

Impact of Credit Risk Management in Improving Performance of Commercial Banks in Rwanda; A Case Study of BPR Ltd Kigali

Juliet Mbabazi¹, Dr. Patrick Mulyungi²

¹Student, Jomo Kenyatta University of Agriculture and Technology

²Lecturer, Jomo Kenyatta University of Agriculture and Technology

Abstract: *The purpose of this study was to examine the impact of credit risk management in improving performance of commercial banks in Rwanda, this study was guided by the following research objectives: to assess the effects of credit risk management and the investment decisions of Bank populaire in Rwanda, to determine the effects of liquidity risk management on the financial performance of Bank of populaire in Rwanda, to analyze the effects of market risk management on the financial performance of Bank of populaire in Rwanda, to establish the effects of operational risk management on the investment decisions of Bank of populaire in Rwanda. The researcher seeks to answer the following research questions: what are the effects of credit risk management and the investment decisions of Bank of populaire in Rwanda? Does liquidity risk management affect the financial performance of Bank of populaire in Rwanda? What are the effects of market risk management on the financial performance of Bank of populaire in Rwanda? Does credit risk management affect the investment decisions of Bank of populaire in Rwanda? This study was adopted correlationaire research design, with a questionnaire and interview guide as the main primary tool (to collect primary data) and it also used the document analysis for collecting secondary data. The target population for the study was be drawn from 11 branches of Bank of populaire, Rwanda held in Kigali city, from each branch, three top managers were targeted. Therefore, the target population was 80 top managers. Systematic and simple random sampling technique was used to select a sample size under the study. Data were be collected by use of structured questionnaires addressed to the respondents. The data collected were analyzed using both descriptive and inferential statistics. Descriptive statistics include those of the mean, standard deviation and frequency distribution while inferential statistics involves use of spearman's coefficient correlations. The study determined that credit risk management has a positive on the performance of Commercial Banks in Rwanda. The study established that operational risks management has a positive effect on the performance of Commercial Banks in Rwanda. The study found that there is a correlation between credit policy, default risk management and credit risk management with performance of the banks. The study findings indicated that credit risk management ($r=0.096, p<0.01$), liquidity risk management ($r=0.347, p<0.01$), market risk management ($r=0.506, p<0.01$) and operational risk management ($r=0.612, p<0.01$) on financial performance. It however found that the banks do not involve experts and consultants in credit risk management thus recommendations were made for the banks to revise their credit risk management policies, open up and share information with other players on market risk thus involve consultants more in their market risk management and to be more proactive than reactive in risk management.*

1. Background of the Study

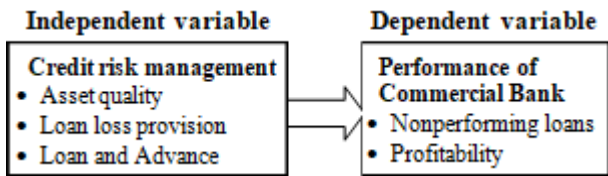
The power of banking institutions especially commercial banks to create money is of great importance in business operations. Commercial Banks are the major financial intermediaries in any economy and they are the major providers of credits to the household and corporate sector and operate the payment mechanism (Yang, C. 2012). The policy of commercial banks to make money results in the elastic credit system that is necessary for economic progress at relatively steady rate of growth. Particularly, banks make profits by selling liabilities with one set of characteristics (a particular combination of liquidity risk and return) and using the proceeds to buy assets with different set of characteristics i.e. asset transformation. British Bankers' Association, (2010). Credit risk is one of the key for the bank's failure to not properly manage it may lead to insolvency and bankruptcy of baking Institutions (Basel, 2010). The risk management in Rwanda started with banks where the National Bank of Rwanda (BNR) has the statutory obligation to supervise banks under its jurisdiction in order to preserve public confidence in the Rwandan financial performance by enabling banks to avoid excessive risks. To perform this mission, the National Bank of Rwanda uses two supervisory methods: continuous or off-site supervision and

on-site supervision. Off-site supervision is intended to identify financial problems before they are detected by on-site supervision. It is done on the basis of various and periodic reports that the BNR receives from Banks. Quicker identification of problems makes it possible to take actions to slow the deterioration of the financial situation of banks and limit losses that depositors might potentially incur. On-site supervision is conducted at the bank and makes it possible to review certain aspects of the bank that can be evaluated from a distance. Official gazette No 22 of 28/05/2012, Regulation on reporting, requirement and regulation on credit risk management and performance of banks.

2. Objective of the study

To assess the effects of credit risk management and the improvement performance of commercial bank in Rwanda.

3. Conceptual Framework



0.05 for 95% confidence level)
 N=the estimate of the population size.

$$n = \frac{80}{1 + 80 (0.05)^2} = 71$$

4. Research Design

A descriptive study design was used. A case study was used to obtain an in-depth investigation of an individual, institution or phenomenon (Mugenda and Mugenda, 2013). The primary purpose of case study impacted of credit risk management in improving performance of commercial banks in Rwanda. A descriptive study design is deemed the best design to fulfill the objectives of the study. Case study research design has the advantage of generating new understandings, explanations and is cheaper than survey and takes less time; it is for this that the % study adopted a case study research design. A research design is the general plan of how one goes about answering the research question (Saunders, Lewis & Thornhill, 2009).

5. Population of the Study

According to Mugenda and Mugenda, (2013), a population can be defined as an entire set of relevant units of analysis or data. The target population of this study was being 80 staff from the involved in BPR bank. The target population was drawn from a group of individuals who are actively involved in the implementation of BPR bank project.

Table 1: Target population

Area of Operation	Population
Top level managers	12
Finance officers	8
Risk management officers	8
Cashiers	17
Finance and Environment manager	16
Bank officers	10
Total	71

Source: Inyange Industry

6. Sample Size and sampling techniques

The study adopted census study, the complete enumeration of all elements of the target population. The sampling method used both simple random sampling and purposive sampling technique that allowed the researcher to use respondents who have the required information. The respondent drawn from the projects comprised of one project committee official per project (Appendix v). Simple random sampling used to select the project committee official (chairperson, treasurer or the secretary) to participate in the study.

A sample size of 30 respondents was determined from a total population of 50 individuals using the formula by Yamane (1967).

$$n = \frac{N}{1 + N (e)^2}$$

Where n = the desired sample size
 e= probability of error (i.e., the desired precision, e.g.,

Table 2: Sample Size

Area of Operation	Population	
Top level managers	20	12
Finance officers	15	8
Risk management officers	8	8
Cashiers	17	17
Finance and Environment manager	16	16
Bank officers	15	10
Total	80	71

7. Data Collection Instruments

The researcher used questionnaires for primary data collection. The questionnaires are preferred because they are straightforward and less time consuming for both the researcher and the participants (Sekaran & Bougi (2011). Questionnaires are appropriate for studies since they collect information that is not directly observable as they inquire about feelings, motivations, attitudes, accomplishments as well as experiences of individuals (Cooper and Schindler, 2008). This is largely because the participants are not manipulated in any way by the researcher. Structured questionnaires designed to meet the objectives of the study were used. Each item was developed to address specific themes of the study. The respondents selected briefed on how to fill in the questionnaire. The respondents were given a time frame within which they responded to the questionnaire after which some questionnaire collected by the researcher and some emailed within the agreed time. The primary data will be obtained from the respondents through a structured questionnaire comprising of closed and open-ended questions. Secondary data acquired from the BPR bank documentaries. The questionnaire were administered through drop and pick method.

8. Research Findings and Discussion

Table 3: Statements relating to effects of risk management on the improvement performance

Statements	Mean	Std. Dev
Banks should plan certain estimates, conduct monitoring, and perform reviews of the performance of the bank.	1.84	0.23
Bank must have substantial amount of capital on its reserve, but not too much that it guided improvement performance revenue, and not too little that it leads itself to financial instability and to the risk of regulatory non-compliance	1.97	0.19
Risk often comes in investing and in the allocation of capital which must be assessed so as to derive improvement performance decision.	1.78	0.24
risk management must play its role then to help banks be in their improvement performance to commercial bank	1.66	0.24
Risk monitoring can be used to make sure that risk management practices are in line and proper risk monitoring and also helps bank management to discover performance at early stage.	1.70	0.24

Source: Primary data, 2018

9. Discussion of Results

The above findings concur with the findings by Santomero (1997) he asserts that Credit risk management must play its role then to help banks be in compliance with Basel II Accord and other regulatory bodies. In determining the effects of credit risk management on the on-investment decisions of BPR Ltd, the study first found it necessary to evaluate the performance of the bank's decisions variables under consideration that is the ROA as the dependent variable and the ratio of loans to deposits as independent variables influencing the financial performance. Returns on Assets (ROA) were generated from the EBITs and the corresponding book value of total assets of Bpr Ltd in a given year.

The resulting values are presented in the table in Appendix VI. The arithmetic means of ROA for the years 2014 to 2016 were calculated to provide the values of ROA as presented in the table in Appendix VI. The independent variable which was the credit risk was calculated by dividing total amounts of loans to the amounts of deposits for a bank in a given year.

Table 4: Descriptive statistics of the Mean and standard deviation

	Minimum	Maximum	Mean	Std. Deviation
ROA	-.0367	.0437	.01952	.0131
CREDIT RISK	.0265	.5345	.1629	.1279

Source: Primary data, 2018

10. Conclusion

The study established that credit risk monitoring can be used to make sure that risk management practices are in line and proper risk monitoring and also helps bank management to discover mistake at early stage thus the study concludes that credit risk management has a positive influence on the improvement of performance BPR Ltd. This indicates that poor asset quality or high non-performing loans to total asset related to poor bank performance

11. Recommendations

Clear credit and lending guidelines should be established. Management also is required to make sure that the terms and conditions are adhered to in loans approval. Hence lending guidelines should be approved by senior management and made aware to all staffs. This will reduce loss on non performing loans and improve the asset quality management which raises banks' expenses and consequently increase profitability. It is also recommended that the bank need to monitor the loan and advances to total deposits ratio frequently since it also affect profitability.

Based on the findings, the study recommends that Supervisors should regularly perform a Comprehensive assessment of a bank's overall credit risk management framework and credit position to determine whether they deliver an adequate level of resilience to credit stress given the banks role in the financial system.

Supervisors should supplement their regular assessments of a bank's credit risk management framework and liquidity position by monitoring a combination of internal reports, prudential reports and market information.

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