Analysing the Consequences of Credit Management Practice and Performance of PNB Bank

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Abstract

Credit management is one of the most critical functions in every company, regardless of the nature of its business, and it cannot be ignored. In order for a financial institution to remain stable and profitable, good credit management is essential, and a decline in credit quality is the most common reason of bad financial performance. Lending money and not receiving it back is the most significant risk for a bank, as it is for any other financial organisation. An investigation of PNB's performance was based on credit management methods. Purposive sampling was employed to acquire data from thirty (30) respondents, which was the sample size. Statistical methods such as frequency, percentage, weighted mean score, and multiple regression were utilised to examine the data. The findings showed that PNB bank's financial performance benefits greatly from sound credit management methods. According to the findings, PNB bank's financial performance is heavily influenced by factors such as customer satisfaction, credit risk management, and collection policies.

Keywords: *Credit Management; Banks; Money; Risk Control; Financial Performance.*

I. INTRODUCTION

Banks are monetary institutions that provide financial management and other non-financial services to their customers. Banks provide financial services such as loaning money, accepting cash for client deposits, trading foreign exchange, and allowing investment in financial assets such as stocks. Banks provide non-financial services such as acting as custodians for important papers kept in safes on behalf of clients. Banks provide these critical services under rigorous restrictions in their different nations designed to keep the industry sane and safeguard the general public's interests.

Lending is a necessary part of doing business with money, and it lies at the heart of an economy's monetary basis. Interest fees, fines, and commissions are all ways that banks make money from loans and other financial services. Income from other financial assets, such as investment income, is also included in financial revenue. Various expenditures are generated by bank financial activities, ranging from ordinary operating expenses and borrowing costs to reserving for the possible loss from failed loans.

According to Mensah, credit management deserves special attention since proper credit management has a direct influence on the success or failure of a financial business. This demonstrates that a credit arrangement should be accompanied with appealing and appropriate credit strategies and methods that improve credit administration execution and protect the account management sector from failures. Credit management encompasses the entire loaning process, from enquiring potential borrowers through recouping the loaned or financed money. Credit administration is concerned with activities such as handling loan applications, advance inspection, advance endorsement, monitoring, and the recovery of non-performing credits in the banking industry.

II. CREDIT MANAGEMENT AND FINANCIAL PERFORMANCE

The act of accumulating and controlling instalments on client payments is known as credit administration. Credit administration, as defined by Myers and Brealey, is the set of processes and procedures used by a company to ensure that it maintains the highest level of credit and effective credit management. Credit inquiry, FICO score, credit reporting, and credit grouping are all aspects of financial management.

In order to protect the commercial bank's performance, it will be necessary to develop an effective credit management strategy. Bad credit policies lead to inefficient credit allocation, resulting in bad debts and hence lost income in the form of interest, as well as a bank's asset on the principle leased out. According to Edwards, unless a bank has properly designed the loan product to make it more difficult to return the loan late, the bank may not be able to do much to avoid bad debts. Banks, on the other hand, should analyse borrowers' credit histories to guarantee that they only lend to low-risk customers.

A credit arrangement function has a significant impact on an organization's financial performance and influences how effectively organisations perform in relation to other goals and plans. If the credit approach is effectively figured, practised, and all around surmised at all levels of the banking related establishment, it allows for continued legitimate credit management practises as well as the avoidance of nonperforming loans, which reduces bank performance and allows for business improvement.

III. METHODOLOGY

Research design

The descriptive research approach was used in this study because it allowed the researcher to generalise the findings to a broader population. As a result, the conclusions of this study may be applied to any deposit money banks.

Sample size and sampling procedure

The accountant, operation manager, and branch manager were chosen using a purposeful sampling approach, yielding a total of thirty (30) respondents in the research.

Instruments for Data Collection

Structured questionnaires were created and utilised to collect and evaluate data in order to compare and contrast different credit risk management procedures in the bank.

Procedure for gathering data

The surveys were dropped off and picked up by the PNB bank's accountants, operations managers, and branch managers. This strategy was thought to be the best since responders may answer the questions in their spare time.

Data analysis

With the help of SPSS version 25, descriptive and inferential statistics such as frequency, percentage, weighted mean score, and multiple regression were utilised to evaluate data.

Specifications for the Model

Credit management is measured by customer assessment, credit control, and collection strategy to analyse the impact of credit management on PNB bank's financial performance. The capacity to fulfil a profit objective is used to evaluate financial success.

Mathematically, the model is expressed as follows;

Financial Performance = f (X_1, X_2, X_3)

Financial Performance = $\beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_2 + \mu i$.

where;

a priori expectation is $\beta_1 ... \beta_3 > 0$

X_1 =client appraisal; X_2 = credit control; X_3 = collection policy.

μi = Disturbance Term

β = Intercept

β_1- β_3 = Coefficient of the independent variables.

IV. DATA ANALYSIS, INTERPRETATION OF RESULTS

Table 1 shows that client appraisal is the most effective credit management technique (WMS = 3.92). PNB bank has competent personnel for client appraisal (WMS = 3.88), Client appraisal considers the character of the customers seeking credit facilities (WMS = 3.82), Failure to assess customers capacity to repay results in loan defaults (WMS = 3.75), and Aspects of collateral are considered while appraising clients (WMS = 3.69) respectively.

Table 1: Distribution of Respondents by Client Appraisal in PNB Bank

Statement	Weighted mean Score (WMS)	Rank
Client appraisal is a viable strategy for credit management	3.92	1st
PNB bank has competent personnel for carrying out client appraisal	3.88	2nd
Client appraisal considers the character of the customers seeking credit facilities.	3.82	3rd
Aspects of collateral are considered while appraising clients.	3.69	5th
Failure to assess customers capacity to repay results in loan defaults	3.75	4th

Table 2 shows that 19 (64 percent) respondents believed that the degree of client appraisal in their branches is exceptional. Only three percent of respondents agreed that the degree of client appraisal is below expectation, while eight percent said that the amount of customer appraisal is manageable. The respondents' mean client assessment score was 41.26, with a standard deviation of 5.94. As a result, it is apparent that PNB bank had a high degree of client satisfaction. As a result, client evaluation is a valuable tool for improving bank performance. Client assessment is an alternative paradigm to bank financial performance, according to this study.

Table 2: Level of client appraisal in PNB Bank

Level of credit appraisal in PNB bank	Frequency	Percentage	Mean	Standard deviation
Out standing	19	64%	41.26	5.94
Manageable	8	25%		
Below Expectation	3	1%		

The distribution of responders by credit risk control is shown in Table 3. The respondents ranked interest rates imposed on loans as having the greatest impact on loan performance (WMS = 4.19). Other views on credit risk control in the rank order include: imposing loan size limits is a viable strategy in credit management (WMS = 4.09), the use of customer credit application forms improves monitoring and credit management (WMS = 3.91), the use of credit checks on a regular basis improves credit management (WMS = 3.77), the penalty for late payment enhances customers commitment to loan repayment (WMS = 3.75), and the credit committee's involvement in decision-making (WMS = 3.81). This means that PNB bank's financial success is not independent of credit risk management.

Table 3: Distribution of respondents by credit risk control in PNB Bank

Statement	Weighted mean score (WMS)	Rank
The use of credit checks on regular basis enhances credit management	3.81	4th
Flexible repayment periods improve loan repayment.	3.65	7th
The use of customer credit application forms improves monitoring and credit management as well.	3.91	3rd
Interest rates charged affect performance of loans in the bank.	4.19	1st
Imposing loan size limits is a viable strategy in credit management.	4.09	2nd
Penalty for late payment enhances customers commitment to loan repayment.	3.75	5th
Credit committee's involvement in making decisions regarding loans are essential in reducing default/credit risk.	3.70	6th

Table 4 shows that the majority of respondents (57%) believed that the degree of credit risk control at PNB bank is excellent. Only four (14%) respondents agreed that the amount of credit risk management is below expectation. Nine (29%) respondents agreed that the level of credit risk control is manageable. The respondents' average credit risk control score was 26.85, with a standard deviation of 3.68. This indicates that PNB bank had a high degree of credit risk management.

Table 4: Level of credit risk control in PNB Bank

Level of credit appraisal in PNB Bank	Frequency	Percentage	Mean	Standard deviation
Out standing	17	57%	26.85	3.68
Manageable	9	29%		
Below Expectation	4	14%		

Table 5 shows that the majority of respondents believed that collection procedures were reviewed on a regular basis to improve credit management, which was ranked first (WMS = 3.89). Other perceptions of Collection Policy in the rank order include: a strict policy is more effective in debt recovery than a lenient policy (WMS = 3.83), staff incentives are effective in improving delinquent loan recovery (WMS = 3.80), available collection policies have aided in effective credit management (WMS = 3.67), enforcement of guarantee policies provides chances for loan recovery in case of loan defaults (WMS = 3.63), and formulation of collection policies.

Table 5: Distribution of respondents by collection policy of PNB Bank

Statement	Weighted mean score (WMS)	Rank
Formulation of collection policies have been a challenge in credit management	3.55	6th
Enforcement of guarantee policies provides chances for loan recovery in case of loan defaults.	3.63	5th
Regular reviews have been done on collection policies to improve state of credit management.	3.89	1st
A stringent policy is more effective in debt recovery than a lenient policy	3.83	2nd
Available collection policies have assisted towards effective credit management	3.67	4th
Staff incentives are effective in improving recovery of delinquent loans	3.80	3rd

According to Table 6, the majority of respondents (67%) believed that PNB bank's collecting policy is exceptional. Sixty percent of respondents believed that the amount of collection policy is manageable, while just a quarter (13 percent) agreed that it falls short of expectations. The respondents' mean collection policy score was 17.31, with a standard deviation of 5.92. This suggests that PNB Bank's collecting policy was exceptional.

Table 6: Level of collection policy in PNB Bank

Level of credit appraisal in PNB Bank	Frequency	Percentage	Mean	Standard deviation
Out standing	20	67%	17.31	5.92
Manageable	6	20%		
Below Expectation	4	13%		

The predictor variables (credit appraisal, credit risk control, and collection policy) were significant joint predictors of financial performance (F = 211.440; R2 = 0.643; P<.01), according to the data in Table 7. The predictor factors explained 64.3 percent of the variance in financial performance when they were combined. Credit appraisal (= 0.151; t = 5.052; P<.01), credit risk control (= 0.399; t = 4.914; P<.01), and collection policy (= 0.215; t = 3.114; P<.01) were also significant independent predictors of financial success.

Table 7: Influence of credit management practices on financial performance

Variable	Coefficient	Std. error	T	Sig.
-con	-0.190	0.146	-1-299	0.199
Credit appraisal	0.151	0.038	5.052	0.000
Credit risk control	0.399	0.081	4.914	0.000
Collection Policy	0.215	0.069	3.114	0.003
R2	0.643			
Adj. R2	0.638			
Probability	0.000			
F – Statistics	211.440			

This means that credit management strategies are important factors of Deposit Money Bank financial performance. This outcome backs up those who claimed that customer evaluation, credit risk management, and collection policies had an impact on Equity Bank's financial performance. Client evaluation, credit risk management, and collection policies are also key indicators of financial performance, according to the group.

V. CONCLUSION

The findings indicated that PNB bank's credit management strategies had a considerable favourable impact on its financial performance. According to the findings, client evaluation, credit risk control, and collection policies all have an impact on a bank's financial success. The study discovered a close link between bank performance and client evaluation, credit risk management, and collection policies.

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