The Relationship Between the Credit Risk Management and Profitability in Salam Somali Bank

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Abstract: ***The main objective of this study is "To find out the importance of knowledge credit risk management and profitability"; the sample size of this study was 100 The Main purpose of this study is to investigate the relationship between risk management and profitability in Mogadishu Somalia. The objective of this study was "To find out the role of job satisfaction respondents, including officers and staffs also profitability the type of the study was sampled-random sampling. The study also used through descriptive research design and questionnaires as the main instrument for collecting data. The questionnaire consisted of structured with closed End questions. Data was analyzed by assessing the frequency of respondents per question. Tabulated frequencies analysis was made using Statistical Package for social science SPSS version 20 to present the data analyses. The researcher finally found there is a relationship between risk management and profitability in objective one the researcher found that there is a positive relationship between Role of risk management and profitability which is 3.23.the the Mean range is good; in objective two the researcher found that there is a positive relationship between risk management and profitability which is 3.08.the Mean range is good; finally the researcher found the result indicated that there is weak positive correlation as indicated r. Value 0.980 this result mean, if the relationship credit risk management increases the Profitability increase and researcher recommend "In order to increase Profitability we should create a lot of credit risk management relationship"; "To manage flows between and among stages in a credit risk management relationship to minimize total cost"; " Relationship credit risk managements primary factor that is necessary to Organization"***

Keywords: Risk identification, Risk reduction , Risk monitoring, Competitive position of bank , Market based banking , Short term problems

1. Introduction

Banks today are the largest financial institutions around the world, with branches and subsidiaries throughout everyone's life. There are plenty of differentiations between types of banks. And much of this differentiation rests in the products and services that banks offer For instance, commercial banks hold deposits, bundling them together as loans, operating payments mechanism, etc. Commercial banking in virtually all countries has been subject to a great deal of regulations One of the regulations is the minimum capital commercial banks must keep absorbing losses if unexpected things happen. This kind of capital requirement is, in particular, conducted by Basel Committee, which aims to enhance the key supervisory issue and improve the quality of banking supervision (In 1974, some disruptions took place in the international financial markets. The risk focused examination process has been adopted to direct the inspection process to the riskier areas of both operations and business. Skills in risk-focused supervision is continually being developed by exposing examiners to relevant training (Abu Hanifa Md, 2015)

Risk management is defined as the process that a bank puts in place to control its financial exposures. The process of risk management comprises the fundamental steps of risk identification, risk analysis and assessment, risk audit monitoring, and risk treatment or control Whereas a risk in simple terms can be measured using standard deviation, some risks may be difficult to measure requiring more complex methods of risk measurement (Abu Hanifa Md, 2015)

Credit risk management is defined as identification, measurement, monitoring and control of risk arising from the possibility of default on loan repayments The Basel Committee on Banking Supervision (2009) defined credit risk as the possibility of losing the outstanding loan partially or totally, due to credit events (default risk).

According to most banks in economies such as Thailand, Indonesia, Malaysia, Japan and Mexico experienced high non-performing loans and significant increase in credit risk during financial and banking crises, which resulted in the closing down of several banks in Indonesia and Thailand.

Studies of banking crises all over the world have shown that poor loans (asset quality) are the key factor of bank failures. Latin American debt crisis burst in early 1980's. Mexico's bank indebtedness expanded almost 230% over the six-year period from 1976 to 1982, Brazil's 160%, Venezuela's obligations spurted 330%, Argentina's by a monstrous 550% and Chile's 850% (Sajeda Pervin, 2015).

Somalia is located in the horn of Africa neighbored by Ethiopia, Kenya and Yemen. Its main businesses are livestock, agriculture, fishing, remittances and telecommunications. Although, the civil war has devastated life, infrastructure and business in the last two decades, but now the capital city is getting better and attracting the eyes of global investors. The banking service in Somalia dates back in the 1920 and continues to provide financial services until 1990 when the central government collapsed (Franklin, ND). In that time the banks functioning were: Central Bank of Somalia, Somali Savings and Credit Bank, Commercial and Savings Bank of Somalia, Somali Development Bank and Somali Commercial Bank. These banking services were absent of the last two decades and represented by remittance and transferring money companies. Recently, there is an emerging of new banks in the last three years that offering Islamic banking products to the customers (Hassan, 2010).

The objective of this study will be: to identify risk, identification of credit risk management on profitability in Salam bank to illustrate risk monitoring of credit risk management on profitability in Salam bank, risk reduction of the effect of credit risk management on profitability in Salam bank.

2. Literature

This research aims at examining the effect of credit risk management on financial performance of the Jordanian commercial banks during the period (2005-2013), thirteen commercial banks have been chosen to express on the whole Jordanian commercial banks. Two mathematical models have been designed to measure this relationship, the research revealed that the credit risk management effects on financial performance of the Jordanian commercial banks as measured by ROA and ROE. The research further concludes that the credit risk management indicators considered in this research have a significant effect on financial performance of the Jordanian commercial banks. Based on findings, the researcher recommends banks to improve their credit risk management to achieve more profits, in that banks should take into consideration, the indicators of Non-performing (Alshatti, 2015)

The study sought to determine the impact of credit risk management on financial performance of selected commercial banks in Kenya. Empirical evidence indicates that the effects credit risk management on financial performance of commercial banks in Kenya are positive.The study employed descriptive research design while probability method of sampling was used to obtain a sample of 42 respondents from five banks. Data was collected using questionnaires. The study found that debt recovery process does not significantly affect bank performance whereas loan appraisal process, lending requirements and credit policies were found to have a significant effect on bank performance. The study concluded that the banks need to maintain credit risk exposure within acceptable parameters to maximize a bank's risk adjusted rate of return. Based on the findings, the study made recommendations to commercial bank management, academicians and policy makers. The study recommended that commercial banks in Kenya should put stringent measures when conducting loan appraisal process and ensure that officers responsible should adhere to all the lending requirements stipulated in order to enhance financial performance. Future research should focus on the challenges commercial banks face when implementing credit risk management strategies.(Mumbi& Omagwa, 2017)

Credit risk is considered as the biggest risk affects bank's financial performance. The main indicator that shows the quality of the loan portfolio is non performing loans ratio (NPLR) which is dramatically increased in recent years. The quality of the loan portfolio in the Albanian banking system has been good until 2007 but it began to deteriorate from 2008 onwards. The accelerated growth in the level of non-performing loans in the Albanian banking system remains a major problem for the economy in the coming years. The main purpose of the paper is to provide stakeholders correct information in relation to the quantitative relationship that exists

3. Methodology

The study was conducted through a case study; Case study research permits the explanation of phenomena as they naturally transpire and without intervention from the researcher (Bernard, 2005). The purpose of descriptive research is to describe an accurate profile of persons, events or situations. In addition to, this study used quantitative approach. Quantitative is any data collection technique (such as a questionnaire) or data analysis procedure (such as graphs or statistics) that generates or uses numerical data (Saunders et al, 2009).

This study conducted with the impact of credit risk management on profitability of commercial banks. This research conducted with case study Salam Somali bank.

Although Banks in Mogadishu are more banks; the researcher selected Salam Somali Bank in HQ. The researcher selected this bank because the researcher assumed it's eligible, available and affordable or accessible by the researcher.

Since the employee of Salam Somali bank is large, the target population of this research is 134 that the mentioned the director of HRM from HQ.

After data logically studied, scrutinized, edited and summarized qualitatively and quantitatively. The data there after presented in tables and counted. The totals converted into numbers to enable the researcher to analyze and describe the data systematically to reach logical conclusions on the affect of the study variables. Editing of data was used to check for errors and omissions to ensure accuracy and consistency of data. Data was analyzed and processed electronically using Special Package for Social Scientists (SPSS) to analyze the impact of credit risk management on profitability of commercial bank in Salam Somali.

4. Summary Findings of the Study

Based on the findings in objective one presented that to examine Risk identification scored Average mean **3.23**overall and this result indicates that the overall of objectives one in the selected organization was good Based on the findings in objective one presented that to determine the Risk monitoring scored Average mean **3.08** overall and this result indicates that the overall of objectives one in the selected organization was good Based on the findings in objective one presented that to investigate the Risk reduction scored Average mean **4.30**overall and this result indicates that the overall of objectives one in the selected organization was very good Based on the findings in objective one presented that the Profitability scored Average **3.67**overall and this result indicates that the overall of objectives one in the selected organization was very good In the final the result of correlation analyzes of the relationship between the credit risk management and profitability. Thus credit risk management has positive and strongly correlate with the student's academic performance (r=.968, p<0.00 and α ≤ 0.01) the relationship between the credit risk management and profitability in Salam bank Mogadishu Somalia.

5. Recommendation

In regard to the finding of this study which was the effect of credit risk management on profitability in Salam ban in Mogadishu, The researcher found that the effect of credit risk management has significance on profitability, Therefore researcher recommend the following

1) The researcher recommended that bank managers put more efforts to the credit risk management, especially to control the Non-performing Loan.
2) The researcher recommended that managers should evaluate more accurately regarding the ability to pay back when borrowing.
3) The researcher recommended to advice banks to design and formulate strategies that will not only minimize the exposure of the banks to credit risk but will enhance profitability.
4) The researcher recommended that government should design and formulate strategies to manage bank loans and reduce bank risks.

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