IMPACT OF CREDIT CONROL ON DEPOSIT MONEY BANKS IN NIGERIA

(A CASE OF STUDY OF UNION BANK, ILORIN)

By

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND TO THE STUDY

Banks are exposed to different types of risks, which affect the performance and activity of these banks, since the primary goal of the banking management is to maximize the shareholders' wealth, so in achieving this goal banks' managers should assess the cash flows and the assumed risks as a result of directing its financial resources in different areas of utilization. Credit risk is one of the most significant risks that banks face, considering that granting credit is one of the main sources of income in commercial banks. Therefore, the management of the risk related to that credit affects the profitability of the banks (Li and Zou, 2019). The importance of credit risk management in banks is due to its ability in affecting the banks' financial performance, existence and growth.

Therefore, the management of the risk related to that credit affects the profitability of the banks (Li and Zou, 2019). The importance of credit risk management in banks is due to its ability in affecting the banks' financial performance, existence and growth. The higher the amount of accounts receivables and their age, the higher the finance costs incurred to maintain them. If these receivables are not collectible on time and urgent cash needs arise, a firm may result to borrowing and the opportunity cost is the interest expense paid. Nzotta (2018) opined that credit control greatly influences the success or failure of commercial banks and other financial institutions. This is because the failure of deposit banks is influenced to a large extent by the quality of credit decisions and thus the quality of the risky assets. He further notes that, credit control provides a leading indicator of the quality of deposit banks credit portfolio.

A key requirement for effective credit control is the ability to intelligently and efficiently manage customer credit lines. In order to minimize exposure to bad debt, and to improve their performance in over-reserving and bankruptcies, companies must have greater insight into customer financial strength, credit score history and changing payment patterns.

Credit control starts with the sale and does not stop until the full and final payment has been received. It is as important as part of the deal as closing the sale. In fact, a sale is technically not a sale until the money has been collected. It follows that principles of goods lending shall be concerned with ensuring, so far as possible that the borrower will be able to make scheduled payments with interest in full and within the required time period otherwise, the profit from an interest earned is reduced or even wiped out by the bad debt when the customer eventually defaults. Credit control is concerned primarily with managing debtors and financing debts. The objectives of credit control can be stated as safeguarding the companies‟ investments in debtors and optimizing operational cash flows. Policies and procedures must be applied for granting credit to customers, collecting payment and limiting the risk of non-payments.

In order to increase their performance on money deposit bank; Credit provision requires due attention as credit risk management is one of the critical aspect and hot issue amongst the issues faced by banks. The risk management aspect is not only crucial for sustainability but growth of the banking sector as well. The sustainability and growth also brings stability to local currency as well as the economy as a whole (Greuning &Bratonovic, 2020). Poorly managed credit risk may cause liquidity risk resulted in insolvency of the commercial banks. Presence of risk in financial sector is also attached to products offered by them. Those include balance sheet products such as short term and long term loans, as well as off balance sheet such as letter of credits along with other guarantees. Inspite of all the risks, loans however, constitute greater proportion of credit risk as they generally, account for 10-15 times the bank's equity (Kitua, 2020). Hence, banking business may likely to collapse if there is slight deterioration in loan quality.

1.2 Statement of the Problem

In the recent years, credit risk gained focal importance because of huge financial losses faced by big international financial organizations (Nikolaidou &Vogiazas, 2014). Since the financial crisis, financial organizations particularly money deposit banking sector have taken special measures to mitigate any forthcoming financial losses caused by mismanagement in loan allocations and credit recoveries. Credit risk management offers a viable solution to such challenges. Today, credit risk management constitutes a critical component of a comprehensive approach to risk management in banking sector (Arora& Kumar, 2014). A key necessity for viable credit risk management is the capacity to sagaciously and productively oversee client credit lines. Credit risk has remained one of the topical issues of current financial studies that had enjoyed special attention from both scholars and professionals. In fact, this debate was more pronounced immediately after the recent global economic crisis.

A number of scholars concede that one of the key causes of severe banking trouble is motionless credit risk control, and since supply of credit is still the primary business of every bank, credit quality is regarded as a major sign of good performance financial dependability and healthiness of banks. The interests that are charged on loans and advances form substantial component of banks' assets, as such, non-repayment of loans and advances, created serious hindrance not only for borrowers and lenders but also for the whole financial system of a country. Studies of banking tragedies all over the world have exposed that poor loans (asset quality) is the key cause of bank distresses (Boahene, Dasah, &Agyei, 2012).

Also, the diversion of senior management attention away from solving other operational problems. Faced with an exogenous increase in non-performing loans, even the most cost-efficient banks have to purchase the additional inputs necessary to administer these problem credits, by estimating the relationship between non-performing loans and bank efficiency. Just in recent time, the central bank of Nigeria sacked the board of directors of Skye Bank Plc. simply because the bank have been reeling from burden of non-performing loans, liquidity, capital adequacy ratios and weakening in the macroeconomic environment (This day Newspaper, July 13, 2016). In line with the position above, this research work tends to assess credit control efficiency on the performance of Money Deposit Banks in Nigeria.

1.3 Research Questions

This research work tends to answer the following research questions:

i. Does efficient credit control enhance good performance of money deposit banks?
ii. Does inability of the banks to maintain certain degree of credit control worthiness reduces firms' profitability enhancement?
iii. Does poor loans asset quality contribute to bank distress?

1.4 Research Objectives

The general objectives is to assess credit control efficiency on the performance of money deposit banks in Nigeria. The specific objectives include:

i. To examine the extent of effective credit control in enhancing good performance on money deposit banks in Nigeria
ii. To investigate the degree of effective credit control on banks profitability.
iii. To evaluate if poor loans asset quality contributes to bank distress

1.5 Research Hypothesis

Ho1: efficient credit control does not enhance good performance on money deposit banks

Ho2: inability of banks to maintain certain degree of credit control worthiness does not reduce banks profitability enhancement

Ho3: poor loans asset quality does not contribute to bank distress

1.6 Significance Of The Study

The results of this study will be valuable to researchers and scholars, as it would form a basis for further research. Scholars would use this study as a basis for discussions on credit control and financial performance. It will provide the scholars with empirical studies that they will use in their studies.

The study will also add to the body of knowledge in the finance discipline by bridging gaps in credit control research in general. This study will make several contributions to both knowledge building and practice improvement in credit control and financial performance. From a theoretical standpoint, the study proposes a comprehensive framework of studying changes in credit control and financial performance. It also expected that it will aid policy makers in their effort to revamp the sector. It shall be of great relevance to the organizations under study as well as other financial institutions. The non-financial business firms, whether manufacturing or service oriented shall also benefit from the research findings. This is because the result of the study shall enable the users especially MFIs to appraise its credit policies and to review its operations critically for more result-oriented approach in the dealing with its credit facilities and to improve it's performance.

1.7 Scope and Limitation of The Study

As the study is centered on assessment of credit control efficiency on the performance of commercial banks in Nigeria using Union bank as the case Study, the research covers all departments under the banks within Ilorin branch in other to ascertain whether there is effective proper credit control.

Limitation Of The Study

The researcher in the course of carrying out the research was faced with the following problems and constraints.

i. Time shortage posed serious challenges, since it was indeed very short considering the enormity of the research work.
ii. Lack of information and data due to unavailability of materials and other vital information. Libraries are either out of stock or scanty in their content of relevant materials.
iii. Financial problem was also a deterrent in carrying out the research since the available fund was not enough to sustain the vast research proposals, it was also a challenge in that regard.
iv. The world private firm or sector and audit had undergone frequent usage in the country that for this research by deserve special mention and explanation.

1.8 Definition of Term

Credit Control: Credit control refers to the measures implemented by monetary authorities, such as central banks or regulatory bodies, to regulate the amount of credit extended by financial institutions within an economy. These measures can include setting interest rates, reserve requirements, and other regulatory policies to influence the availability and cost of credit.

Deposit Money Banks (DMBs): Deposit Money Banks, commonly known as commercial banks, are financial institutions that primarily accept deposits from customers and provide loans and other financial services. In Nigeria, DMBs play a crucial role in intermediating funds between savers and borrowers, thereby facilitating economic growth and development.

Union Bank PLC: Union Bank of Nigeria PLC, often referred to as Union Bank, is one of the oldest and most prominent commercial banks in Nigeria. Established in 1917, Union Bank has a significant presence in the Nigerian banking sector, offering a wide range of banking products and services to individuals, businesses, and government entities.

Monetary Policy: Monetary policy refers to the macroeconomic policy implemented by a country's central bank to regulate the money supply, interest rates, and credit conditions in the economy. The primary objectives of monetary policy typically include price stability, full employment, and sustainable economic growth. In Nigeria, the Central Bank of Nigeria (CBN) is responsible for formulating and implementing monetary policy.

Interest Rates: Interest rates represent the cost of borrowing money or the return on investment for lending funds. Central banks use interest rates as a tool for monetary policy, adjusting them to influence borrowing and spending behavior in the economy. Changes in interest rates can impact the cost of credit for deposit money banks and their customers, thereby affecting lending and economic activity.

1.9 Plan / Organization of the Study

This project work comprises of five chapters, chapter one introduces the main topic of the project, it also comprises of the major objectives of the study, scope and limitation used in carrying out the study followed by the method used and plan of the study in the project.

Chapter two focuses attention on the literature review, where the topic of the research work and other related issues are examined and discussed. Views of different authors are also extracted from their various literatures and they are explained in this chapter.

Chapter three comprises of the method and types of data employed, historical profile of the case study, population and sampling sources and application of data, research hypothesis.

The chapter also focuses attention on the methods of data analysis.

Chapter four contains data analysis, findings, method of analysis and data presentation.

Chapter five which is the last chapter in this project work contains observations in relation to the project topic. The summary of the above four topics examined and explained.

CHAPTER TWO

LITERATURE REVIEW

2.0. INTRODUCTION

This chapter summarizes the information from the available literature in the same field of study. It will review theories of credit control as well as empirical studies on credit control and financial performance in money deposit bank in Nigeria and in other countries.

2.1. CONCEPTUAL FRAMEWORK

Risk is the position where the actual return of an investment is different than expected return. Risk means the possibility of losing the original investment and the amount of interests accrued on it. Credit risk is the risk that a borrower defaults and does not honor its obligation to service debt. It can occur when the counterpart is unable to pay or cannot pay on time (Gestel and Baesens, 2018, p. 24). Investopedia indicates that credit risk is the risk of loss of principal or loss of a financial reward stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation. Credit risk arises whenever a borrower is expecting to use future cash flows to pay a current debt. Investors are compensated for assuming credit risk by way of interest payments from the borrower or issuer of a debt obligation, and credit risk is closely tied to the potential return of an investment, the most notable being that the yields on bonds correlate strongly to their perceived credit risk (investopedia.com) as cited by Ali (2015). Credit risk refers to the probability of loss due to borrower's failure to make payments on any type of debt. Credit risk management, meanwhile, is the practice of mitigating those losses by understanding the adequacy of both a bank's capital and loan loss reserves at any given time – a process that has long been a challenge for financial institutions performances (sas.com) as cited by Ali (2015).

Credit risk denotes to the risk that a borrower will default on any type of debt by failing to make required payments. The risk is primarily that of the lender and includes lost principal and interest, disruption to cash flows, and increased collection costs (bis.org). Effective management of credit risk is inextricable linked to the development of banking technology, which will enable to increase the speed of decision making and improve its performance simultaneously reduce the cost of controlling credit risk and at the same time.

This requires a complete base of partners and contractors (Lapteva, 2019).Credit risk is one of significant risks of banks by the nature of their activities. Through effective management of credit risk exposure banks not only support the viability and profitability of their own business but also contribute to systemic stability and to an efficient allocation of capital in the economy (Psillaki, Tsolas, and Margaritis, 2020, p. 873).“The default of a small number of customers may result in a very large loss for the bank” (Gestel & Baesems, 2018, p. 24). It has been identified by Basel Committee as a main source of risk in the early stage of Basel Accord.

Nikolaidou & Vogiazas (2014) define credit risk management as the combination of coordinated tasks and activities for controlling and directing risks confronted by an organization through the incorporation of key risk management tactics and processes in relation to the organization’s objectives. It is important to note that risk management practices are not developed and aimed to eliminate risks altogether but they aim at controlling opportunities and hazards that may result in risk (Frank et al., 2014). Moreover, Ross et al. (2008) contend that risk management practices also ensure that financial institutions must have strong and rational framework for decision making by which firm’s objectives can be attained (Ross et al., 2018). García et al., (2013) on the other hand, note that effective credit risk management practices have never been successful to eliminate the human element in making decisions about controlling risk and improved its performances.

Credit risk is basically the risk faced by investor to lose money from borrower who fails to make payments. This may result in default or default risk. Investors may lose interest and principal that can result in increased cost of collection and decreased cash flows. Previous studies have noted that high credit risk controls (CRC) result in low chances of defaults (Ross et al., 2018). Therefore, credit risk could be alleviated by utilizing danger-based evaluating, contracts, credit protection, tightening and broadening (Ross et al., 2018). Moti et al. (2012) argue that intelligent and effective management of credit lines is a key requirement for effective credit control. Furthermore, to minimize the risk of bad debt and over-reserving, banks ought to have greater insight into important factors like, customer financial strength, credit score history and changing payment patterns (Moti et al., 2012).

Loan portfolio is not only considered as a largest asset as well as pre-dominate source to generate revenue but one of the biggest risk sources for the financial institution's soundness and safety as well (Richard et al., 2020). Hence credit risk management is considered to be one of the road maps for soundness and safety of the sector through prudent actions as well as monitoring and performance. Despite of the efforts made by the financial institutions number of problems increased significantly in both, emerging as well as matured economies of the world (Basel, 2014). Most important of all the risks associated to financial performance in institutions is weak credit risk management, being a threat for the banking sector (Chijoriga, 2018). There should be systematic distribution of loans according to well established credit policies and procedures provided by (Schreiner, 2020). Well formulated loan policy is beneficial for institutional performance. Hence it helps organizations to follow the same for risk management as well as fulfilling regulatory requirements (Joana, 2020). Loan review is a part of policy and is crucial, helping management in problem identification on regular basis to check either loan officers are following the policy in true letter and spirit or not. The review policy is better implemented by commercial bank hence they were easily able to top up loans in no time through use of modern technology unlike institutions (Craig, 2016).

Loan appraisal is an application/request for funds, evaluated by financial institution. The aspects to be focused in appraisal includes: purpose of the client, need genuineness, repayment capacity of the borrower, quantum of loan and security. Loan appraisal plays important role to keep the loan losses to minimum level, hence if those officers appointed for loan appraisal are competent then there would be high chances of lending money to non-deserving customers (Boldizzoni, 2018). Collection procedure is a systematic way required to recover the past due amount from clients within the lawful jurisdiction. The collection aspects may vary from institution but those should be complaint to existing laws such as third-party collection agencies may involve in a collection process. It does not just involve in collection procedure details provided by the institution but also the procedure in which the lawful collection takes place (Latifee, 2016). Well administered collection is needed for better performance of the loan. If financial institutions do not follow well administered collection procedures, this would results in loan defaults (Boldizzoni, 2018).

2.1.1. The Concept of CRM and Performances

Banks raise finances through collecting deposits from businesses and other institutions, households, and the government on the one hand and provide loans to households, businesses and other institutions, and the government through several different types of arrangements. Therefore, the crucial assets of banks are loans and bonds whilst major liabilities are customer deposits. In accordance with Cornett and Saunders (2020), balance sheet of a bank has loans representing the bulk amount of a bank's assets; nevertheless, these loans come with risk. Where the bank makes bad loans to customers, the bank will be in serious problems if those loans are not repaid. Credit control is therefore concerned with rewards and risks that have to be objective through cautious and careful risk management, failure of which may possibly bring about legal action, economic loss or harm the banks' name (Reserve Bank of Zimbabwe (RBZ) Guideline No. 1, 2016; as citied in Mavhiki, Mapetere, &Mhonde, 2012).

Bank credit is the borrowing facility made available to an individual by the bank in the form of a credit or loan. The fundamental expectation of the financial system is that when funds are loaned out, there should be reasonable anticipation of refund of the loans, plus interest. Credit risk comes up from uncertainty in a given counterparty to meet up with the obligation of honoring the terms and conditions of the credit arrangement (Fatemi&Foolad, 2016). It is the risk of loss originated by a debtor's failure to pay a loan or line of credit. In essence, credit risk arises from uncertainty in counterparty's ability or willingness to meet its contractual obligations. Another scholar, Rene (2000) also included a decline in the credit standing of counterparty as part of credit risk.

In the same vein, Naomi (2011) argued that credit risk represents the potential variation in the net income from non-payment or delayed payment of credit facility granted to customers. The Global Risk Management Group 1999 in its report conceded that credit risk is the possibility that bank borrower will fail to meet obligation in accordance with the agreed terms. It added that, the effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long-term success of any banking organization. Lending involves the creation and management of risk assets, and it is an important task of bank management. CRM covers the decision-making process, before the credit decision is made, and the follow-up of credit commitments, plus all monitoring and reporting processes (Miller, 2017). Risk is a condition in which there exists a quantifiable dispersion in the possible outcomes from any activity (The Chartered Institute of Management Accountants, 2018). In other words, it refers to the process by which all loans, advances, credit facilities, or accommodation granted by a bank to a customer are administered to ensure that the facilities run satisfactorily according to the terms governing them and are ultimately repaid on due date. Modern risk management is the management procedure devised to eliminate or minimize the adverse effects of possible financial loss by identifying all the potential sources of loss, measuring the financial consequences of a loss occurring, and using controls to minimize actual losses or their financial consequences (Irukwu, 2017).

Accordingly, the most important topic in the business world today is the management and control of risk. Every day, we learn about big-, small-, and medium-sized companies that have collapsed or gone into liquidation, because their management ignored the risks to which the organization was exposed due to the absence of an efficient risk management system. The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long-term success and good performance of any banking organization. A major function of commercial banks is to deal in the credit market; they perform this function by mobilizing funds from surplus economic units and channeling the same to deficit units for productive activities. This implies that, commercial banks grant loans to customers from the public’s funds with the overall object of increasing profitability resulting from earnings. Now, because profitability is a function of earnings resulting from viable loans and advances, it follows that banks ought to effectively manage its credit risks in order to protect and enhance good performance.

2.1.2. Nine Elements of the Process of Portfolio Management

1. Evaluation of the credit culture,
2. Objectives of the portfolio and risk tolerance limits,
3. Management of information systems,
4. Segmentation of portfolio and the diversification of risk objectives,

5. Analysis of loans originated by other lenders,
6. Aggregate policy and underwriting exception systems,
7. Stress testing analysis of portfolios,
8. Autonomous and effectual control functions,
9. Analysis of portfolio risk/reward trade-offs

Credit control starts with a sale or the granting of a facility as in the case of a bank and does not stop until the full and final payment has been made. Technically a transaction cannot be termed as complete until full payment has been made. Good lending therefore ensures that the borrower follows the repayment plan set up for him in a timely and prompt manner otherwise, this eventually leads to the total loss of interest that the institution could have earned due to the opportunity cost of the loan, the risk involved and time value of money. Credit control is primarily concerned with the effective management of debtors as well as judicious financing of receivables. The objectives of credit control efficiency on the performance of money deposit bank can therefore be expressively stated as safeguarding the portfolio of the companies‟ investments in debtors and maximizing operational cash flows. Policies and practices ought to be rigorously enforced for granting credit facilities to customers, collection of repayments that are due and limiting the high-risk factor of non-payments.

2.1.2.1 Credit Culture

Credit culture, according to Kamath et al (2010) can be defined as a bank's approach to all issues correlated to the administration of credit risk. He continued by stating that if it is to attain a healthy credit risk portfolio, it must be synchronized with the strategic direction and organizational culture of the financial institution. The culture must have the capacity to deliver the service required by the institution to meet the needs of its clients in a timely manner. It can only do this if it is in harmony with the overall strategic direction of the financial institution and is pioneered by the top echelon of the financial institution. Because the credit culture ought to maintain a balance between assuming new risks and imposing limits on the amount of risk at the same time, it is bound to run into all of kinds of resistance. Top management is the only source that can ensure that the culture not only supports appropriate credit standards, but also an excellent performance not to cause the bank to lose out on good business.

Solid credit standards, according to Rouse (2018), will unavoidably cost the bank some business, which in retrospect would have been beneficial. However, when the decision is being contemplated on, hindsight is unavailable. Credit culture which is an integral part of credit control takes into consideration the fact that there is some business the bank has to be willing to lose and so it becomes imperative for an agreement to be sought and a consensus reached as to the yardstick to be applied in determining which business to do away with throughout the bank. This policy has to be established by management and should articulate the type and level of risk the bank is ready to accommodate and the return it expects from taking on stated risk levels, both at the customer and portfolio level. In the view of Gallinger and If lander (2012), credit standards translate the culture into actions. They should consider the terrain of the bank's operations, its arrangement and the character and the level of preparedness of staff involved in credit decisions. This enables an effective credit control system to be implemented buoyed by a strong culture that is able to convert policies into proven results.

2.1.3. The Loan System

Before endorsing any credit facility, it behooves the bank to ensure that the debtor has a practical and viable proposal. However, the marketability of a loan proposition does not depend all together on the quantum of collateral provided by the borrower. The financial intermediary needs to establish the amount of credit risk latent in the credit proposal and within the boundaries of that risk, a decision has to be made whether to accept or reject the proposal. An effective credit control system provides the right framework for such decisions to be made Puri and Poli (2013) For any provision of credit line within the retail sector for instance, a borrower must have a pre-existing capacity to repay the loan either from his/her salary or income from self-employed business or profession. But financing in the commercial sector is somewhat different. A borrower is not always required to have a pre-existing capacity to repay a working capital or a term loan that he or she seeks from the bank. The capacity to repay is built over the duration of the facility with the help of the bank loan. As the borrower's business expands, incremental cash flows are generated from which the debt can be serviced and repaid as per agreement. Growth of business in the right direction supported by the bank credit drives the cash flow of the business upwards. It is the assessment of incremental cash flows which helps the lender to determine the repayment capacity of the borrower to meet loan obligations in a timely manner (Poli and Puri, 2013) Bank lending is premised on the assertion that the debtor has the willingness and capability to requite the loan at all stages in their business transactions with the bank.

However, the capacity to pay back depends on future income streams and the disposition to repay has to be based on the pre-existent commitment that has been undoubtedly demonstrated by the borrower. It is a statement of faith because the lender relies largely on the debtor's adroitness and competence despite business downturns to at least guarantee future cash flows and ensure the flow of regular payments. The three conditions which should be in existence at the time the borrower seeks a loan from the bank to be able to strengthen for instance his line of business according to Poli and Puri (2013) are:

i) Willingness or intention on the part of the borrower to repay the loan as per the agreement
ii) The purpose for which the loan is requested or sought for by the borrower
iii) The conditions which can set the trend for the future. The willingness or desire to pay back a facility granted is somewhat simple to establish for an existing borrower in practice.

If a borrower happens to have a sound history of payment of loans including debt servicing, they are likely to continue making regular payments in the future as well. The only circumstance that could influence this pre-condition is an uncontainable event such as fire outbreak or a major infrastructural destruction. This condition is strenuous to judge for anyone, much less to talk of a new borrower, if he has no previous business experience or skill.

The purpose for which the loan is sought should be carefully documented. The bank must make sure that the final application of the credit should be for the documented purpose only. The conditions which form the basis on which future trends can be mapped are the inherent business risks, performance history of the borrower in terms of financial positions/trends, credit referencing that shows past dealings with lenders and repayment records, and the experience and skills the borrower possesses in running his/her business Poli and Puri (2013). These factors are necessary in carrying out an effective appraisal of the customer and provide the basis for making well-informed decisions as regards the credit granting process.

2.1.4. Principles of lending

Gaurav (2010) pinpointed certain criteria which are universally adhered to by most financial institutions in appraising credit propositions as follows:

Safety: The banker must guarantee that the amount granted by him reaches the legitimate debtor and is appropriated in a manner that will make it secure at the time of giving as well as remain so throughout the period, and subsequent to fulfilling a valuable need in the business where it is utilized, is reimbursed with premium.

Liquidity: The debtor ought to be in the capacity to make payments within a feasible time frame after a notice of repayment is sent. This is termed as the grace period and failure to meet it usually attracts a penalty.

Purpose; The objective ought to be monetarily compensating so that the cash stays secured as well as provide an ensured wellspring of monetary streams to meet reimbursement plans.

Profitability: the bank should be able to obtain some reasonable profit from the loan

Security; Security is considered as a protection or a coverage to fall back upon in the event of a crisis

Spread; ensuring that advances are spread across a broader spectrum of economic activities.

2.1.5 Credit appraisal techniques

Guidelines for Commercial Banks in Pakistan (2020) indicate that banks should as a matter of need operate within a sturdy and well accentuated criterion for new loan portfolios as well as the broadening of existing credit lines. Credit facilities should be expanded within targeted markets and as well as the ambits of the lending strategy of the institution. Before allowing a credit facility, the bank must carry out an assessment of risk profile of the customer/transaction. This may include:

a) Credit analysis of the borrower’s industry, and macro-economic factors.

b) The sole aim of the credit and source of repayment.

c) The performance / repayment history of borrower.

d) Assess/evaluate the repayment capability of debtor.

e) The Proposed terms and conditions as well as covenants.

f) Perfection and enforceability of collateral assignments

g) Approval from appropriate authority

All these components aid in the easy identification of any inherent risks which can provide solid information that eventually facilitates the evaluation of the customer's application as well as provide the necessary platform for an effective profiling of clients. Essentially, problems arise because lenders are not well informed about the peculiarities of would-be debtors, and so it becomes impracticable, for financial institutions to know which customers are good and which ones are not (Fraser, 2012). According to Ahmad (2022) there is no system that can provide a hundred percent protection against bad loans as situations can sometimes overturn the best credit strategies of borrowers. This implies that no amount of credit control measures put in place to forestall delinquencies can ensure a zero-default rate. However, they can aid in ensuring that defaults are brought to the barest minimum thereby leading to a healthy loan portfolio.

2.1.6. Risk Associated with Lending

OCC (2011) identified elementary mechanisms of controlling credit risk as robust underwriting, extensive financial analysis, adequate appraisal techniques, credit documentation practices, and sound internal controls. These principles constitute a fundamental role in credit control as they help to ensure the sound management of credit portfolios in a manner that allows the financial institutions to maximize returns on loans granted as well as reduce economic losses from bad loans. Kay (2019) considers lending risk as the spreading of economic losses because of unforeseen changes in the credit nature of counterparty in an economic arrangement. He likewise views it as the likelihood of default or any kind of inability to maintain a money related understanding. Credit risk forms a major component of credit control and so it becomes part of the credit control process. When unexpected situations arise that affect the credit worthiness of counterparties, it eventually leads to losses that affect both parties which in this case is made up of the bank and the customer. Credit control therefore seeks to provide strategies that can help limit such losses through the effective forecasting of such risks and the application of sound principles of credit control.

2.1.7. Credit Risk Control

Credit risk is the probability that the return supposed to be earned on an investment or risky asset extended will depart from that, which was expected. Coyle (2020) characterizes credit risk as debts emerging from the unwillingness or failure of loan clients to meet their commitment of what is outstanding in full and on time. The major sources of credit risk include limitation in institutional capacities, unsuitable guidelines on loan management, high interest rates, lack of effective supervision of credit lines, unsuitable laws, low levels of capital & liquidity, poor loan underwriting, reckless lending, poor credit appraisal, poor practices of lending, interference by government and the inability to enforce oversight responsibility over financial institutions by the central bank. To reduce these risks, it is fundamental for the money related framework to have; all round strongly funded banks, provision of financial services to an expansive range of clients, sharing of credit data about borrowers through credit reference departments, adjustment of premium rates, decrease in non-performing advances, building of higher levels of deposits gathered by banks and expansion of credit to prospective clients. Advance defaults and nonperforming credits should be lessened (Bank Supervision Annual Report, 2016; Laker, 2017; Sandstorm, 2019).

2.1.8 Addressing Risks Associated with Credit control on the Performance of Money Deposit Bank

The risks associated with granting loans can result in insolvency issues, which in a compelling condition can lead to a bank encountering serious money related emergencies, resulting in the wiping off of capital, indebtedness and could bring a financial institution to its knees. To distinguish and deal with the dangers connected with credit administration, the Basel Committee on Banking Supervision in its Publication No. 54 issued in September 2000 plotted the accompanying measures:

- Establishing a relevant credit risk environment to ensure good performance
- Operating under a safe credit delivery process

- Maintaining an appropriate credit administration, measurement and monitoring process;
- Ensuring adequate controls over credit risk
- The role of supervisors.

The highlights of the measures raised by the Basel Committee on Banking Supervision (2000) as indicated above are as follows:

2.1.9. Establishing an Appropriate Credit Risk Environment to ensure good Performance

The Board of Directors ought to demonstrate the oversight supervision regarding endorsing and occasionally (in any event every year) critically appraise the credit hazard system and critical credit control strategies and controls of the bank. The outline ought to obviously reflect the bank's resilience for risk and the profit levels the firm expects for assuming different dimensions of risks involved in granting of loans. Top management must take responsibility for implementing the strategy for credit risk adopted by the Board and to develop policies and mechanisms to identify measure, monitor and control credit risk. These policies and procedures must be able to cope with the credit risk in all activities of the bank. Banks ought to distinguish and oversee credit exposures in all items and enterprise. Banks should guarantee that risks inherent in items and operations that are different to them are secured by adequate credit administration conventions and controls before they are presented or rolled out, and the proper endorsement sought for ahead of time from the Board or its suitable council. (Basel Committee on Banking Supervision, 2020).

2.1.9.1. Operating Under A Sound Credit Granting Process

Banks must work within the ambient of a clear, well-laid out credit granting criteria. These criteria ought to give a reasonable distinguishing proof of the bank's biggest business and a complete undertaking of the borrower or counter-party, and in addition the reason and nature of the loan facility, and its origin of reimbursement. Banks ought to set up a plainly characterized process with the sole aim for approving new credit and in addition the change, recommencement and re-funding of operational loan facilities. (Basel Committee on Banking Supervision, 2000)

2.1.9.2 Maintaining Appropriate Credit Administration Through Measurement And Monitoring Process

According to Signoriello and Vincent (1991), this process comprises the following: Banks should exercise oversight responsibility over the management of their different credit risk bearing portfolios and establish a mechanism that allows them to monitor conditions of insufficient credits, including determining the level of adequacy of reserves as well as provisions. Banks are urged to deploy a system that has the capacity to supervise the administration of credit through the internal use of a risk categorization mechanism. The rating system should be in consonance with the character, structure and intricacies of a bank's operations. Banks should be able to develop a data framework and diagnostic methods that furnish administration with the capacity to quantify the credit hazards inbound in all on-and-off activities found on the firm's statement of financial position. The administrative data framework deployed ought to have the capacity to give the fundamental data on the segments of the credit portfolio, including distinguishing varying concentration of risks. Banks must also design a system that is able to monitor the total composition and health of the credit portfolios and to be able to consider any potential future variations in economic conditions when appraising credits given to individuals and to able to carry out stress tests on inherent risks.

2.1.9.3 Ensuring Adequate Controls over Credit Risk

Signoriello and Vincent J. (1991) stated that banks must have an autonomous framework that has the capacity to ensure a continuous evaluation of the firm's credit administration procedure and the outcomes of such audits should be specifically reported to the Board and senior administration for the necessary action to be taken when necessary. The credit granting function of banks must be properly managed and the credit exposures constantly evaluated to ensure that they are within levels that agree with prudential standards and internal limits that have been laid down. Furthermore, they ought to have a mechanism in place for early detection and swift corrective action on retrograding loan portfolios, handling problems and other comparable situations.

2.1.9.4. Standards

These incorporate elements, for example, the profundity of assessment required and how far this is adjusted to suit the economic needs and peculiarities of the debtor. There is an exchange off to be made between a wish to comprehend all the components of a loan proposal and expenses involved. How far loan amounts are to be standardized and the extent to which they are to be custom-made to address individual issues of clients are all important in creating sustainable credit standards. Moreover, Santomero (2020) says "structuring facilities to protect the bank should be done in such a way and as far as possible that benefits eventually accrue to the client as well." An installment plan for a term loan should be designed based on a customer's cash flow. Setting standards additionally suggests the recognition of how far the sensibilities of customers will be adjusted against the bank's desire to shield it against debt exposures. Case in point, when a client's imperviousness to giving or enhancing security or giving data will be tolerated and considered, then there is the need to educate the customer adequately in order to build their capacity to be able to understand the issues at stake. In creating sound credit standards, it is imperative to include as a critical component, a proper degree of monitoring and control. The point of monitoring according to Hester and Pierce (2012) is to promptly identify deterioration of a loan portfolio and to take corrective measures. The efficiency of such a system depends not only on the ability to identify deterioration, but also the soundness and promptness of the response. Credit principles should be maintained over the financial cycle and the status quo needs to be kept at all times. They ought not be relaxed in great economic times or over-fixated in awful times.

According to Dyer (2014), banks are confronted with a real dilemma in that if they decide to ignore the market forces and rigidly apply standards; they will avoid credit losses in the short term but will have to lose the good business and market share in the long term. This must be balanced against the need to meet shareholder aspirations. He further went on by stating that there are models of risk-adjusted capital that are widely utilized and the possibility of expected returns related to them. Shareholders do contribute a significant amount of cash capital and expect returns for that. It is therefore hard for banks to sit with a great deal of genuine capital and continue disregarding the need to capitalize on it to its advantage. A strong credit culture can help establish the right symmetry. In the event that the bank truly comprehends its clients and has the right kind of association with them, Adams (2012) supposes it can decide when to buckle down on measures a little and when to stick to them, if conceivable, in the ambience of a solid client relationship to influence even the most troublesome of clients to see the bank's perspective.

Relationship banking according to Hollensen (2013) is a two ways affair and customers would expect some level of support when they are in need of it. If a financial institution wants to get something out of its target business during the period of economic turbulence, it must be willing to give to return the favour when the customer is in a less solid situation. This is because, the ability to offer financial aid to customers during bad times can help build a solid relationship which they tend to reciprocate by providing banks with a lot of cheap deposits during the good times. Rouse (2019) admonishes that relationship banking does not provide a complete solution to bad debts, but it is likely to lessen the incidence of losses during periods of recession. Credit control as a consequence allows for the right application of credit standards and helps to maintain that equilibrium between rigidly applying administrative procedures and relaxing them to suit the needs of different categories of customers as well as varied economic conditions. Credit control therefore incorporates the right credit standards that allow a financial institution to be able to achieve its strategic objectives through the application of an effective and well-adapted credit regime capable of safeguarding the interests of the firm and at the same time meeting the needs of prospective loan clients.

2.1.9.5 Credit control Policy

It is defined as the tenets and systems set up by top administration that oversee the organization's credit division and investigates execution in the augmentation of credit benefits against set down procedures Jim Franklin (2010). It is essentially a situated composition of rules intended to minimize expenses connected with credit while expanding advantages from it (McNaughton, 1996). Credit administration arrangements involve the credit strategies, credit measures and credit terms. This policy becomes the blueprint which guides the conduct and expectations of all employees entrusted with the responsibility of granting credit and also acts as a benchmark by which performance can be measured against standards set.

2.1.9.6. Credit Procedures

To accomplish the great objectives of credit administration strategy, Franklin (2010) instructed the endorsement and utilization of credit strategies. To Franklin, credit methods are particular routes in which top administration imposes expectations on the credit division to accomplish the credit administration policies. The credit systems incorporate guidelines on what information to be utilized for credit examination and investigation procedure, provide information regarding procedure, account supervision and cases needing administration's notice. Such credit gathering endeavors incorporate the utilization of reminders, adoption of insurance, the application of legal procedures, the factoring of debtors and final write-offs as highlighted underneath:

2.1.9.7. Reminders

It involves dispatching a request note informing the debtor of the payment owed, and if there is no reply, processes are gradually intensified through more stringent mechanisms Pandey (2018). These other mechanisms include posting a letter of appeal to the client and if he fails to respond, then the customer is contacted by telephone or actually paying a visit to him or her as a way of creating awareness for the person and if it fails then the last resort will be gearing towards legal measures.

2.1.9.8. Insurance policy

This involves an entity seeking to provide coverage for every one of the obligations that are evaluated as non-performing. The firm ought to verify that every facility that has started to show signs of deterioration are completely guaranteed BPP (2019). Insurance agencies guarantee to repay the loan firm in the situation that the indebted person defaults on installment and as being what is indicated as the safety net, the provider will consent to such a course of action only when the financial organization has a viable credit administration framework established (Kakuru, 2010).

2.1.9.9. Factoring debtors

This comprises selling obligations to special financial organizations. The factoring of indebted individuals is a safety-oriented measure meant for defending the organization's cash against losses. This the credit firm does by obtaining ahead of time monies locked up with debtors from the factor through an agreement that is reached. This leads to the firm incurring lesser expenses included with disbursement of loans Flouck (2001). Along these lines, the leaser is relieved off the recovery and other managerial expenses incurred in non-performing assets and different exposures included in handling such advances.

2.1.9.10 The use of litigation

This includes the commencement of legal activity against the client who defaults in his installments. This emerges when the loan facility is established as an uncollectible obligation after a significant disruption in the reimbursement plan is noted bringing about undue postponements in collection efforts thus giving the idea that lawful measures may be obliged to enforce recovery (Kasozi 1998). This is turned to as the last measure and all the more so where the firm’s association with the client has been mutually beneficial.

2.1.9.11. Final writes off

This is the place in the books of the organization where the obligation is confirmed as irretrievable and thus, it is cancelled off as bad debt. If loan obligations are classified to be non-performing to the point that they can't be collected, it is then better to expunge them from the accounting books to give them a genuine and reasonable representation of the organization's money related position (BPP, 2000).

2.1.10 Credit Control Variables

Key Credit Control Variables include;

Client Appraisal

The initial phase in restricting the risk involved in granting a loan facility includes screening customers to guarantee that they have the readiness and capacity to reimburse the advance. A lot of financial institutions tend to utilize the 5Cs model of credit also known as credit standards to appraise a customer as a potential borrower (Abedi, 2000). The 5Cs act as a guide for financial institutions to improve loan portfolio, as they get to know their customers better. These 5Cs are: character, capacity, collateral, capital and condition.

Character

This assesses the client's qualities in order to examine the willingness of the prospective client to meet the credit commitments. Kakuru (2020) highlighted the accompanying variables to consider when investigating applicant's character. This is carried out by factoring the client's savings conduct from the bank records, the level of training, mental status, occupation dependability, contact, connection to government offices and the past dealings with bank. The borrower who seeks to be a loan beneficiary of cash endowed to the bank by its depositors must be very honest-someone who will keep their word and who can be trusted.

Current trends in technology allow for credit investigation to be carried out helping to not just uncover past impressive and awful conduct in reimbursement of advances and handling of obligations but will likewise uncover the degree of a man's acquisition of credit limit. The higher the building up of a person’s credit profile, the higher the response of the person to changes in interest rates or individual circumstances.

Capacity

This assesses the client's capacity to pay the obligation when given in the obliged time period. This is fundamental particularly for business, regardless of whether advances are included. This is determined by assessing the estimation of client's capital and resource offered as guarantee against the advance. The borrower must be, in any event, capable, if not a specialist at their employment or in their calling and should be able to produce strong evidence to support the viability or otherwise of the business.

Capital

This alludes to the general state of the organisation. “This is ascertained by the analysis of the financial statements with special emphasis on the risks and the debt-equity ratios and also evaluating the customer’s firm working capital positions” according to Floucks (2020). The budgetary supervisor can likewise survey the accounting report to discover how much the proprietor has put into the business as his own stake (BPP, 2020). A decent dependable guideline would be that a bank would not wish to put in more cash than the borrower.

Collateral

This alludes to properties like lands, houses, business and private bequests or whatever other property of quality offered as security of the estimation of the credit given out to the borrower (Kakuru, 2020). It is obtained by a lender as a claim on the borrower and on the asset that is secured, and provides a recourse that is available to a bank should the terms of the loan be breached by the borrower. The collateral ought to be secure, readily merchantable and that its quality ought to have the capacity to meet the obligation when sold off in the event that the borrower defaults in payment (Van Horne, 2017).

Conditions

This point to the predominant monetary and economic environment which may influence or be a hindrance to the borrower's capacity to pay the obligation and which may turn out to be unbeneficial to the creditor firm. Case in point, under inflationary inclinations, it is inappropriate to extend credit as the leaser is certain to incur forfeiture on the lent sum if not getting lower returns. The credit officer ought to carve a sensible judgment in regards to the possibilities of default and appraise the likelihood of losses under such conditions Pandey (2018). It is critical that the credit guidelines are situated based on individual applications, calling to attention the importance of gathering credit data, credit investigation and credit limits AgDM (2011 redesign).

2.2. THEORETICAL FRAMEWORK

2.2.1. Asymmetric Information Theory

Information asymmetry refers to a situation where business owners or manager know more about the prospects for, and risks facing their business, than do lenders (PWHC, 2019) cited in Eppy.I (2019). It describes a condition in which all parties involved in an undertaking do not know relevant information. In a debt market, information asymmetry arises when a borrower who takes a loan usually has better information about the potential risks and returns associated with investment projects for which the funds are earmarked. The lender on the other hand does not have sufficient information concerning the borrower (Edwards and Turnbull, 2019). Binks et al (2019) point out that perceived information asymmetry poses two problems for the banks, moral hazard (monitoring entrepreneurial behavior) and adverse selection (making errors in lending decisions).

Banks will find it difficult to overcome these problems because it is not economical to devote resources to appraisal and monitoring where lending is for relatively small amounts. This is because data needed to screen credit applications and to monitor borrowers are not freely available to banks. Bankers face a situation of information asymmetry when assessing lending applications (Binks and Ennew, 1996, 2019). The information required to assess the competence and commitment of the entrepreneur, and the prospects of the business is either not available, uneconomic to obtain or difficult to interpret. This creates two types of risks for the Banker (Deakins, 1999).

The risk of adverse selection which occurs when banks lend to businesses which subsequently fail (type II error), or when they do not lend to businesses which go on to become" successful, or have the potential to do so (type I error) Altman (2019).

2.2.2 Transactions Costs Theory

ECO developed by Schwartz (2019), this theory conjectures that suppliers may have an advantage over traditional lenders in checking the real financial situation or the credit worthiness of their clients. Suppliers also have a better ability to monitor and force repayment of the credit. All these superiorities may give suppliers a cost advantage when compared with financial institutions. Three sources of cost advantage were classified by Petersen and Rajan (2019) as follows: information acquisition, controlling the buyer and salvaging value from existing assets. The ECO source of cost advantage can be explained by the fact that sellers can get information about buyers faster and at lower cost because it is obtained in the normal course of business. That is, the frequency and the amount of the buyer’s orders give suppliers an idea of the client’s situation; the buyer’s rejection of discounts for early payment may serve to alert the supplier of a weakening in the credit-worthiness of the buyer, and sellers usually visit customers more often than financial institutions do.

However, for the purpose of this research work, both Asymmetry Information Theory and Transactions Costs Theory will be adopted because it gives adequate information needed for the customers and allow both the lenders better ability to monitor and force repayment of the credit.

2.3. EMPIRICAL REVIEW

Ali (2015), This research aims at examining the effect of credit risk management on financial performance of the Jordanian commercial banks during the period (2019-2018), thirteen commercial banks were chosen to express on the whole Jordanian commercial banks. Two mathematical models were 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 the research have a significant effect on financial performance of the Jordanian commercial banks.

Sufi and Qaisar (2019), evaluated the influence of credit risk management practices on loan performance (LP) while taking the credit terms and policy (CTP), client appraisal, collection policy (CP) and credit risk control (CRC) as the dimensions of the credit risk management practices. For statistical evaluation, the primary data in cross sectional form was taken into consideration. The data was collected from the managerial level credit risk management staff of microfinance banking sector. Multiple regression analysis was used for empirical relationship evaluation of the credit risk management practices on the performance of loan. The results of the analysis showed that the credit terms and client appraisal have positive and significant impact on the LP, while the CP and CRC have positive but insignificant impact on LP. The study is helpful for the management to enhance the LP by focusing on the dimension of the credit risk management practices used in the study. Future aspects of the research have also been taken into account and elaborated.

Junaidu and Sanusi (2014), assessed the effect of credit risk management (CRM) on the performance of Nigerian banks with a view to discovering the extent to which default rate (DR), cost per loan asset (CLA), and capital adequacy ratio (CAR) influence return on asset (ROA) as a measure of banks' performance. Data were generated from secondary sources, specifically, the annual reports and accounts of quoted banks from 2019 to 2011. Descriptive statistics, correlation, as well as random-effect generalized least square (GLS) regression techniques were utilized as tools of analysis in the study. The findings establish that CRM as measured by three independent variables has a significant positive effect on the profitability of Nigerian banks as indicated by the coefficient of determinations "R2 value" which shows the within and between values of 40.89% and 58.35% (which are impressive) while the overall R2 is 43.91%, indicating that the variables considered in the model account for about 44% change in the dependent variable, that is, performance.

Taiwo and Muritala (2013) critically examined the relationship between credit control, liquidity position and profitability of some selected banks in Nigeria using annual data of ten banks over the period of 2006 to 2010. Time series properties of all variables used in the estimation were examined through Augmented Dickey Fuller (ADF) test in order to obtain reliable results. It shows that all the variables were stationary and significant at ECO differences. The results from Ordinary Least Square (OLS) estimate found that current ratio is positively related to debt ratio and significant at 1% level. This confirms the alternative “risk absorption” hypothesis, which stipulates that efficient credit control enhances firms’ ability to create liquidity. In addition, the result shows that ROA has significant positive effect on current ratio confirming the “financial fragility – crowding out” hypothesis which stipulate that the ability of firms’ to maintain certain degree of liquidity reduces firms’ profitability enhancement. This conclusion has important policy implications for emerging countries like Nigeria as it suggests that when a company’s credit policy is favourable, liquidity is at a desirable level and lastly, the findings revealed that companies should ensure the monitoring and regular review of their credit policy and the allowance of cash discounts should be minimized as much as possible.

Kaun and Chung (2012), examined An Empirical Study of Credit Risk Efficiency of Banking Industry in Taiwan the operating efficiency of Taiwanese commercial banks is a key factor on Taiwan's economic development. However, the credit risk parameters of the banks have serious impact on productivity. In the paper, they make use of financial ratios to assess credit risk of 34 Taiwanese commercial banks over the period 2019-08, and investigate the performance based on the credit risk parameters with data development analysis (DEA) approach. Then they employ the individual mean of credit risk technical efficiency (CR-TE) at each bank over the period 2019-08 for measurement of the competitiveness and apply the individual mean of earnings per share (EPS) at each bank over the period 2019-08 to measure the profitability of each bank. Their results indicate that only one bank is efficient in all types of efficiencies over the evaluated periods. And most of the banks suffered from the global financial crisis in 2008 held many bad debts, overdue loans or loss profitability. Therefore, CR-TE, credit risk allocative efficiency (CRAE) and credit risk cost efficiency (CR-CE) are inefficient over their observational periods. And the banks should have different strategies of credit risk management to survive in this changing environment.

Mohd, Sok-gee and Hassan (2012), investigated the relationship between non-performing loans and bank efficiency in Malaysia and Singapore. To achieve the objective, cost efficiency was estimated using the stochastic cost frontier approach assuming normal-gamma efficiency distribution model proposed by Greene (2019). The cost efficiency scores were then used in the second stage Tobit simultaneous equation regression to determine the effect of non-performing loans on bank efficiency. The results indicate that there is no significant difference in cost efficiency between banks in Singapore and Malaysia although banks in Singapore exhibit a higher average cost efficiency score. The Tobit simultaneous equation regression results clearly indicate that higher non-performing loan reduces cost efficiency. Likewise, lower cost efficiency increases non-performing loans. The result also supports the hypothesis of bad management proposed by Berger and DeYoung (2019) that poor management in the banking institutions results in bad quality loans, and therefore, escalates the level of non-performing loans.

2.5 Overview of Literature and Research Gap.

Often much emphasis has been laid on credit risk management, non-performing loan, credit risk efficiency, liquidity position etc. However, little if any has considered credit control efficiency on performance money deposit banks in Nigeria. This research work seeks to use this gap by empirically assessing credit control efficiency on the performance money deposit banks in Nigeria.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 INTRODUCTION

Research refers to the structured enquiry which utilizes acceptable scientific methodology to solve problems and create new knowledge that is generally acceptable. Research methodology has been defined as a systematic way to solve research problem. Methodology consists of systematic observation, classification and interpretation of the study findings. This section discusses the methodology of the study, population of the study, sampling procedures and sample size, data collection methods and data analysis methods. Kothari, (2019).

3.1 RESEARCH DESIGN

The research design to be adopted in this research work is the descriptive survey research design which involves the usage of self-designed questionnaire in the collection of data. Under the survey research design, primary data will be used in order to assess credit control efficiency on the performance of money deposit banks in Nigeria. The design was chosen because it enables the researcher to collect data without manipulation of any variables of interest in the study. The design also provides opportunity for equal chance of participation in the study for respondents.

3.2 POPULATION OF STUDY

The Population of this research work covered the staff of Union bank plc. in Ilorin metropolis. The total population of selected bank staff of 59.

3.3. SOURCES OF DATA COLLECTION

Basically, the source of data collection used in this study is primary and secondary. The primary source involves the use of questionnaire. The secondary sources are by means of research journals, published work in the library as well as newspaper and articles. The researcher adopted questionnaire in collecting relevant information for the study. The questions asked in the questionnaire were accompanied by multiple choice answers from which the respondents were asked to pick one.

The main reason for using this method of collecting data is to enable the researcher believe that this method will provide the necessary information as well as the ease with which the method will facilitate data collection. This will ensure balance and comprehensive information reliable enough for conclusion to be drawn.

3.4. RESEARCH INSTRUMENT

The research instrument used as main source of information for this research work titled an assessment of credit control efficiency on the performance of money deposit banks in Nigeria was structured questionnaire based on a five-point psychometric Likert scale.

According to Olorunfemi (2019), questionnaire is a sequence of questions designed to collect data on a specified subject, usually from respondents.

Section 1: This contains the respondents' bio-data i.e. general information about the respondents and respondents' organization seeking the demographic characteristics of the respondents.

2. Section 2: This deals with questions that are directly related to the variable factors stated objectives i.e. questions and hypotheses for the purpose of this research work eliciting suggestions for managing financial information. The section consisted of 20 simple scale questions on the impact of Human Resource Management (HRM) practices on organizational productivity.

The data collection adopted the closed ended structured questionnaire. The statement was phrased with a possible response continuum based on a 5 point psychometric Likert Scale questionnaire;

5 - Strongly Agreed (SA)

4 - Agreed (A)

3 - Indifference (I)

2 - Disagreed (D)

1 - Strongly Disagreed (SD)

3.4.1 PROCEDURE FOR ADMINISTRATION OF RESEARCH INSTRUMENT

The set of questionnaires were personally administered by the researcher. The respondents were asked not to indicate their names on the questionnaires so as to make the responses anonymous. The researcher interpreted all aspects of the questionnaire to the respondents. The respondents were assured of confidentiality of information to be supplied. The questionnaires were administered on staff of Union bank plc. Few personal interviews will also be conducted to reach a wider conclusion of the research instrument used in this research work.

3.4.2 VALIDITY OF THE INSTRUMENT

Nworgu (2018) contended that after the items in a questionnaire have been written, it is mandatory to subject the questionnaire to validation process. He maintained that in this way the items can be reviewed in terms of their clarity, the appropriateness of the language and expressions, the suitability of each item with references to the research question. It is expected to answer the adequacy of the quantity of items in the questionnaire. In respect of this he says; after the items have been written, the next crucial step is to subject the questionnaire to a validation process. This is an extremely important exercise that cannot be skipped in the development of an instrument. The questionnaires were being validated by the investigator's project supervisor and some of his colleagues. Each of them was given a copy of questionnaire for critical review and were finally ratified and approved by the investigator's project supervisor.

Although, the responses of the respondents may be bias, the questionnaire would still be able to capture the needed information based on the respondents' opinion. To allow for the elements of bias that may be contained in the responses, 1% level of significance would be allowed in the data testing. This will take care of error, bias etc. that may be in the data collected.

3.4.3 RELIABILITY OF THE INSTRUMENT

Reliability is referred to as the degree to which the instrument consistently measures what it intends to measure (Ojo, 2013). His responds to this research study indicated that the questionnaire was well structured to achieve the purpose of the research thereby meeting the test of reliability. The reliability of the research instrument would be tested through test-re-test reliability. In this method the same measuring instruments is used to take separate measurement on the same research population or sample at different times. The higher the correlation between the two measurements, the higher the reliability of the measuring instruments.

3.5. METHOD OF DATA ANALYSIS

Data Analysis: For the purpose of analysing the data obtained from questionnaire that well administered, descriptive and inferential statistics will be employed. The parametric statistical test, regression, will be employed to test the formulated hypothesis using Statistical Package for Social Sciences SPSS data analysis package.

3.7 LIMITATION OF METHODOLOGY

The study would be carried out with the intention of assessing credit control efficiency on the performance of money deposit banks in Nigeria. This does not imply that the methodology is not with its constraints. A major constraint arises due to the heavy dependence place on the questionnaire as well as the inherent limitations of the statistical techniques used.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter discusses the interpretation and presentation of the findings obtained from the field on the effect of credit control on the financial performance of assessment of credit control efficiency in money deposit banks in Ilorin. Descriptive and inferential statistics were used to discuss the findings of the study. The study targeted a population size of 59 respondents from which 53 filled in and returned the questionnaires making a response rate of 90.9%. This response rate was satisfactory to make conclusions for the study.

4.2. PRESENTATION OF STATISTICAL DATA

Table 4.2.1: Level of agreement on client appraisal in Union bank Statement

Statement	Strongly Agreed	Agreed	Neutral	Strongly Disagreed	Disagreed	Mean	Standard Deviation
Client appraisal is a viable strategy for credit control	20	3	2	1	0	1.70	0.26
Union bank have competent personnel for carrying out client appraisal	16	33	4	0	0	1.77	0.27
Client appraisal considers the character of the customers seeking credit facilities	15	31	2	4	1	1.75	0.29
Aspects of collateral are considered while appraising clients	18	32	3	0	0	1.72	0.27
Failure to assess customer's capacity to repay results in loan defaults	16	35	2	0	0	1.74	0.29

Source: Author Survey, 2024

The study sought to establish the level at which respondents agreed or disagreed with the above statements relating to client appraisal in Union bank, from the findings majority of them respondents agreed that Client appraisal is a viable strategy for credit control as shown by a mean of 1.70, Aspects of collateral are considered while appraising clients as shown by a mean of 1.72.Failure to assess customers capacity to repay results in loan defaults as shown by a mean of 1.74, Client appraisal considers the character of the customers seeking credit facilities as shown by a mean of 1.75 and that the Union bank have carrying out client appraisal as shown by a mean of 1.77.

4.2.2 Credit Risk Controls

Table 4.2.2: Extent to which Union bank use credit risk control in Credit control

Number of clients	Frequency	Percentage
Very great extent	15	28.3
Great Extent	30	56.6
Moderate Extent	8	15.1
Total	53	100

Source: Research findings, 2024

The study sought to determine the extent to which ECO used credit risk control in Credit control, from the findings 56.6 % of the respondents indicated to a great extent, 28.3 % of the respondents indicated to a very great extent whereas 15.1% of the respondents indicated to a moderate extent, this implies that ECO used credit risk control in Credit control to a great extent.

Table 4.2.3. Level of agreement on credit risk control in Union bank

Statement	Strongly Agreed	Agreed	Neutral	Strongly Disagreed	Disagreed	Mean	Standard Deviation
Imposing loan size limits is a viable strategy in credit control	22	28	3	0	0	1.64	0.25
The use of Credit check on regular	17	30	6	0	0	1.79	0.24
Client appraisal considers the character of the customers	14	30	2	4	2	1.77	0.30

seeking credit facilities Flexible repayment periods improve loan repayment							
Penalty for late payment enhances customers commitment to loan repayment	20	28	1	1	3	1.64	0.28
The use of customer credit application forms	18	30	2	1	2	1.66	0.30

Source: Research findings, 2024

The study sought to establish the level at which respondents agreed or disagreed with the above statement relating to credit risk control in Union bank, from the findings, the study established that majority of the respondents strongly agreed that interest rates charged affect performance of loans in the Union bank as shown by a mean of 1.28, Credit committees involvement in making decisions regarding loans are essential in reducing default/credit risk as shown by a mean 1.40 other agreed that, The use of credit checks on regular basis enhances credit control performance, Penalty for late payment enhances customers commitment to loan repayment as shown by a mean 1.64 in each case, The use of customer credit application forms improves monitoring and credit control which has a positive effect on performance on money deposit bank, as shown by a mean 1.66, Flexible repayment periods improve loan repayment as shown by a mean 1.77, and that the use of credit checks on regular basis enhances credit control as shown by a mean 1.79.

4.2.4 Collection Policy

Table 4.3: Extent to which Union bank use collection policy in Credit control

Number of clients	Frequency	Percentage
Very great extent	18	34.0
Great Extent	32	60.4
Moderate Extent	3	5.7
Total	53	100

Source: Research findings, 2024

The study sought to determine the extent to which Union bank use collection policy in Credit control, from the findings 60.4 % of the respondents indicated to a great extent, 34.0% of the respondents indicated to a very great extent whereas 5.7% of the respondents indicated to a moderate extent, this implies that Union bank use collection policy in Credit control to a great extent.

Table 4.4: Level of agreement on collection policy of Union bank

Statement	Strongly Agreed	Agreed	Neutral	Strongly Disagreed	Disagreed	Mean	Standard Deviation
Available collection policies have assisted towards effective credit management	12	25	6	5	5	1.89	0.27
Formulation of collection policies have been a challenge in credit control	36	10	7	0	0	1.45	0.28
Enforcement of guarantee policies provides chance for loan recovery in case of loan defaults	33	10	5	3	2	1.57	0.25
Staff incentives are effective in improving recovery of delinquent loans	22	30	3	2	3	1.77	0.28
Regular reviews have been done on collection policies to improve state of credit control.	17	36	0	0	0	1.68	0.38

Source: Research findings, 2024

The study sought to establish the level at which respondents agreed or disagreed with the above statements relating to collection policy of Union bank. From the findings majority of the respondents strongly agreed that formulation of collection policies have been a challenge in credit control as shown by a mean of 1.45 others agreed that enforcement of guarantee policies provided chances for loan recovery in case of loan defaults as shown by a mean of 1.57 , staff incentives are effective in improving recovery of delinquent loans as shown by a mean of 1.60, a stringent policy is more effective in debt recovery than a lenient policy as shown by a mean of 1.68. Regular reviews have been done on collection policies to improve state of credit control as shown by a mean of 1.77, and available collection policies have assisted towards effective credit control as shown by a mean of 1.89.

4.2.5 Regression Analysis

Table 4.10: Model Summary

Model	R	R. Square	Adjustable Square	Standard Error of the Estimate
1	0.796	0.796	0.761	0.2467

Source: Research Findings,, 2024.

Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable, from the findings in the above table the value of adjusted R squared was 0.761 an indication that there was variation of 76.1% on financial performance of Union bank due to changes in client appraisal, credit risk control and collection policy at 95% confidence interval. This shows that 76.1% changes in financial performance of Union bank could be accounted for by client appraisal, credit risk control and collection policy. R is the correlation coefficient which shows the relationship between the study variables, from the findings shown in the table above there was a strong positive relationship between the study variables as shown by 0.892.

Table 4.11: ANOVA

Model		Sum of Square	df	Mean of Square	F	Sig.
	Regression	0.896	4	.224	2.213	0.129
	Residual	5.184	48	.108		
	Total	6.08	52			

Source: Research findings, 2024

From the ANOVA statistics in table above, the processed data, which is the population parameters, had a significance level of 0.012 which shows that the data is ideal for making a conclusion on the population's parameter as the value of significance (p-value) is less than 5%. The calculated value was greater than the critical value (1.699 < 2.213) an indication that client appraisal, credit risk control and collection policy significantly influence financial performance of Union bank in Nigeria. The significance value was less than 0.05 an indication that the model was statistically significant.

Table 4.2.7: Coefficients

Model		Unstandardized Coefficient		Standardized Coefficient	t	sig
		B	Standard Error			
1	Constant	0.218	.141	.224	1.608	0.39
	Client Appraisal	0.239	.165	.205	1.653	0.029
	Credit Risk Control	0.392	.271	.027	1.687	0.032
	Collection Policy	.284	.157	.413	1.852	.012

Source: Research findings, 2024

From the data in the above table the established regression equation was Y = 0.218 + 0.239X1 + 0.392 X2 + 0.284X3

From the above regression equation it was revealed that holding client appraisal , credit risk control and collection policy to a constant zero , financial performance of Union bank would be 0.218 , a unit increase in client appraisal would lead to increase in performance of Union bank by a factor of 0.239, a unit increase in credit risk control would lead to increase in performance of Union bank by a factor of 0.392 and also unit increase in collection policy would lead to increase in performance of Union bank by a factor of 0.284. The study also found that all the p-values were less that 0.05 an indication that all the variables were statistically significant in influencing financial performance of Union bank in Nigeria.

4.3 Interpretation of Findings

From the findings as shown in Table 4.10, the value of adjusted R squared was 0.761 an indication that there was variation of 76.1% on financial performance of Union bank due to changes in client appraisal, credit risk control and collection policy at 95% confidence interval. R is the correlation coefficient which shows the relationship between the study variables, there was a strong positive relationship between the study variables as shown by 0.892.

From research finding as shown on Table 4.11, the calculated value was greater than the critical value ($1.699 < 2.213$) an indication that client appraisal, credit risk control and collection policy significantly influence financial performance of Union bank in Nigeria. The significance value was of 0.012 which was less than 0.05 an indication that the model was statistically significant.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the discussion of key data findings, conclusion drawn from the findings highlighted and recommendations made there-to. The conclusions and recommendations drawn were focused on addressing the objective of the study. The researcher had researched on assessment of credit control efficiency in money deposit banks

5.2 Summary

The study revealed that Union bank use client appraisal in Credit control to a great extent. Further it established that client appraisal is a viable strategy for credit, Aspects of collateral are considered while appraising clients, failure to assess customer's capacity to repay results in loan defaults, client appraisal considers the character of the customers seeking credit facilities and that Union bank have competent personnel for carrying out client appraisal.

The study established that Union bank use credit risk control in Credit control to a great extent. The study further established that interest rates charged affects performance of loans in the Union bank, Credit committees involvement in making decisions regarding loans are essential in reducing default/credit risk, the use of credit checks on regular basis enhances credit control , Penalty for late payment enhances customers commitment to loan repayment, the use of customer credit application forms improves monitoring and credit control , flexible repayment periods improve loan repayment and finally that the use of credit checks on regular basis enhances credit control .

5.3 Conclusion

From the findings, the study found that client appraisal; credit risk control and collection policy had effect on financial performance of Union bank. The study established that there was strong relationship between financial performance of Union bank and client appraisal, credit risk control and collection policy.

The study revealed that a unit increase in client appraisal would lead to increase in financial performance of Union bank; this is an indication that there was positive association between client appraisal and financial performance of Union bank, an increase in credit risk control would lead to increase in financial performance of Union bank in Nigeria, which shows that there was positive relationship between financial performance of Union bank and credit risk control and a unit increase in collection policy would lead to increase in performance; this is an indication that there was a positive relationship between financial performance of Union bank and collection policy. Client appraisal, credit risk control and collection policy significantly influence financial performance of Union bank Nigeria.

5.4. Policy Recommendations

The study recommends that Union bank should enhance their collection policy by adapting a more stringent policy to a lenient policy for effective debt recovery. The study also recommends that there is need for Union bank to enhance their client appraisal techniques so as to improve their financial performance. Through client appraisal techniques, the Union bank will be able to know credit worth clients and thus reduce their non-performing loans.

There is also need for Union bank to enhance their credit risk control this will help in decreasing default levels as well as their non-performing loans. This will help in improving their financial performance.

5.5 Areas for further Research

The study sought to determine the effect of credit control on the financial performance of banking sector in Nigeria. Further research is recommended on the effect of Credit Reference Bureaus on loan performance in banking institutions in Nigeria. Further research should also be done on the relationship between credit control and nonperforming loans on banking Institutions in Nigeria and on the reasons for loan default in banking organizations from the clients’ perspective

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