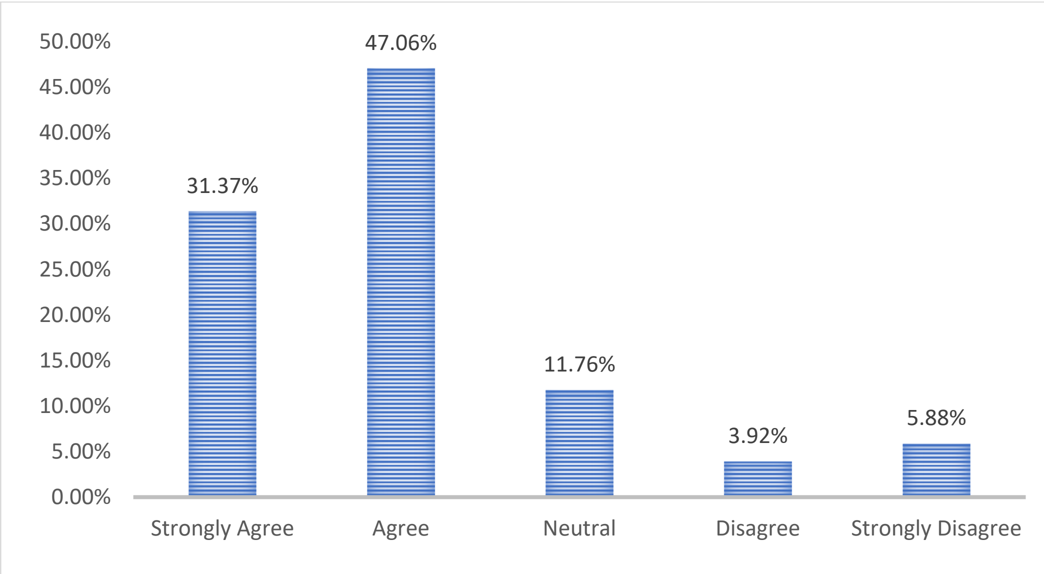


Fig. 17: Review of Value, Existence and Durability of Collateral as Consideration for Granting Loan and Advance Request

The study's findings demonstrate how firmly banks hold the belief that managing their credit risk and lowering bad debt would be accomplished by carefully considering the values, presence, and durability of the collateral offered by borrowers before granting requests. According to statistics, there are significant disagreements between 4 and 4 respondents (3.92%), a lot of agreement between 47 and 37 respondents (46.08 and 36.27%), and no opinion from 10 respondents (3.92%).

Table 4.4.6 Complication of Debt Recovery Procedure of Banks

Variables	Frequency	Percentage
Strongly Agree	18	17.65%
Agree	18	17.65%
Neutral	36	35.29%
Disagree	20	19.61%
Strongly Disagree	10	9.80%
Total	**102**	**100.00%**

Source: field data, July 2022.

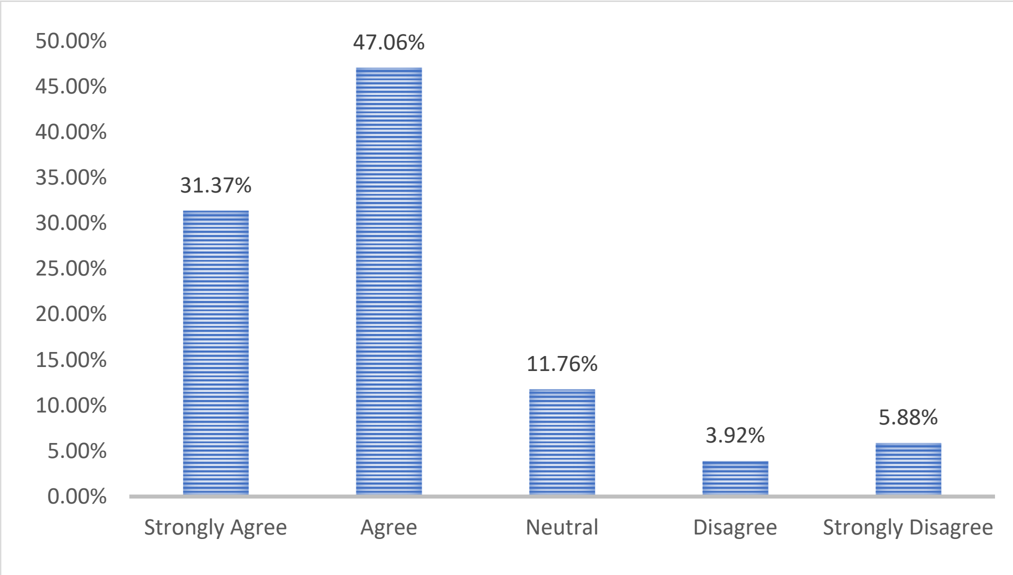


Fig. 18: Complication of Debt Recovery Procedure of Banks

The study's findings show how strongly banks retain the neutral perspective that the difficulty of debt recovery procedures by banks is disputed as a factor in the issue of banks' bad debt via credit management. Statistics show that there are many big disagreements between 20 and 10 respondents (19.61 % and 9.80 %), substantial agreements between 18 and 18 respondents (17.65 %), and no opinion from 36 respondents (35.29%).

Table 4.4.7 Bank Monitory of Borrowers' Project Progress

Variables	Frequency	Percentage
Strongly Agree	25	24.51%
Agree	38	37.25%
Neutral	26	25.49%
Disagree	10	9.80%
Strongly Disagree	3	2.94%
Total	**102**	**100.00%**

Source: field data, July 2022.

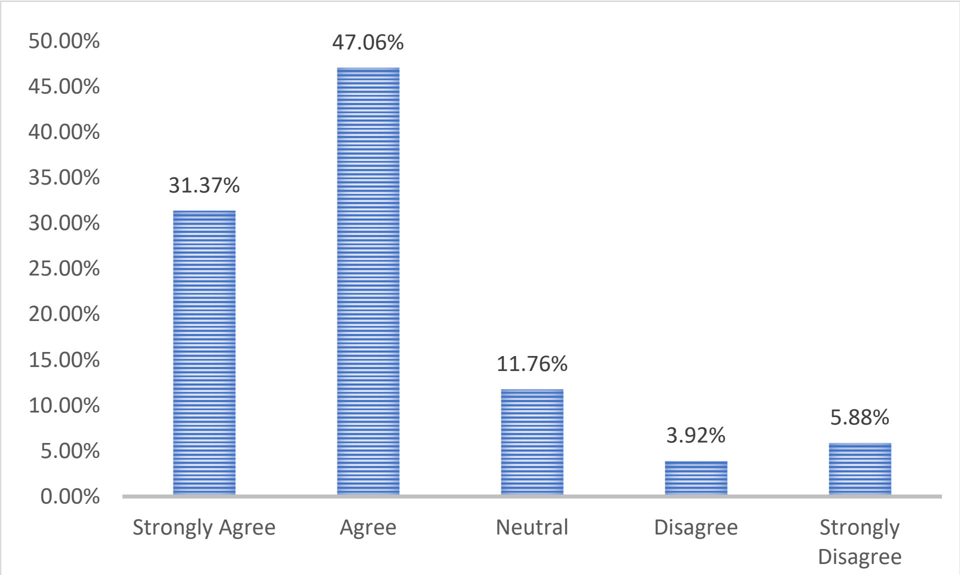


Fig. 19: Bank Monitory of Borrowers' Project Progress

The study's findings show how strongly banks hold the opinion that tracking the advancement of borrowers' projects for which loans and advances are provided is important in addressing the problem of banks' bad debt through credit management. The findings show that 3 respondents (2.94%) strongly disagree, 10 respondents (9.80%) disagree, 25 respondents (24.51%) highly agree, 38 respondents (37.25%) agree, and 26 respondents (25.49%) are neutral.

Table 4.4.8 Banks' Professional Advice to Borrowers before and after Loan Granted

Variables	Frequency	Percentage
Strongly Agree	22	21.57%
Agree	33	32.35%
Neutral	23	22.55%
Disagree	20	19.61%
Strongly Disagree	4	3.92%
Total	**102**	**100.00%**

Source: field data, July 2022.

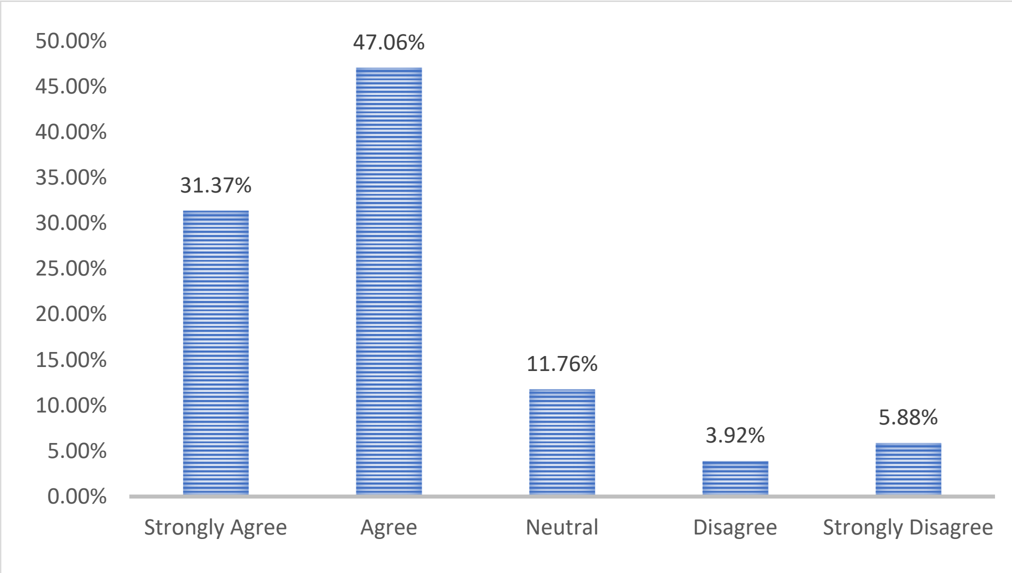


Fig. 20: Banks' Professional Advice to Borrowers before and after Loan Granted

The study's findings highlight how strongly banks believe that providing borrowers with expert guidance both before and after their loan requests are approved is crucial to solving the issue of bad debt for banks through credit management. The results indicate that 4 respondents (3.92 %) strongly disagree, 20 respondents (19.61 %), disagree, 22 respondents (21.57 %), greatly agree, 33 respondents (32.35 %), and 23 respondents (22.55 %) are neutral.

In conclusion, the results imply that all bank practices in loan and advance giving and their recovery processes contribute to the efficacy of credit management regarding banks' bad debt concerns in Nigeria.

4.5 Objective Three: EXTENT TO WHICH BANKS' BAD DEBT AFFECT THE PROFITABILITY OF BANKS

The major aim of the study was to investigate the relationship between credit management and the volume of bad debt held by banks. A useful tool for assessing the success of banks' credit management policies is to look at how much bad debt impacts banks' profitability using Nigeria's commercial bank. The scope of the banks' credit management procedures as it relates to the problem of bad debt and its profitability was thus brought to the attention of the respondents. Results are shown in Table 4.5 and Figures 4.

Table 4.5.1 Poor Appraisal of Loan Request and Corporate Governance Leads to Bank Liquidation

Variables	Frequency	Percentage
Strongly Agree	30	29.41%
Agree	40	39.22%
Neutral	18	17.65%
Disagree	7	6.86%
Strongly Disagree	7	6.86%
Total	**102**	**100.00%**

Source: field data, July 2022.

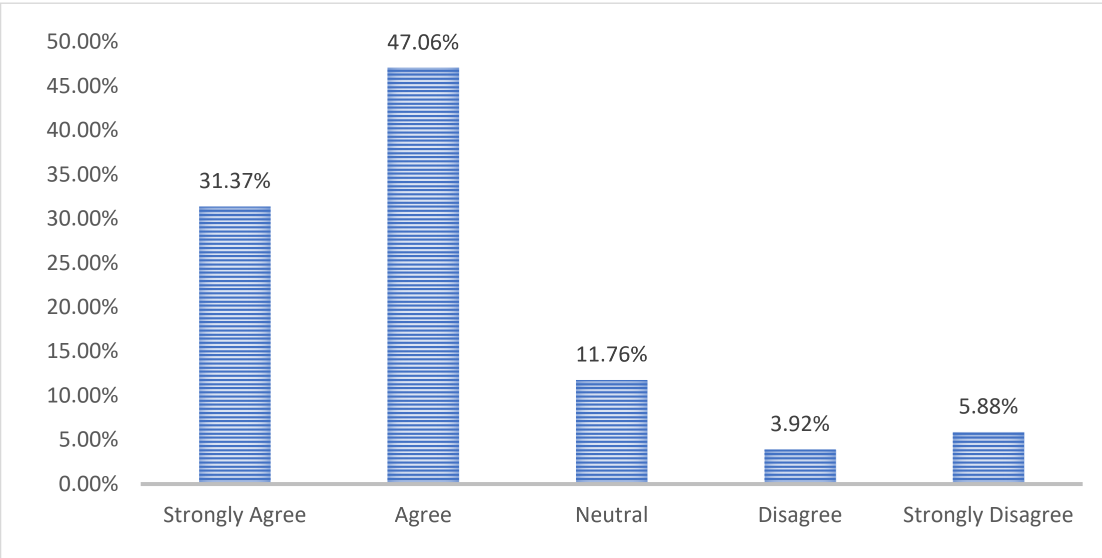


Fig. 21. Poor Appraisal of Loan Request and Corporate Governance Leads to Bank Liquidation

The study's conclusions place special attention on how bad loan request evaluation and corporate governance affect bank profitability and liquidation. The findings indicate that 30 respondents (29.41 %) strongly agree, 40 respondents (39.22 %) agree, and 18 respondents (17.65 %) are neutral. 7 respondents (6.86 %) strongly disagree, and 7 respondents (6.86 %) disagree.

Table 4.5.2 Customers' Inability to Continuous Loan Servicing leads to bad debt Accumulation

Variables	Frequency	Percentage
Strongly Agree	40	39.22%
Agree	44	43.14%
Neutral	5	4.90%
Disagree	9	8.82%
Strongly Disagree	4	3.92%
Total	**102**	**100.00%**

Source: field data, July 2022.

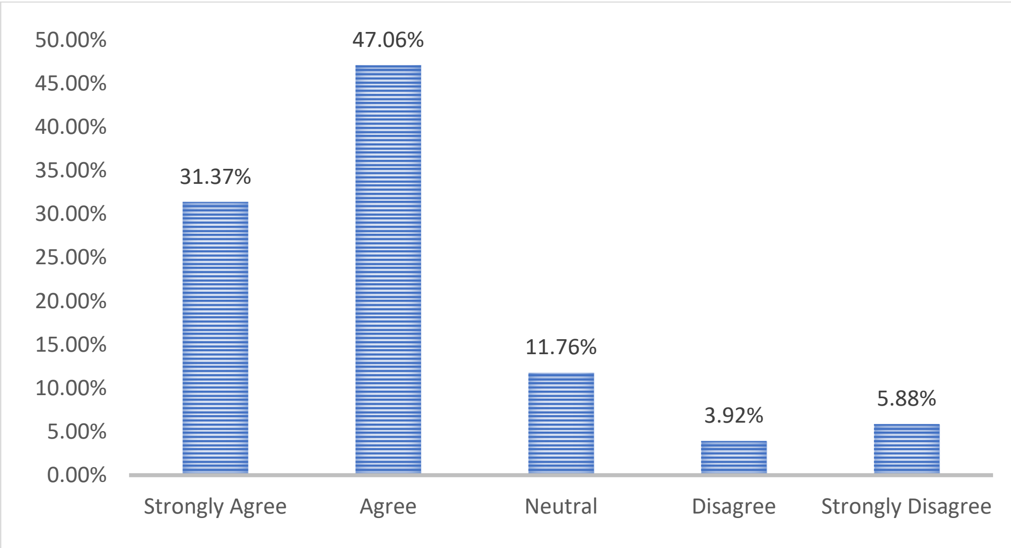


Fig. 22. Customers' Inability to Continuous Loan Servicing leads to bad debt Accumulation

According to the study's findings, consumers' failure to continue servicing their loans leads to the accumulation of bad debt, which affects bank profitability. According to the data, 40 respondents (39.22%) strongly agree, 44 respondents (43.14%) agree, and 5 respondents

(4.90%) are neutral. 4 responses (3.92%) strongly disagree, while 9 respondents (8.82%) disagree.

Table 4.5.3 Inadequate Information to Borrowers Suffers Banks' Profitability

Variables	Frequency	Percentage
Strongly Agree	24	23.53%
Agree	46	45.10%
Neutral	15	14.71%
Disagree	8	7.84%
Strongly Disagree	9	8.82%
Total	**102**	**100.00%**

Source: field data, July 2022.

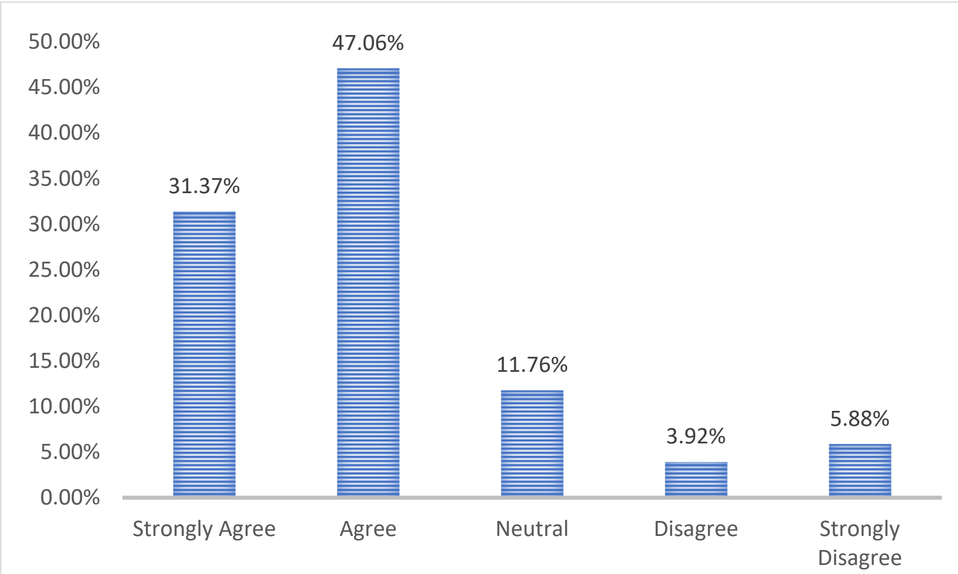


Fig. 23. Inadequate Information to Borrowers Suffers Banks' Profitability

According to the study's findings, most participants agree that when borrowers are not adequately educated on the stages involved in qualifying for a loan and the penalties of defaulting, banks' profitability suffers. According to the findings, 15 respondents (14.71%) are neutral, 46 respondents (45.10%) agree, and 24 respondents (23.53%) strongly agree. 8 respondents (7.84 %) and 9 respondents (8.82 %) strongly disagree with the assertion.

Table 4.5.5 Bad Debt Hinders Banks' Financing Capacity and Harm Country' Socio-Economic Development

Variables	Frequency	Percentage
Strongly Agree	29	28.43%
Agree	48	47.06%
Neutral	16	15.69%
Disagree	4	3.92%
Strongly Disagree	5	4.90%
Total	**102**	**100.00%**

Source: field data, July 2022.

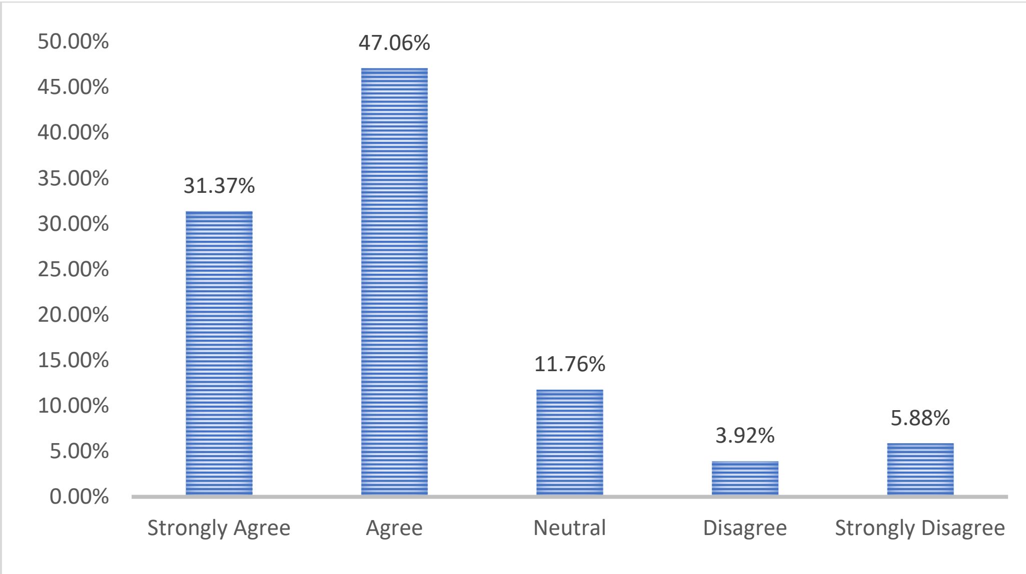


Fig. 25. Bad Debt Hinders Banks' Financing Capacity and Harm Country' Socio- Economic Development

The survey findings underscore that most respondents agree that bad debts impede bank financing ability and hurt the country's overall socioeconomic development. According to the research, 29 people (28.06%) strongly agree, 48 people (47.06%) agree, and 16 people (15.69%) are neutral. 4 people (3.92%) disagreed, and 5 (4.90%) strongly disagreed.

Table 4.5.6 Bad Debt Dilutes Returns on banks' Assets

Variables	Frequency	Percentage
Strongly Agree	32	31.37%
Agree	48	47.06%
Neutral	12	11.76%
Disagree	4	3.92%
Strongly Disagree	6	5.88%
Total	**102**	**100.00%**

Source: field data, July 2022.

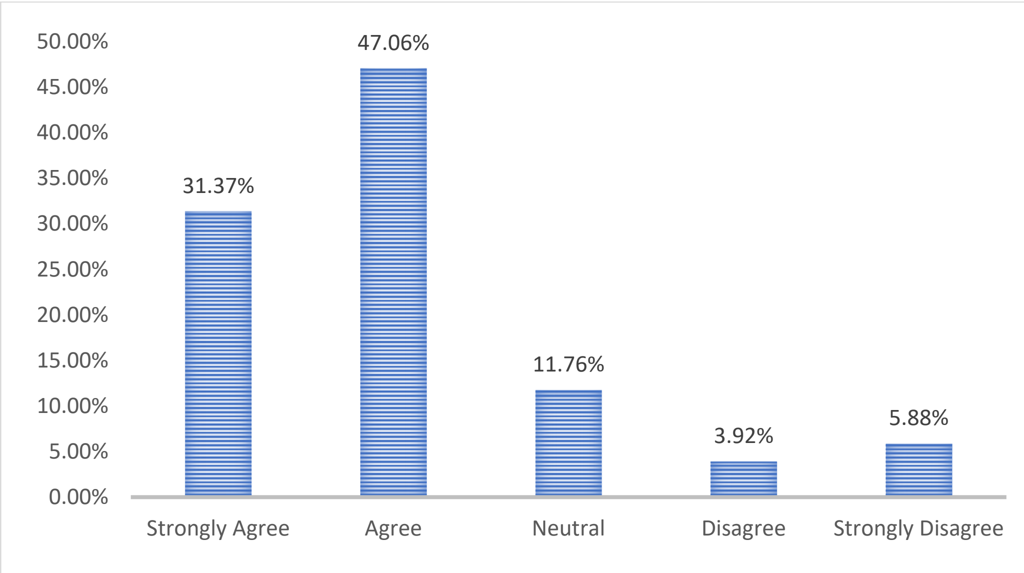


Fig. 26. Bad Debt Dilutes Returns on banks' Assets

The test results demonstrate that most respondents agree that bad debts have a direct effect on profitability by lowering returns on assets since banks are required to make provisions for losses. According to the poll, 32 respondents (31.37%) strongly agreed, 48 respondents (47.06%) agreed, and 12 respondents (11.76%) were impartial. Six people (5.88%) strongly disagreed with the statement, while four (3.92%) agreed.

It may be concluded from the results of Objective 4 that the profitability of banks is significantly impacted by their bad debt policies.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

Introduction

This chapter is the concluding part of the study. It is divided into three sections. The first section is a summary of the findings from the research. The second section focused on conclusion, while the third section documented recommendations that could be employed to enhance effective and efficient in the study area. These are respectively discussed under section 5.1, 5.2 and 5.3 respectively.

5.1 Summary of Findings

The findings revealed that credit management is a strategy used by many banks to plan, control, and monitor loans and advance made to their customers to addresses the issues of bad debt. The objective of this study is to research the effects of credit evaluation on the level of bank's bad debt. This was measured by examining the effects of credit evaluation on the level of bank's bad debt, how credit assessment contributes in debt recovery enhancement etc. The second objective is to investigate bank practices in granting loans and advances and their recovery procedures. This was measured by analyzing the loan request and the risk implications of the advances within the risk appetite of the banks and assesses borrowers credit profile as a consideration for granting loan and advances request.

The third objective is to examine the extent to which bad debts affects the profitability of banks in Nigeria. This was measured by examining the inability of the customer to continue servicing the loan granted which leads to the accumulation of bad debts which affects banks profitability and also assesses how bad debts have a direct impact on the profitability of banks by diluting return on assets, because banks are required to make provisions for losses. The findings of the study also showed several strategies can help to limit bad debts such as credit terms and customers' risk assessment. Hence, to reduce bad debts and enhance cash flow, management must employ excellent credit assessment to optimize debt recovery, reduce credit expenses and extend credit only to creditworthy clients.

5.2 Conclusion

The study concluded that credit risk management is very vital to measuring and optimizing the profitability of banks because effective credit risk management system involves establishing a suitable credit risk environment, operating under a sound credit granting process, maintaining an appropriate credit administration that involves monitoring, processing as well as enough controls over credit risk.

The study also concluded that control of credit should be put in place as well and enforced consistently. Management should control credit to guarantee adequate liquidity by designing an acceptable credit model that would offer a collection of receivables at appropriate time. Hence, the study concluded that failure to manage bad debts leads to banks collapse and losses.

5.3 Recommendations

Based on the findings above, the following recommendations are suggested:

i. Reasonable consideration should be given on interest rates charged by banks on loan since these have effect on loan repayment hence profitability of banks will reduce.

ii. Appraisal processes should be carried out by an experienced and competent credit officer to stem out those with intolerable credit risk.

iii. The use of credit insurance and collateral should be at the center of the lending businesses.

iv. Stringent credit policy measures must be adopted by banks in granting and collecting loans rather than a lenient policy which tends to reduce the banks profitability

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QUESTIONNAIRE ON THE ROLE OF CREDIT MANAGEMENT IN THE ISSUE OF BAD DEBTS IN NIGERIAN COMMERCIAL BANK

Dear Respondents,
This questionnaire is designed to get some valid and useful information from you as regards the study above. All information provided will be strictly confidential and used for research purpose only. I humbly seek your support and co-operation.

Researcher.

SECTION A: Socio-Demographic Information (*Please tick your most right choice*).

1. Sex Male [ ] Female [ ]
2. Age: 21 – 30yrs [ ] 31 – 40yrs [ ] 41 – 50yrs [ ] 51year above [ ]
3. Educational Qualification: OND/NCE [ ] B.Sc/HND [ ] MBA/M.Sc [ ] Professional Qualification [ ]

SECTION B:

Please read the statement below and tick (√) on the right-hand columns to identify your level of agreement/disagreement with it. SA = Strongly Agree; A = Agree; N = Neutral; D = Disagree; SD = Strongly Disagree

Effects of credit assessment on the level of the financial institution's bad debts

	Strongly Agree	**Agree**	**Neutral**	**Disagree**	**Strongly Disagree**
Credit assessment helps management in controlling bad debts.					
Credit assessment assist in development of appropriate credit models that enhance debt recovery.					
Effective credit assessment practices mitigate debt recover cost.					
Credit assessment assists in measurement of risk exposure and appetite of banks and borrowers.					
Credit assessment has a crucial role to play in reduction of bad debts level.					
Credit assessment ensures that loans and advances are controlled, and bad debts losses are minimized.					
Effective credit assessment strategy helps the commercial banks to establish their credit policy.					
Credit assessment helps in analyzing credit information.					
Credit assessment assist in setting credit plans that aid receivables collection when due.					

SECTION C

Please read the statement below and tick (√) on the right-hand columns to identify your level of agreement/disagreement with it. SA = Strongly Agree; A = Agree; N = Neutral; D = Disagree; SD = Strongly Disagree

Investigate bank practices in granting loans and advances and their recovery procedures

	Strongly Agree	**Agree**	**Neutral**	**Disagree**	**Strongly Disagree**
Banks analyze the loan request and the risk implications of the advances within the risk appetite of the banks.					
Banks credit policies are not flexible enough to encourage effective credit risk management.					
Banks assess borrowers' credit profile as a consideration for granting loan and advances' request.					
Banks review customer's repayment ability and plans as a consideration for granting loan and advances request.					
Banks consider the value, existence, and durability of the collateral provided by the customer requesting loan.					
Banks procedure for debt recovery is too complicated to follow.					
Banks monitor the progress of borrowers' project for which the loan is serviced.					
Banks offer professional advice to the borrower before and after granting the requested loan.					

SECTION D

Please read the statement below and tick (√) on the right-hand columns to identify your level of agreement/disagreement with it. SA = Strongly Agree; A = Agree; N = Neutral; D = Disagree; SD = Strongly Disagree

Extent to which bank debt affect the profitability of banks.

	Strongly Agree	**Agree**	**Neutral**	**Disagree**	**Strongly Disagree**
Most of the liquidated banks were caused by poor appraisal of loan request and lack of good corporate governance which affects the profitability of the bank.					
Inability of the customer to continue servicing the loan leads to the accumulation of bad debts which affect banks profitability.					
When borrowers are not adequately informed about the procedures involved in obtaining a loan and the penalties imposed on defaulters, hence the bank's profitability suffers.					
The failure to manage banks' bad debts leads to insolvency and losses among financial institutions.					
Bad debts hinder the financing capacity of the banks and harms the overall socio-economic development of the country.					
Bad debts have a direct impact on the profitability of banks by diluting returns on assets; because banks are required to make provisions for losses.					

Thank you!