

CREDIT MANAGEMENT PRACTICES AND LOAN PERFORMANCE: EMPIRICAL EVIDENCE FROM COMMERCIAL BANKS IN KENYA

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ABSTRACT

Commercial banks in Kenya as per the World Bank report were recording higher non-performance in loans over the study period than the standard globally in spite of Kenya having the most stable and developed banking system in East and Central Africa region. Commercial banks non-performing loans for five years from 2015 to 2018 averaged eleven percent which was higher than the recommended rate of one percent. In Kenya, commercial banks' non-performing loans remain higher than the recommended rate which could be due to inadequate credit management practices. The study therefore aimed at examining the effect of credit management practices on loan performance of commercial banks in Kenya. Specifically, the study sought to establish the effect of debt collection policy, client appraisal and lending policy on the loan performance of commercial banks in Kenya. The underpinning theory of the study was the 5Cs model for credit. The study used explanatory research design and the research philosophy adopted was positivism. The target population was 44 commercial banks in Kenya and a census approach was used. Both primary and secondary data were used. Primary data was collected through structured questionnaires and related to credit management practices while secondary data was obtained from review of existing bank loan records in relation to loan amount advanced and non-performing loans for a period of four years from 2015-2018. The data collected was analyzed using both descriptive and inferential statistics with the help of SPSS version 22. The study found out that debt collection policy and lending policy had a positive significant effect on loan performance of commercial banks in Kenya. However, client appraisal had no significant effect on loan performance of commercial banks in Kenya. Therefore, the study concluded that commercial banks' loan performance could be largely attributed to the efficiency of the credit management practices put in place at the institutions. The study recommended that commercial banks to regularly evaluate and update practices relating to debt collection policy, client appraisal and lending policy that are capable of ensuring that credit risks are identified and recorded from departmental level to the institution at large. This is vital in light of technological innovations in the banking sector like mobile lending that may limit commercial banks' ability to evaluate and manage credit using traditional methods.

Key Words: Debt Collection Policy, Client Appraisal, Lending Policy, Credit Management Practices, Loan Performance, Commercial Banks in Kenya

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1. Introduction

Commercial banks constitute a major component of the financial institutions in any particular country. Therefore, changes in the performance of this sector have adverse implications to the country's economy (Bohnstedt, 2000). Commercial banks collect money as deposits which are then lent to borrowers in form of loans. Actual or perceived failure of a bank to pay the depositors money on request may cause bank panic and therefore insolvency (Saunders & Cornett, 2005). The banks utilize deposits to generate interest revenues making credit amounts the main component of commercial banks assets and source of the credit risk (Basel III, 2017). Credit risk occurs upon failure by the debtor to fulfill their obligations in repayment of the loans (Lalon, 2015). It encompasses both the prospective and current risks to earnings resulting from the failure of the obligator to meet the specified contract terms agreed (Kargi, 2011). This necessitates the banks to put in place measures for identifying, monitoring, measurement, and control of risks from the credits and adequate compensation is made in case of incurring of risks (Lalon, 2015).

Non-performing loans remain to be the highest detrimental factor to development of the financial sector (Doriana, 2015). World Bank (2018) report indicated that there was low performance of commercial banks in Kenya having a relatively high non-performing loan rates than the globally set standards at 14.92% and five years average of 11.07%. This raises great concern and the reason why the study examined credit management practices and loan performance, taking the case of commercial banks in Kenya. Loan performance constitutes a huge proportion of the credit risk of a bank as it accounts for more than 10 times of the equity (Barth *et. al.*, 2001). The total amount of money issued out as loans is referred to as loan portfolio to different borrowers as different loan products. The loan products could be in form of individual loans, corporate loans, salary loans or group guarantee loans. Loan performance accesses the rates of payment, number of borrowing clients, security pledged and rate of arrears recovery (Basel, 2006).

Performance of loans is determined by the percentage of NPLs to total loans (Petersen & Raghuram, 2008). Non-performing loans (NPLs) is the sum of money borrowed upon which scheduled payments have not been made for at least 90 days (Bank for International Settlements, 2016). Performing loans on the other hand is a loan which both the principal and interest payments are not more than 90 days overdue and which continued payment of the loan is anticipated (Petersen & Raghuram, 2008). Hence, banks and other financial institutions focus on reducing NPLs due to the risk that results in the principal loans and interests not being recovered (Otieno & Nyagol, 2016). Commercial banks in Kenya have recorded higher NPLs than the standard globally (World Bank, 2018). According to Montana (2012), non-performing loans have continued to record sharp upward growth over the years despite the increasing efforts to curb non-performing loans. For instance, in Kenya non-performing loans increased from 4.96% in 2013 to 5.9% in 2014, 8.97% in 2015, 9.02% in 2016, 11.38% in 2017 and 14.92% in 2018 (Central Bank of Kenya, 2018). In 2018, the NPLs in the banks were 14.92% and four years average from 2015 to 2018 of 11.07% which was higher than the recommended rate of 1% (World Bank, 2018). According to Ekrami and Rahnema (2009) the high amounts of NPLs acts as an indication of the current high risk in credits in the banking system which poses both market and liquidity problems. NPLs mainly occur as a result of inefficiencies in the credit management practices employed by the banks (Morton, 2003).

After the worldwide financial crisis that occurred in 2008/2009, Basel III (2017) guidelines reviewed credit management models by adopting global credit management practices and having regular assessment of credit risk among the peer banks and counterparts. As a result of

Basel III (2017) requirements, the banking sector is required to maintain sound financial management practices and adopt aggressive credit management practices aimed at reducing non-performing loans (Basel, 2017).

Currently, credit management practices are considered as an integral component for the success of the banks (Lalon, 2015). This is attributed to the fact that commitment to the credit management practices ensures long term survival of the banking institutions through shielding from default loans (Kithinji, 2010). Poor credit management practices have adverse negative effects on the banks resulting in reduced profitability and liquidity problems due to compressed profit margins from the rising NPLs hence bringing about the most challenging environment for banks (Saunders & Allen, 2010). In the past decade (2000-2010), most financial institutions were not keen in their efforts on timely credit recovery and consequent reduction of Non-Performing loans as today (Montana 2012). Debt collection is defined as a process of pursuing loans which have not been repaid. Few customers have been established to complete their payments while others don't pay at all (Kariuki, 2010). This has resulted in the formulation of policies that an organization should adhere for effective credit policies which may include debt collection policy to avoid non-performing loans. The debt collection policies aim to stimulate the non-payers to pay therefore avoiding non-performing loans (Auren, 2003). This is because lack of stringent debt collection policy leads to overdue collection amounts and hence NPLs (Gakure *et.al*, 2012).

Central bank of Kenya in 2005 issued guidelines where banks were required to have debt collection policies procedures which included collection enforcements, guarantor payments and continuous monitoring and control of loans (CBK 2015). In 2016, further guidelines were issued on the adequacy and enforceability of collateral or guarantees for strict adherence and compliance by commercial banks in Kenya (CBK, 2016). NPLs increase with debt collections going far more into the future. The need to reduce non-performing loans has seen commercial banks aim at reducing the collection period by adopting stringent collection policy (Otieno & Nyagol, 2016). The effectiveness of the debt policy will be based on the minimization or elimination of defaults on loan repayment. Though Kenya has a well-developed commercial banking sector compared to most of Africa, it still faces challenges of loan administration and collection of loans (Otieno & Nyagol, 2016).

Client appraisal is a process undertaken mainly to determine the acceptance or rejection of a proposal for credit by the clients. This involves an evaluation of the repayment capacity of the borrowers (Gakure *et.al*, 2012). The primary objective is to ensure the loans are issued only to credit worthy customers. Client appraisal process involves evaluating the capability of the borrower and any specific risks associated (Auren, 2003). The process entails gathering of adequate information concerning the customer prior to granting the credit services. Hence, through proper client appraisals, the loans are granted to the right customers through securing the relative incomes of the banks. Central bank of Kenya in an attempt to address deficiencies in credit management issued guidelines to be followed by commercial banks. Credit management guidelines were issued in 2005 where commercial banks were required to have client appraisal policy (CBK, 2005). Following the guidelines in 2015, client appraisal policy was further reviewed to include credit referencing bureau review by commercial banks before credit could be advanced. This led to more advanced client appraisal technique among commercial banks and review of lending and debt collection policies (CBK, 2015).

Client appraisal is therefore crucial in any credit management that highly determines the level of non-performing loans. Lack of adequate client appraisal guidelines and exclusive use of qualitative methods of loan assessment results in loans not been repaid on time (Mathara, 2007). The recognition of the importance of client appraisal system has led to commercial

banks adopting more comprehensive client appraisal method, both qualitative and quantitative (Ombaba, 2013). During the process of appraisal terms, all aspects of the customers and expected stream of future cash flows are assessed. Client appraisal yearns to assess the reasonability or correctness of the cost estimates and expected expenses against the revenues projected (Gennaioli, Andrei & Robert, 2012). It includes estimating the cost of machinery, price of selling, project costs and financing means (Plosser, Kovner & Hirtle, 2016). Through appraisals, bad credit may be steamed out through proper and early identification. However, Auronen (2003) argues that information asymmetry is essential for ensuring the desired effects are achieved thus reducing the chances of default greatly.

Lending in commercial banks ought to be effectively carried out as it is the basis for having a sound developing economy (Gennaioli, Andrei & Robert, 2012). The lending system should therefore be formulated to attain total benefit to all different interest groups of the bank, which includes the shareholders, depositors and the borrowers (Parlour & Winton, 2008). In this regard, lending policies enables the banks to offer the credit to worthy customers using specified guidelines. The recognition of the importance of lending policy on non-performing loans has led to banks constantly updating their lending policies to fit the changing environment (Kibor, 2015). Following the collapse of numerous commercial banks out of inadequate credit risk management, in 2016, CBK issued further guidelines on lending policy and classification of non-performing loans (Central Bank of Kenya, 2016). Lending policies needed to be commensurate with the size and complexity of the institution and be able to present a clear position on the commercial banks' exposure. Lending policies were also required to ensure transparency in the transactions relating to lending. Insider loans to directors and related parties were also required to be disclosed (Central Bank of Kenya, 2018).

The lending policies guide the bank on issuing out loans to customers and ensuring proper credit management (Kithinji, 2010). These should be aligned with the general bank plans and factors such as existing credit policies and prevailing country's economy status. Prior to the establishment of the lending policies, banks mainly issued out credit to anyone who expressed interest to borrow. This resulted in large volumes of bad credit leading the banks to be more cautious thereafter (Abor, 2004). Majority of commercial banks have customized their own lending policies to fit the local market and to gain a competitive edge (Ombaba, 2013). However, they still face from poor lending practices (Altunbas *et al*, 2009). It thus sensitizes on the importance of monitoring and providing the necessary steps that are related to lending both to individuals and corporates (Crowley, 2007). This has seen the CBK to issue guidelines with each bank being required to prepare Credit Policies Guidelines (CPGs) for guiding decisions pertaining to lending (CBK, 2017).

2. Statement of the Problem

Poor loan performance remains the highest detrimental factor to development of the financial sector (World Bank, 2016) and impacts on banks' ability to lend (Doriana, 2015). There has been concern on the extent of non-performing loan levels in Kenya which has been higher than the recommended rate of 1%. In 2018, banks NPLs to total loans were 14.92% and five years average of 11.07% (World Bank, 2018). Between the year 2017 and 2018 the NPLs to total loans ratio increased from 11.38 percent to 14.92 percent (Central Bank of Kenya, 2018). Ineffective credit management practices have been identified to constitute a major reason behind increase NPLs (Basel, 2006). In Kenya, the recent collapse of some commercial banks shows that the successful utilization of the credit management practices is yet to be realized (Kinyua, 2017). According to Obiero (2013), 37.8 % of banks collapsed due to poor lending practices between 1984 and 2013. For example, Chase Bank was placed

into receivership in 2016 due to insolvency. The insolvency was occasioned by huge non-performing loans and disregard of CBK Prudential Guidelines on minimum core capital to total risk weighted assets. In October 2015 the CBK put Imperial Bank under statutory management due to unsafe and unsound credit management practices (CBK, 2016).

Further, studies undertaken on credit management practices and loan performance have not been conclusive. For instance, Oretha (2012) investigated the effect of CRM practices on the financial performance of Liberian banks but did not examine how the credit risk management practices affected loan performance. Gakure *et al* (2012) conducted a study on the relationship between credit management techniques and the performance of commercial banks in Kenya but did not show how various credit management techniques affect loan performance. Otieno and Nyagol (2016) conducted a study on the effect of credit management on the financial performance of microfinance banks. Past studies had adopted different methodologies in relation to the data and research design. Most studies including Chikamai and Mutua (2018), Makori and Sile (2017) and Muasya (2013) used descriptive research design using only primary data. Therefore, studies conducted on credit management practices do not exhaustively show how credit management practices such as debt collection policy, client appraisal and lending policy affect loan performance in commercial banks. However, this study used an explanatory research design. Since, loan non-performance continues to be a major challenge to commercial banks in Kenya, this study focused on the effect of credit management practices on loan performance of commercial banks in Kenya.

3. Research Hypotheses

- H₀₁: Debt collection policy has no significance on the loan performance of commercial banks in Kenya.
- H₀₂: Client appraisal has no significant effect on the loan performance of commercial banks in Kenya.
- H₀₃: Lending policy does not significantly affect loan performance of commercial banks in Kenya.

4. literature review

4.1 Theoretical Review

The study was guided by the 5 C's model. According to Baiden (2011), The 5 C's Model for Credit was introduced as a framework through which financial institutions build the policy for their credit transactions. The 5 C's details the five important factors that commercial banks will use in administration of credit which are expected to lead to improved performance of loans (Mac Donald *et al.*, 2006). This includes; character of the applicant, capacity of repayment, collateral as form of security, capital and the prevailing economic condition (MacDonald *et al.*, 2006; Baiden, 2011). The 5 C's Model for Credit thus provides an assessment upon which lenders use for both current and future borrowers. Character entails the level of commitment portrayed by the borrower in fulfilling the loan obligations. Capacity entails the ability of the borrower to make regular payments and settle the loan obligation fully without any major constraints. Capital on the other hand describes the wealth position of the borrower measured by the capital adequacy and market standing (Denis, 2010). Collateral acts as a security to loan issued in case of any defaults. While economic condition focuses on the outside environment which the lenders have no control over but influence the loan recovery (MacDonald *et al.*, 2006). The importance of the theory to the study is through providing a guideline through which client appraisal is undertaken by the banks to reduce the non-performing loans. Hence, client appraisal is theorized to be a crucial

risk management practice which enables the banks to only lend to credit worthy customers who have the ability to easily repay the loans. Through taking into consideration all these 5 C's Model for Credit, cases of default loan repayment will be minimized hence resulting in improvement of bank loan performance.

4.2 Empirical Literature Review

Balgora, Nies and Plekhanov (2016) investigated influence of NPLs on economic performance. Longitudinal design was used. The study established that reducing non-performing loans has an unambiguously positive medium-term impact on the economy. The study failed to examine how credit management practices affected loan performance. However, the study confirmed the negative consequences of NPLs in an economy and hence need to manage the same. The current study determined how credit management practices affect loan performance. Otieno and Nyagol (2016) investigated on CRM practices and performance. Descriptive research design was adopted by the study. The research results were that the parameters of credit management had a significant negative correlation with the performance measures. The research did not explore how credit risk management affected loan performance but rather looked at performance in general of which the results can only be applied on performance. However, the study confirmed the importance of managing credit risks on performance. The current study explored how credit management practices affect loan performance.

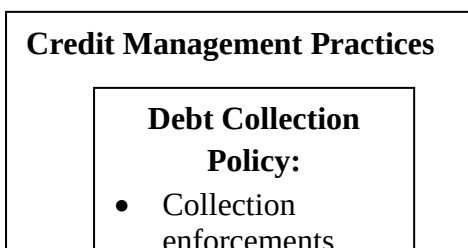
Ahmed and Malik (2015) examined on loan performance and CRM taking empirical evidence from Pakistan. Multiple regression analysis was used. The study found that client appraisal and credit terms had a significant positive influence on the loan performance whereas collection policy and credit risks had a positive but insignificant influence on how the loans performed. The study was based in Pakistan which has different social and economical structures from those in Kenya. The current study looked at the specific practices affecting loan performance of commercial banks in Kenya. Kairaria (2014) investigated the relationship between capital adequacy requirements on creation of credit facilities in Kenya. Causal research design was used. The study revealed that introduction of capital adequacy mandatory requirement negatively affected the profitability of the banking sector. The study however did not assess the impact of capital adequacy requirement on loan performance which was addressed by the current study.

Ofonyelu and Alimi (2013) studied how the bank's risk on borrowers affected NPLs. The study used descriptive research design. The study found that NPLs could be reduced through credit analysis which involves analytical manipulation. While the study confirmed the importance of credit management in managing loans, the study did not document the specific components affecting how loans performed which is crucial in assessing the effect of loan performance. The specific components relating to credit management were examined in the current study. Gakure *et.al* (2012) examined on credit management techniques and banks performance of unsecured loans. The study used descriptive research design. The study indicated that credit management techniques had a positive effect on the bank's performance. Although the study did not examine the various credit management techniques and their effect on loans, the study confirmed the importance of credit management among commercial banks in meeting banks objectives. The current study examined credit management techniques and their effect on loans performance.

5. Conceptual Framework

Independent Variables

Dependent Variable



H0₁

H0₁

H0₂

H0₂

H0₃

Figure 1: Conceptual Framework

Source: Author (2019)

As shown by Figure 1, independent variables for the study are the debt collection policy, client appraisal and lending policy. The debt collection policy is conceptualized by the collection enforcements, guarantor payments on borrowers' default and continuous monitoring and control of loans. Client appraisal is conceptualized by use of the funds, collateral characteristics, CRB credit score, assessed character of the borrower and ability to pay the debt. Lending policy is conceptualized to consist of Credit limits, Credit terms and documentation. The dependent variable for the study is the loan performance that is measured by the amount of NPLs to total loans.

6. Research Methodology

The study adopted the explanatory research design since it sought to determine causal relationship between credit management practices (debt collection policy, client appraisal and lending policy) and dependent variable (loan performance). The research adopted positivism philosophy because the events of interest were objective and the researcher was independent.

The target population for this study was all the 44 commercial banks with branches in Kenya. The study targeted all the 44 heads of credit department located at the commercial banks head offices. This population was chosen as they are directly involved with the credit management practices in the banks hence the most conversant with the study topic. The study employed a census approach where all the managers heading credit department were studied. No sampling was done since the population was considered manageable. Where the population is small and manageable, the entire population is to be used so as to enable comprehensive representation of all the study elements (Mugenda & Mugenda, 2003).

The study used both primary data and secondary data where primary data for the study was collected using a close-ended questionnaire. Questionnaires were used due to the ability to easily administer and collect accurate data. The questions were also convenient and cost of administration was also low. Further, the researcher used secondary data using secondary data collection sheet from the existing banks financial records in relation to the number of loans advanced and amount of non-performing loans. Secondary data was collected for a period of four years from 2015-2018. Data collected was sorted, classified, coded into coding sheets and analyzed with the aid of SPSS Version 22. Data collected was quantitative in nature. Quantitative data was analyzed using inferential statistics. Inferential statistical measures included multiple regression analysis to test the relationship between the research variables.

7. Research Findings and Discussion

To establish the relationship that exists between credit management practices and loan performance, multiple regression analysis was computed. The independent variables were the various constructs of credit management practices namely debt collection policy, client appraisal, lending policy and the dependent variable was the loan performance of the commercial banks. The data used for inferential statistics was both primary and secondary. Credit management practices were measured by primary data while loan performance was measured by five years average loan performance. The model summary results are presented in Table 1 below.

Table 1: Model Summary for Credit Management Practices and Loan Performance

R	R Square	Adj R ²	Std. Error
.823a	0.677	0.651	4.78081

a. Predictors: (Constant), Debt Collection Policy, Client Appraisal, Lending Policy

b. Dependent Variable: Loan Performance

Source: Survey Data, 2019

The results of the regression analysis as shown by Table 1 above shows that credit management practices that include debt collection policy, client appraisal and lending policy had a strong effect on loan performance of commercial banks in Kenya (Adjusted R²= 0.651). Credit management practices studied explained 65.1% of the variations in loan performance. This implies that only 34.9% of the variation in the loan performance at the commercial banks is explained by factors other than those investigated by the study. Thus, improved credit management practices techniques will lead to improved loan performance.

The study further undertook ANOVA analysis to establish the validity and effectiveness of the models in explaining the relationship between credit management practices and loan performance of commercial banks. The study model ANOVA results are presented in Table 2 below.

Table 2: ANOVA for Credit Management Practices and Loan Performance

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	1773.955	3	591.318	25.871	.000a
Residual	845.677	37	22.856		
Total	2619.632	40			

a. Predictors: (Constant), Debt Collection Policy, Client Appraisal, Lending Policy

b. Dependent Variable: Loan Performance

Source: Survey Data, 2019

The results in Table 2 above indicated a p-value<0.05 and $F_{(3,37)} = 25.871$. This meant that there is a significant relationship between credit management practices and loan performance. The F-statistic meant that credit management practices were a good predictor of variations in loan performance and were able to predict changes in the loan performance at any particular time. The model coefficient is shown by Table 3 below.

Table 3: Coefficients for Credit Management Practices and Loan Performance

	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	Beta	Std. Error	Beta		
(Constant)	-14.609	3.762		-3.883	0.000
Debt Collection Policy	2.898	1.288	0.355	2.25	0.031
Client Appraisal	-2.021	1.386	-0.204	-1.458	0.153
Lending Policy	6.785	1.524	0.663	4.453	0.000

a. Predictors: (Constant), Debt Collection Policy, Client Appraisal, Lending Policy

b. Dependent Variable: Loan Performance

Source: Survey Data, 2019

From the study coefficients, the model developed is

$$Y = -14.609 + 2.898X_1 + -2.021X_2 + 6.785X_3 + \varepsilon$$

Where: Y is Average Loan Performance, X_1 is Debt Collection Policy, X_2 is Client Appraisal and X_3 is Lending Policy.

The results in Table 3 above indicated that debt collection policy ($\beta_1 = 2.898$, $P < 0.05$) affected the loan performance of the commercial banks significantly. This implied that an improvement in debt collection policy will result to an improvement in loan performance. These results agree with Chikamai and Mutua (2018) argument that there was a significant positive relationship between debt collection policy and loan performance. The findings also agree with Muturi (2016) findings that debt policy and repayment of loans and credit worthiness had a positive impact on the loan performance. Also, Oretha (2012) who studied CRM practices and financial performance of banks in Liberia established the same significant effect of debt collection policies on loan performance. The findings are also in line with

Otieno and Nyagol, (2016) who depicts that the need to reduce non-performing loans has seen commercial banks aim at reducing the collection period by adopting stringent collection policy. Owusu (2008) also established that debt collection policy was not fully utilized in credit management practices.

From table 3 above client appraisal had no significant effect on loan performance of commercial banks in Kenya ($\beta_2 = -2.021$, $p\text{-value} = 0.153$). This implied that improving client appraisal when debt collection policy and lending policy was in place would not significantly improve loan performance. These findings differ with those of Aliija and Muhangi (2017) findings that client appraisal had a positive effect on loan performance of MFIs. These findings are also contrary to Makori and Sile (2017) findings that client appraisal has a significant effect on performance of loans and also Ahmed and Malik (2015) who found client appraisal and credit terms had a significant positive influence on the loan performance whereas collection policy and credit risks had a positive but insignificant influence on how the loans performed. In addition, Muturi (2016) found that the existing client appraisal policies were not sufficient enough in providing information on loan repayment schedules, credit worthiness and catering for the overhead costs. Sindani (2012) determined that proper client appraisal had a high effect on the repayment of the loans while Orua (2009) found that debts impacted differently on the loan performances.

The results in table 3 above indicated that lending policy affected the loan performance of the commercial banks significantly ($\beta_3 = 6.785$, $P < 0.05$). This implied that an improvement in lending policy will result to an improvement in loan performance. These findings agree with Kibor (2015) findings that lending policies significantly influenced how the loans performed. In addition, the findings agree with Ayodele, Thomas, Raphael and Ajayi (2014) that a good credit policy is essential in minimizing the occurrences of default loans. However, Owusu (2008) found out that lending policies did not affect non-performing loans. Gennaioli, Andrei and Robert (2012) revealed that efficiencies in loan sizes should encompass the capacity of the borrowers in repayment and performance. Dawkin (2010) found that collection efforts were effective in the firms.

8. Conclusions

The study concluded that debt collection policy has a significant effect on the loan performance of the commercial banks. This implies that an improvement in debt collection policy would lead to an improvement in the loan performance of the commercial banks. The study further concluded that client appraisal has an insignificant effect the loan performance of the banking sector. This shows that an improvement in client appraisal would not necessarily improve the loan performance of the banking sector. The study also concluded that lending policy has a significant effect on the loan performance of the commercial banks. This implies that an improvement in leading policy would lead to an improvement in the loan performance of the banking sector.

9. Recommendations

The study recommended that all the commercial banks in Kenya should regularly evaluate and update practices relating to debt collection policy, client appraisal and lending policy that are capable of ensuring that all credit risks are identified and recorded from departmental level to the institution at large. This is vital more so because of technological innovations in the banking sector like mobile lending that may limit commercial banks' ability to evaluate and manage credit management using traditional methods. The study also recommended that commercial banks should have an independent internal control system for conducting ongoing assessment of the bank's debt collection policy, client appraisal practices and

lending policy. Additionally, the commercial banks should establish proper client appraisal methods in order to mitigate credit risk. Proper customer credit worthiness system should also be put in place based on their ability to repay back their credit and customer's loyalty.

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