

**CREDIT MONITORING AND RECOVERY STRATEGIES ADOPTED BY  
COMMERCIAL BANKS IN KENYA**

**BY:**

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**DECLARATION**

The research is my original work and has not been submitted to any other college or University for academic credit.

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## **DEDICATION**

I wish to wholly dedicate this project first and foremost to almighty God whose grace, providence and endless care, I cherish.

I also dedicate this project to my family for spiritual, psychological and other forms of support accorded to me that largely contributed to the successful conduct of this study to completion. I am particularly grateful to my wife Elizabeth, for the support that saw me through the challenges encountered while undertaking my MBA degree course.

I further dedicate the work to my kids, Faith and Jeremy for the unwavering joy they bring on board at all times at home motivating me to crave for higher accomplishment.

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## **ABBREVIATIONS AND ACRONYMS**

**CBK** - Central Bank of Kenya.

**BCA** - Basic Competitive Advantage.

**RCA** - Real Competitive Advantage.

**SCA** - Sustainable Competitive Advantage.

**NBFI** - Non Banking Financial Institutions.

**NPA** - Non Performing Assets.

**NPL** - Non Performing Loans.

**KBA** - Kenya Bankers Association.

**RBT** - Resource Based Theory.

## **ABSTRACT**

Credit facilities can involve several different forms of credit, ranging from revolving credit to a line of credit that is available for the company as a source of standby funding. There are several ways to structure a credit facility. The strategy can involve one loan, or include a series of loans, all associated with the same facility. All loans involved in the process may be short-term, meaning they are paid in full within one calendar year, or be structured for repayment over a longer period of time. This research sought to establish the credit monitoring and recovery strategies adopted by commercial banks in Kenya. All the banks in Kenya formed the population for this study. The data was collected from these banks and quantitative analysis was done. The findings were presented in tables and figures. The findings indicated that all the banks monitor loans to ensure proper payment. This indicates that banks take keen interest of loan repayment to ensure that they undergo minimal losses. The study has established that the banks in Kenya do generate reports to monitor loans by their clients. The study has established that banks have various strategies of debt recovery. The strategies indicated by the study include securing their loans, adequate training of the relationship officers, informing their customers and visiting their customers to convince them to pay the loans. The study has given the following recommendations; the policy makers in the banking institutions should use credit score card as a tool of monitoring of loan and recovering of such loans. The credit score card is a number that is based on a statistical analysis of a borrower's credit report, and is used to represent the creditworthiness of that person. The policy makers in the banking institutions should make good use of private collection agencies in which the creditor agency retains the final authority to resolve disputes, compromise debts, suspend or terminate collection action, and refer accounts to Credit Reference Bureaus in order to avoid long court cases. The policy makers in the banking institutions should build good customer relations to ensure that their customers do not change names and notify them in times of changing business names to avoid the rise of bad debts that lead to the losses made by the banking institutions as a result of high bad debts.

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the study

Over the last decade, many financial institutions were never so serious in their efforts to ensure timely credit recovery and consequent reduction of Non-Performing Assets (NPAs) as they are today. Debt recovery is defined as a process of pursuing loans which have not been repaid and managing to recover them by convincing the loanies to make attempts to repay their outstanding loans (Early, 2006). The role of recovering loans is not an easy task as clients will go out of their way to prove inaccessible to the lender/bank (Garber, 1997). It is important to note that credit recovery management, be of fresh loans or old loans, is central to NPA management. This management process needs to start at the loan initiating stage itself. According to Swanson et al (2008), effective management of credit recovery and NPAs comprise two pronged strategy. First relates to arresting of the defaults and creation of NPA thereof and the second is to handling of loan delinquencies. The tenets of financial sector reforms are revolutionary which have created a sense of urgency in the minds of staff of bank and has given them an opportunity to perform or incur losses. Commercial banks in Kenya have intensified credit recovery strategies in order to reduce bad debts and improve their loan books (CBK, 2013). Over 76% of the commercial banks in Kenya in the year 2013 noted that they had focused their credit monitoring and recovery strategies on personal or household loans while 56% had focused their credit recovery strategies on the trade sectors (CBK, 2013).

This study is premised on the theory of competitive advantage. Barney (1991) defines competitive advantage as the implementation of a value creating strategy which is not simultaneously being implemented by any current or potential competitors; whereas sustainable competitive advantage is viewed as an implementation of a value creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy. In the recent years, the theory of sustainable competitive advantage (SCA) has emerged as one of the most promising theoretical frameworks in the management literature especially in the field of strategic management. Kotelnikov (2004) has identified three parts of competitive advantage. First part is Basic

Competitive Advantage (BCA) which is described as firm's ticket to the global hyper competition game. Second part is Revealed Competitive Advantage (RCA) which is reflected by a firm's market share, and third is Sustainable Competitive Advantage (SCA) which allows a firm to maintain and improve its competitive position in the market. In 1990s, the concepts of the "resource-based views (Barney, 1991) and "intangible resources" (Hall, 1993) became dominant themes in the studies concerning sources of sustainable competitive advantage. The concepts mainly focused on the element of "intangibility of resources" as source of competitive advantage.

As the banking sector in Kenya expands at an increasing rate and become intensely competitive, every financial institution needs to adopt some sound strategies which will enable it to have competitive edge over other. As competition intensifies, many businesses continue to seek profitable ways in which to differentiate themselves from the competitors. Strategies are at ends and these ends concern the purpose and the objectives of the organization. They are things that organizations do, the paths they follow and the decisions they take in order to achieve a certain goal. One of the challenges facing many banks is nonperforming loans. Increased lending competition amongst financial institutions has led to extension of loans which are unsecured. The greatest challenge that banks faces is loan default by the customers.

### **1.1.1 Competitive Strategies**

This study is premised on the theory of competitive advantage. Barney (1991) defines competitive advantage as the implementation of a value creating strategy which is not simultaneously being implemented by any current or potential competitors; whereas sustainable competitive advantage is viewed as an implementation of a value creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy. In the recent years, the theory of sustainable competitive advantage (SCA) has emerged as one of the most promising theoretical frameworks in the management literature especially in the field of strategic management. There are three parts of competitive advantage. First part is Basic Competitive Advantage (BCA) which is described as firm's ticket to the global hyper competition game. Second part is Revealed Competitive Advantage (RCA) which is reflected by a firm's market share, and third is

Sustainable Competitive Advantage (SCA) which allows a firm to maintain and improve its competitive position in the market.

According to Barney (2002), a firm is argued to have a competitive advantage when it is implementing a value creating strategy which a current or potential competitor is not implementing at the same time. Moreover, a firm is argued to have a sustained competitive advantage when it is implementing a value creating strategy which a current or potential competitor is not implementing at the same time and when these other firms are unable to duplicate the benefits of this strategy. However, in order for a resource to have the potential of being a sustained competitive advantage, it must contain the following four attributes: Firstly, it must be valuable, in the sense that it exploits opportunities and/or neutralizes threats in a firm's environment, secondly, it must be rare among firm's current and potential competition; thirdly, it must be imperfectly imitable and fourthly, there cannot be any strategically equivalent substitutes for this resource that are valuable but neither rare or imperfectly imitable (Barney, 2002).

If a company possesses a core competence and understands how to take advantage of it, it can lead to sustained competitive advantages. Barney (2002) believes that a firm experiences competitive advantages when its actions in an industry or market create economic value. He further emphasizes that for competitive advantage to be achieved; few competing firms should be engaging in similar actions. Barney goes on to tie competitive advantage to performance, by arguing that a firm obtains above normal performance when it generates greater than expected value from the resources it employs. The length by which a firm is capable of retaining the competitive advantage makes the firm have sustainable competitive advantage which is when a firm is assured of long term success.

Porter (1980) emphasize that firms need to build competitive advantage into their strategies. The organizations paradigm regards competitive advantage as a position of superior performance that a firm can achieve through one of the following generic strategies: cost leadership, differentiation or focus (Porter, 1985). Cost leadership is the achievement of the lowest unit cost base of the industry, whereas differentiation is the ability to charge a premium price for offering some perceived added value to the customer (Porter, 1985). The focus strategy is the

concentration of a narrow segment and within that segment attempt to achieve either a cost advantage or differentiation (Porter, 1985) In addition; he claims that competitive advantage grows fundamentally out of value a firm is able to create for its buyers that exceeds the firm's cost of creating it. The better the bank is capable of recovering debt, the higher the return on investment for its shareholders as less cash is declared bad this ultimately makes the shares at stock exchange to be attractive to shareholders.

The sustainability of competitive advantage has been called to question since no firm is capable of sustaining the competitive advantage for long. The environmental turbulence (Ansoff, 1984) and dynamism of the market coupled with technologies has called into question the sustainability of organizations competitive advantage. More firms are under pressure to improve quality, increase productivity and produce in a speedily manner. These pressures have resulted in change in operational improvements yet these gains have rarely translated in to sustainable profitability. It has been observed (Porter, 1996) that as firms push to improve on all fronts, they have moved further away from viable competitive positions. Porter (1996) argues that operational effectiveness although necessary to support, superior performance is not sufficient because its techniques are easy to imitate more so in this new world of technology. The remedy to sustaining competitive advantage is to choose unique and valuable positions rooted in systems of activities that are more difficult to imitate. It is important to note that strategy is useless unless the results of the strategy are understood by everyone (Porter, 2008)

### **1.1.2 Credit Monitoring Strategies**

Credit monitoring refers to measures to; ensure that the bank understands the current financial condition of the borrower or counterparty; ensure that all credit are in compliance with the existing covenant; follow the use customer make of approved credit lines; ensure that projected cash flows on major credits meet debt servicing requirements; ensure that where applicable, collateral provides adequate coverage relative (Seppala, 2000).

Many of the agonies and frustrations of slow and distresses credits can be avoided by good loan supervision. Supervision helps keeping a good loan good. It may be visiting the borrowers' premises to investigate the general state of affairs. The credit monitoring process involves on-

site visit, regular contact as well as checking for compliance with covenants in the loan agreements. According to Montana (2012), bank debt recovery is assuming an alarming trend as its growth is looking almost unstoppable. This growth can mostly be attributed to a poor economy which affects both consumers and markets around the world. Banks are individually devising new techniques and strategies to improve their debt collection/recovery.

According to Montana (2012), the following are some of the recommended bank debt recovery measures, which are likely to help increase their debt collection success; flexible repayment plans for customers experiencing financial difficulty, well formulated hardship programs for borrowers that are late on their repayment, extend or lower payments, interest rates, or lower fees when you anticipate customer payment problems, create communication channels where customers can openly discuss their issues. By proactively reaching customers early, you can prevent larger problems later. This can be done by banks organizing regular pipelines of customer with issues and working towards assisting them make repayments through discussions, and outsourcing bank debt recovery to collection agencies in extreme circumstances when the debt is not likely to be recoverable by the bank staff.

### **1.1.3 Credit Recovery Strategies**

Debt recovery is the process of pursuing loans which have not been repaid and managing to recover them by convincing the loanies to make attempts to repay their outstanding loans. Normally, this role of recovering loans is not an easy task as clients will go out of their way to prove inaccessible to the lender (bank). The banking industry in most cases has a debt recovery unit which is in charge of following loans before they become delinquent and make attempts to recover the loans.

The following can be used to reduce debt recovery problems in African banks; use of reminders has proved to be a good measure to encourage debtors to pay up their debts. Some customers are genuinely not able to remember when their debts are due. In this case, reminders such as short text (SMS), email or a simple telephone call does the magic and enable the client remember their obligation to the bank thereby making them be in a position to repay their debts. The advent of Credit Reference Bureau (CRB) has brought a lot of relief to the banking sector. Serial defaulters

have been denied a chance to default across banks as banks now have a chance to report defaults and therefore lock out these defaulters from approaching other banks and taking loans from them therefore continuing with the loan default culture across banks.

In Kenya, many banks in their credit policy now check with CRB before issuing loans to borrowers (Nyaoke, 2007). There exist multiple means of keeping in touch with borrowers. Banks have continued to employ products such as direct debits, mobile banking loan repayment platforms, Mpesa, Airtel money, Orange money and agent banking among other methods to add onto the traditional loan repayment techniques such as direct deposits, standing orders, checking system as well as salary check off system by employers. These channels have made it easy for borrowers to access the bank and therefore make good of their repayments.

#### **1.1.4 The Banking Industry in Kenya**

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya. The banking sector was liberalized in 1995 and exchange controls lifted. The CBK, which falls under the Minister for Finance docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. As at December 2008 there were 43 banking and non-bank institutions. Out of the 43 commercial bank institutions, 33 were locally owned and 12 were foreign owned. The locally owned financial institutions comprised 3 banks with significant government shareholding and 28 privately owned commercial banks (CBK, 2009).

Over the last few years, the Banking sector in Kenya has experienced continued to growth in assets, deposits, profitability and products offering (CBK Report, 2011). The growth has been mainly underpinned by; an industry wide branch network expansion strategy both in Kenya and in the East African community region; ,automation of a large number of services and a move towards emphasis on the complex customer needs rather than traditional ‘off-the-shelf’ banking products. Players in this sector have experienced increased competition over the last few years resulting from increased innovations among the players and new entrants into the market.



The banking industry has also over years continued to introduce a wide range of new products, prompted by increased competition, embracing ICT and enhanced customer needs. As a marketing strategy, the new products offered in this segment of market, continue to assume local development brand names to suit the domestic environment and targeting the larger segment of local customer base. Among the products, include Islamic banking which was introduced in 2005, tailored in line with “Shariah” principles. Many banks have so far introduced Islamic banking products in the market. All the above clearly indicate that, Kenya’s banking Industry has great developments like any other banking market in the world.

The major challenges facing many banks today is stiff competition, which has forced the banks to redesign their services and products to introduce new services like e-banking, online banking, mobile banking and consumer in an endeavor to retain their market share (CBK, 2006). Among the rapidly growing applications is internet banking or e-banking, which allows customers to monitor transactions of their accounts at the leisure of their offices (Kiarie, 2006). There has also ben emerging competition from MFI’s, SACCO’s, and other non-banking financial institutions.

The increased competition in the banking sector has led to many banks offering a variety of new products as they keep in line with product differentiation strategy. As a result, many clients are currently attracted to those banks which can offer credit facilities that can finance their businesses. This has consequently led to introduction of unsecured loans by many banks as they attempt to outwit each other in attracting more clients. Unsecured loans together with the current harsh economic conditions has resulted into severe losses to the many banks as a result of non-payment of the borrowed loans which has led to high loan default rates. Due to these challenges, this study therefore seeks to identify some of the credit monitoring and recovery strategies that can be adopted by many banks to mitigate the credit risks associated with loan advancement.

## **1.2 Research Problem**

In the context of today’s rapidly changing business environment, organizations must embrace the concept of competitive advantage in order for them to be successful. According to Porter (1985), competitive advantage is at the heart of a firm’s performance in competitive markets. Barney (2002) says that a firm experiences competitive advantages when its actions in an industry or

market create economic value and when few competing firms are engaging in similar actions. A firm obtains above-normal performance when it generates greater-than-expected value from the resources it employs (Barney, 2002). The changing business environment in Kenya has resulted in many challenges in the banking industry. These challenges include worsening economic conditions, monetary policy changes, financial sector liberation and more importantly intense competition (Nyaoke , 2007). This therefore calls for a need to devise new strategies to counter all of these.

Despite phenomenal growth, the Kenyan banking industry has experienced a myriad of challenges in regards to credit risk management. Non-performing loans in Kenya's banking sector shot up by 13.33% in 2012. According to (CBK, 2013), the gross non-performing loans rose to Ksh61.57 billion as at end of December 2012 from Ksh54.33 billion at the beginning of January 2012. Bank lending if not properly assessed, involves the risk that the borrower will not be able or willing to honour their obligations (Bazibu, 2005). The credit facilities given to customers are often paid late or not paid at all leaving the bank exposed to default risk. It is important to note that despite the rigorous screening undertaken in the credit assessment process which includes among others; proof that customer does not have other credit obligation, analysis of their account performance, sustainability of their income level, security and ability to pay, there are difficulties in recovering credit extended to the customers by banks.

In order to optimize performance, banks need to engage in prudent management of credit risk. This involves crafting sound credit monitoring and evaluation strategies that help the bank in cushioning itself against adverse effects of credit risks. In addition, banks should continuously review their credit monitoring and recovery strategies so as to ensure that losses arising from non-performing loans are minimized. This study therefore seeks to critically examine the credit monitoring and recovery strategies that Kenyan commercial banks have adopted in order to remain strategically competitive and profitable within the financial industry.

In the Kenyan context, various aspects of credit management have been reviewed by various scholars; Muasya (2009) studied the impact of non-performing loans on the performance of the banking sector in Kenya: Omina (2009) carried out a study on the relationship between credit

risk management and non-performing loans-The case of commercial banks in Kenya. To the best of the researcher's knowledge, there exists no literature on the evaluation of credit monitoring and recovery strategies adopted by Kenyan commercial banks in the Kenyan context. This is the gap the study sought to address by answering the research question; what are the credit monitoring and recovery strategies adopted by Kenyan commercial banks?

### **1.3 Research Objective**

The objective of this study was to determine credit monitoring and recovery strategies adopted by commercial banks in Kenya.

### **1.4 Value of the Study**

The findings of this study would benefit a number of stakeholders; the management of various banks and credit managers in particular would benefit by getting an insight on various credit monitoring strategies. This would significantly help them in reviewing credit assessment procedures and policies, credit appraisal techniques among others. In addition, the findings of this study would assist managers in devising appropriate and effective credit recovery strategies. This will positively impact on the overall performance by minimizing the risks associated with non-performing loans.

The study would also benefit the government of Kenya and Central Bank of Kenya in particular by identifying the best credit monitoring and recovery strategies and practices in the Kenyan financial sector. The findings of this study would specifically aid on financial policy formulation and reviewing of the same. Furthermore, the findings would enable the financial consultants to provide sound financial advice to various stakeholders in regard to various aspect of credit risk management. In regard to the scholars; the findings of this study would also add value to the existing knowledge in the strategic management and finance discipline. It would also form the basis upon which other related and replicated studies can be based on and also suggest potential research areas for future researchers.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter discusses the concept of strategy, strategic responses to bad debts/non-performing loans, non-performing loans, empirical review of credit monitoring and recovery strategies and lastly chapter summary.

#### **2.2 Theoretical Underpinnings of the Study**

This study is anchored on a number of various theories. The dominant school of thought in strategic management has been the relationship between the firm and the industry is essential. A principal model of this school has been Porter's (1985) "five competitive forces" for analyzing industry structures. In this model, a firm's profitability is influenced by its relative size compared to its industry rivals, suppliers and customers (Porter, 1985). Accordingly, the industry forces in which the firm operates requires that the firm adapts to these requirements in order to survive in the long run. In addition, the firms that fail to adapt to these requirements will be forced to exit from the industry/market.

The models within the industrial organization school of thought are based on the following two assumptions: firstly, companies in an industry are identical in terms of the strategically relevant resources they control and the strategies they pursue (Porter, 1981). Secondly, resources in an industry are identical because an organization's resources, which they use to implement strategies are highly mobile in the market (Barney, 1991). Moreover, within the industrial organization school of thought the key to sustained competitive advantage is choosing an appropriate industry and positioning itself within that industry.

Consequently, the industrial paradigm regards competitive advantage as a position of superior performance that a firm can achieve through one of the following generic strategies: cost leadership, differentiation or focus (Porter, 1985). Cost leadership is the achievement of the lowest unit cost base of the industry, whereas differentiation is the ability to charge a premium

price for offering some perceived added value to the customer (Porter, 1985). The focus strategy is the concentration of a narrow segment and within that segment attempt to achieve either a cost advantage or differentiation (Porter, 1985).

### **2.3 The Concept of Strategy**

The first step towards crafting adequate responses to market dynamics is through understanding of the environment in which organization operates. This requires thinking strategically about the aspects of the company's situation, namely the industry and competitive environment in which it operates and forces acting to reshape this environment. Strategy can be viewed as building defense against competitive forces or as filing positions in the industry where forces are weakest (Pearce & Robinson, 2000). Porter (1980) sees strategy as being all about competition and trying to gain competitive advantage. Strategy can also be viewed as a pattern of actions and resource allocations designed to achieve the goals of the organizations (Beteman & Zeithmal, 1990).

According to Ansoff (1979), strategy is a common thread that defines the eventual nature of business of a firm and its plans to future. Thus a strategy focus of the organization is the direction that the company is to follow. A company strategy is therefore the management action plan for effective running of the business.

### **2.4 Credit Monitoring and Recovery Strategies**

An effective credit monitoring system will include measures to; ensure that the bank understands the current financial condition of the borrower or counterparty; ensure that all credit are in compliance with the existing covenant; follow the use customer make of approved credit lines; ensure that projected cash flows on major credits meet debt servicing requirements; ensure that where applicable, collateral provides adequate coverage relative. Its obligors' current condition and identity and classify potential problem credits on timely basis. The problem of credit risk often begins at the loan origination/application stage and increased further at the loan approval, monitoring and controlling stages, especially when credit risk management guidelines in terms of policy and strategic procedures for credit processing do not exist, are weak or incomplete (Greuning & Bratanovic 2003).

Monitoring of borrowers is very important as current and potential exposure changes with both the passage of time and the movements in the underlying variables (Punaldson, 1994). Monitoring involve among other, frequent contact with borrowers, creating an environment that the bank can be seen as a solver of problems and trusted advisor to the borrower; develop the culture of being supportive to borrowers whenever they are recognized to be in difficulties and are striving to deal with the situation; monitoring the flow of the borrower's business through the bank's account; regular view of borrowers financial reports as well as an onsite visit by banks staff; updating borrowers credit files and periodically reviewing the borrowers ratings assigned at the time the credit was graphed (Tracy & Carrey 1998; Basel 1999). For the various components of credit administration to function appropriately, senior management must understand and demonstrate that it recognized the importance of this element of monitoring and controlling credit risk (Basel, 2007).

The use of computers and risk management somehow is essential for establishing trends and hence monitoring of individual credits. Donaldson (1994) observed that computers are useful in credit analysis, monitoring and control as they make it easy to keep track on trend of credit within a portfolio. Hence banks need to develop and implement comprehensive procedures and information systems to monitor the condition of individual credits and single, obligors' across banks (Basel, 1999). These procedures need to define criteria for identifying and reporting potential problem credits and other transactions to ensure that they are subject to more frequent monitoring as well as possible correction actions, classification and or provisioning. It has also been observed that high quality credit risk management staffs are critical to ensure that the depth of knowledge and judgment needed is always available, thus successfully managing the credit risks in the commercial banks (Koford & Tschoegl, 1997).

Marphatia & Jiwari (2004) argued that risk management is primarily about people-how they think and interact with each other. Technology is just a tool; in the wrong hands it is useless. This stresses further the critical performance of qualified staff in managing credit risk. In addition to monitoring credit, banks are responsible for monitoring on an ongoing basis any underlying collateral and guarantees (Basel, 1999). Such monitoring assists the banks in making necessary changes to contractual arrangements as well as maintaining adequate reserves for

credit losses. An important tool for monitoring the quality of individual credits, as well as the total portfolio, is the use of an internal risk rating system.

## **2.5 Credit Monitoring and Recovery Strategies Adopted by Commercial Banks**

Debt recovery is the process of pursuing loans which have not been repaid and managing to recover them by convincing the loanies to make attempts to repay their outstanding loans. Normally, this role of recovering loans is not an easy task as clients will go out of their way to prove inaccessible to the lender (bank). The banking industry in most cases has a debt recovery unit which is in charge of following loans before they become delinquent and make attempts to recover the loans (Garber, 1997).

Debt recovery is a very important component of banking as it plays a key role in ensuring that the main objective of the bank (to issue loans) results into the desired outcome of making a margin out of the loans advanced. It is evident that the presence of debt recovery puts pressure to the loanies to pay up lest they get the dreaded calls from the banking staff through the debt recovery unit. Debt recovery unit is involved in the day today role of ensuring that the loans issued to the bank's customers are repaid as per the schedule of contract signed by the customer and bank. The task of debt recovery entails compiling a list of overdue loans and proactively managing the loans by calling up customers who are defaulting. This unit is equally charged with the role of liaising with lawyers to draft demand letters to the loan defaulters and sending the same to the customers who are defaulting. There are various credit monitoring and recovery strategies that have been adopted by many commercial banks.

Many of the agonies and frustrations of slow and distresses credits can be avoided by good loan supervision. Supervision helps keeping a good loan good. It may be visiting the borrowers' premises to investigate the general state of affairs and maintenance of plant and equipment. Inadequate maintenance is often an early sign of financial distress. Also to be observed is the state of employee morale and the physical stock of materials and finished goods. The general business policy and advice is considered. If a bank is sanitizing to business development it can revise its own credit and loan polices as well as advising its customers. A gain keeping track of deposits and balances gives clue to the affairs of the borrowers.

Debt rescheduling signifies a change in the existing terms of a loan. A financial institution should consider rescheduling a debt when it has determined that the rescheduling is in the government's interests and that recovery of all or a portion of the debt is reasonably assured (Maphartia, 2004). As with installment payments, before rescheduling a debt, the agency should reassess the debtor's financial position and ability to repay the debt if rescheduled. The agency should also determine if it should require the debtor to use pre-authorized debit to make payment. In regard to any repayment arrangement, the terms and conditions of the rescheduling, including the acceleration clause, must be in writing and signed by the debtor. The bank should discourage informal workout arrangements with debtors. Each bank should establish uniform policies, procedures and criteria for rescheduling and other types of workouts for each program area. Its policies and procedures should provide for the recognition of gains and losses on rescheduled accounts in accordance with the provisions of credit management standards (Maphartia, 2004).

Repossession of security is aimed at recovery of dues and not to deprive the borrower of the property. The recovery process through repossession of security will involve repossession, valuation of security and realization of security through appropriate means. All these would be carried out in a fair and transparent manner. Repossession will be done only after issuing the notice as detailed above. Due process of law will be followed while taking repossession of the property. The bank will take all reasonable care for ensuring the safety and security of the property after taking custody, in the ordinary course of the business (Umoh, 2007).

In its efforts to recover a delinquent debt, a bank may use the services of private collection agencies (Early, 2006). Private collection agencies charge fees, which are paid out of amounts collected. The creditor agency retains the final authority to resolve disputes, compromise debts, suspend or terminate collection action, and refer accounts to Credit Reference Bureaus. The credit reference agency ought therefore to supplement and inter-pose between the lending institution/creditor and the borrower/debtor. The other point to be taken up is about levels of intervention between the creditor, debtor, and the lawyer. Lending institutions simply require to seek advisory and other services if credit activity will not be paralyzed by the phenomenon of



bad debts. These services will take the shape of credit brokerage, debt adjusting, collecting, counseling, and factoring services and ultimately recovery action.

Credit scoring systems can be used by the banks a credit recovery strategy. A credit score is a number that is based on a statistical analysis of a borrower's credit report, and is used to represent the creditworthiness of that person. A credit score is primarily based on credit report information. Lenders, such as banks use credit scores to evaluate the potential risk posed by giving loans to consumers and to mitigate losses due to bad debt. Using credit scores, financial institutions determine who are the most qualified for a loan, at what rate of interest, and to what credit limits( Capon, 2002).

While written communication, telephonic reminders or visits by the bank's representatives to the borrowers' place or residence will be used as loan follow up measures, the bank will not initiate any legal or other recovery measures including repossession of the security without giving due notice in writing. The Bank will follow all such procedures as required under law for recovery / repossession of security.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter is a description of the methodology used in the study to find answers to the research question. In this chapter, the research methodology is presented in the following order, research design, target population, sampling procedure, data collection methods, instruments of data collection and finally the data analysis. The following sections provide a detailed description of the methodology utilized in the study.

#### **3.2 Research Design**

This study adopted a descriptive survey design that aimed at exploring the credit monitoring and recovery strategies adopted by commercial banks in Kenya. A structure is used to restructure the research, to show how all the major parts of the project, which include samples or groups, measures, treatments or programs, and methods of assignment that work together to try to address the central research questions.

Descriptive designs result in a description of the data, either in words, pictures, charts, or tables, and indicate whether the data analysis shows statistical relationships or is merely descriptive. Census survey based on the commercial banks in Kenya was used to produce results that were broad, credible and conclusive. The research was quantitative in nature and relies on primary data obtained from commercial banks in Kenya.

#### **3.3 Population of the Study**

The population consisted of 44 commercial banks in Kenya that have been in existence from 2008 to 2012 (see appendix 1). This period was considered long enough to provide sufficient variables to assist in determining a trend on the credit monitoring and recovery strategies. This period was chosen in order to capture the most recent data and to give results that reflect the current trend.

### **3.4 Data Collection**

The researcher used a structured questionnaire as primary data collection instrument. The questionnaire was considered appropriate because it was more convenient to administer and to collect data to enable the achievement of the objective of the study. The primary data collected in the study included data on credit monitoring and recovery strategies adopted by Kenyan commercial banks.

The questionnaire contained closed-ended questions and open-ended questions and had various sections. The first part contained questions on the bio data of the respondent and the other sections contained questions on the specific objectives of the study. A “drop-and-pick latter” approach was employed in administering the questionnaire and helping the researcher in assisting the respondents in case of any issues in filling the questionnaires and to ensure maximum or high response rates. Questionnaire was targeted to the heads of departments involved in credit monitoring and recovery in commercial banks. (See appendix II). The questionnaires underwent a test run to ensure effective data capture and reliability before the official roll out.

### **3.5 Data Analysis**

The collected data from the primary sources were systematically organized in a manner to facilitate analysis. Data analysis involved preparation of the collected data, coding, editing and cleaning of data so as to facilitate processing. The results have been presented using tables, graphs and charts for ease of understanding. This has provided for interpretation of findings generated and recommendations from the findings.

## CHAPTER FOUR

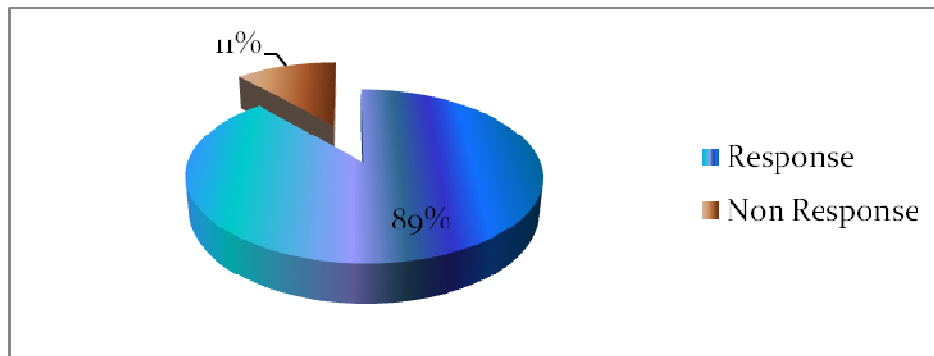
### DATA ANALYSIS AND INTERPRETATION OF RESULTS

#### 4.1 Introduction

This chapter gives the data analysis, the findings and interpretation. It uses tables and charts generated by Microsoft office excel and SPSS.

#### 4.2 Response rate

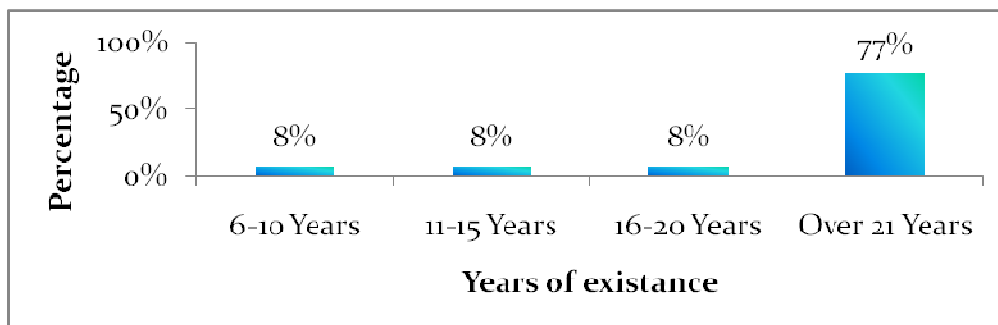
Figure 4.1 Response rate



The findings in figure 4.1 indicates a response rate of 89% (n=39) and non response is 11% (n=5). According to Mugenda and Mugenda (2009), response rate of 89% is a good response rate since it is above 70.0%.

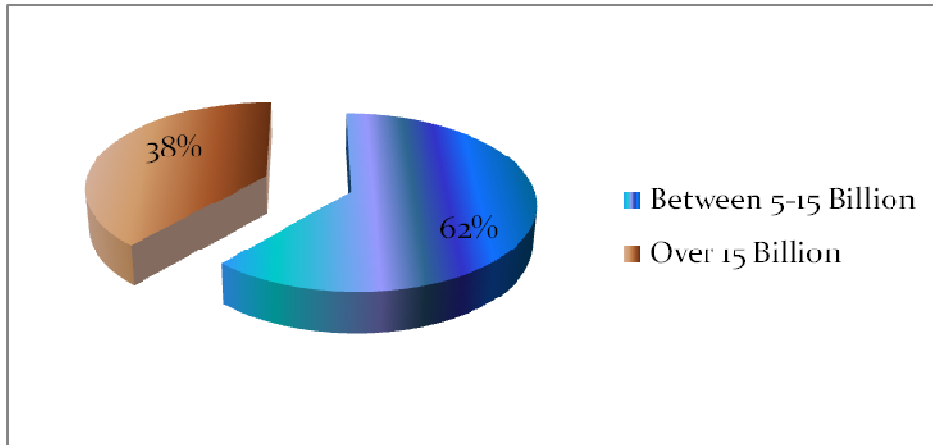
#### 4.3 Respondents profile

Figure 4.2 Years of existence of the banks in Kenya



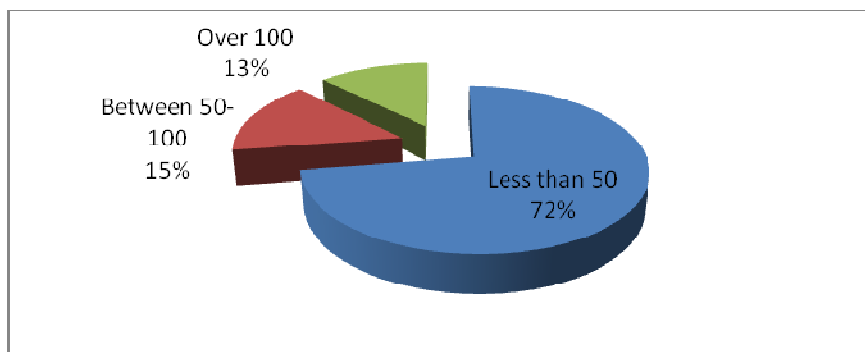
The findings in figure 4.2 indicates that most of the banks (77%, n=30) have been in existence in Kenya for over 21 years while the rest of the banks have been in existence for 6 to 10 years or 11 to 15 years or 16 to 20 years accounting for 8% (n=3).

**Figure 4.3 Rating of the banks in terms of assets**



The findings in figure 4.3 indicates that majority of the banks have an asset base of between 5 billion and 15 billion accounting for 62% (n=24) while 38% (n=15) have asset base of over 15 billion.

**Figure 4.4 Rating in terms of branch network**



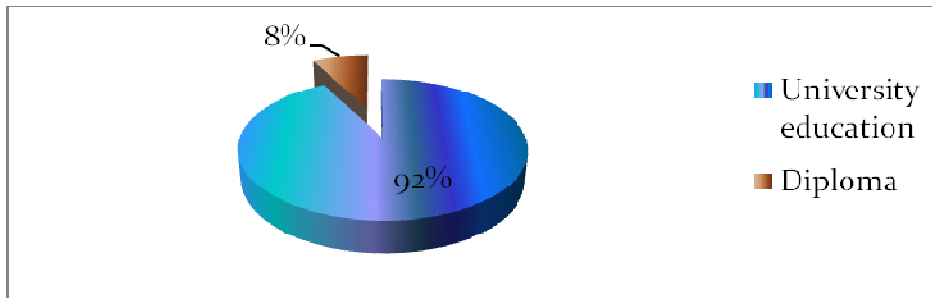
The findings in figure 4.4 indicates that majority of the banks have less than 5 branches in Kenya accounting for 72% (n=29), 15% have between 50-100 branches ( n=6) while 13% (n=5) have over 100 branches.

**Table 4.1 Years of experience in the credit department**

		<b>Frequency</b>	<b>Percent</b>
Valid	Less than 2 years	18	46.2
	2-5 Years	15	38.5
	5-8 Years	3	7.7
	Over 8 years	3	7.7
<b>Total</b>		<b>39</b>	<b>100.0</b>

The findings in table 4.1 indicates that majority of the respondents have been in the banking credit department for less than two years accounting for 46.2% (n=18). The findings indicate that 38.5% (n=15) of the respondents have been in the credit department for between 2 years and 5 years while the least number of the respondents (7.7%, n=3) have been in the credit department for either 5 to 8 years or over 8 years.

**Figure 4.5 Education level of the respondents**



The study findings in figure 4.5 indicates that most of the respondents (92%, n=36) have attained the university education either acquiring undergraduate degree or the post graduate degree and only 3% (n=3) of the respondents have diploma education.

#### 4.4 Credit monitoring strategies

**Table 4.2 Strategies of credit monitoring**

<b>Does the bank monitor loans to ensure proper payment</b>		
<b>Response</b>	<b>Frequency</b>	<b>Percent</b>
Yes	39	100
No	0	0
<b>Total</b>	<b>39</b>	<b>100</b>
<b>Daily, weekly or monthly reports generated</b>		
<b>Response</b>	<b>Frequency</b>	<b>Percent</b>
Yes	39	100
No	0	0
<b>Total</b>	<b>39</b>	<b>100</b>
<b>Monitor account operation of customers</b>		
<b>Response</b>	<b>Frequency</b>	<b>Percent</b>
Yes	39	100
No	0	0
<b>Total</b>	<b>39</b>	<b>100</b>

The findings in table 4.2 indicates that all the respondents (100%, n=39) indicated that their banks monitor loans to ensure proper payments as a strategy for credit monitoring. The findings also indicate that all the respondents (100%, n=39) do have daily, weekly or monthly credit reports generated to monitor loans and the banks strictly monitor the account operation of its customers for early corrective measures in case of default.

**Table 4.3 Strategies used in credit monitoring**

<b>Proposals rigorous assessed in terms of risk</b>		
<b>Response</b>	<b>Frequency</b>	<b>Percent</b>
Yes	39	100
No	0	0
<b>Total</b>	<b>39</b>	<b>100</b>
<b>Bank offer both secured and unsecured loans</b>		
<b>Response</b>	<b>Frequency</b>	<b>Percent</b>
Yes	39	100
No	0	0
<b>Total</b>	<b>39</b>	<b>100</b>

The findings in table 4.3 indicates that all the respondents (100%, n=39) indicated that the banks subject credit proposals to rigorous risk assessment and the bank offer both secured and unsecured loans to the customers.

#### **4.5 Credit recovery strategies**

**Table 4.4 Measurement of risk**

Responses	Responses		Percent of Cases
	N	Percent	
Length of time	18	46.2%	54.5%
Credit facility unpaid for 90 days	6	15.4%	18.2%
Portfolio at risk	3	7.7%	9.1%
Frequency of payments	3	7.7%	9.1%
Total liabilities divided by total assets	3	7.7%	9.1%
Assessment of level of exposure and collateral provided	6	15.4%	18.2%
<b>Total</b>	<b>39</b>	<b>100.0%</b>	<b>118.2%</b>



The findings in table 4.4 indicate the responses in which the researcher wished to know the ways through which the banks measure risky debts. The respondents were allowed to give more than one answer to the question since it was an open ended question. The findings indicate that 54.5% of the responses indicated that they measure risk debts based on the length of time for the loan recover while 18.2% either indicated that they measure risk loans if the credit facility remains unpaid for 90 days or the assessment of the level of exposure and collaterals provided. The findings indicate that 9.1% indicated that they use portfolio at risk as a measurement of risk debt.

**Table 4.5 Evaluation of credit application**

Credit application evaluation	Responses		Percent of Cases
	N	Percent	
Account turnover and cash flow	21	38.9%	63.6%
Ability to service loan	15	27.8%	45.5%
Request for collaterals	6	11.1%	18.2%
Portfolio at risk	6	11.1%	18.2%
Profitability of the bank	3	5.6%	9.1%
Calculating debt ratio	3	5.6%	9.1%
Total	54	100.0%	163.6%

The findings in table 4.5 indicates that 63.6% of the respondents indicated that they use account turnover and cash flow of the customers as a way of evaluating credit application while 9.1% indicated that they use profitability of the bank or the calculation of the debt ratio as a way of evaluating credit application. The findings also indicate that 18.2% of the respondents evaluate credit application through request for collaterals and portfolio at risk.

**Table 4.6 Segment of the population**

Clientelle	Frequency	Percent
SME	9	25.0
Retail	21	58.3
Corporate	3	8.3
High net worth	3	8.3
<b>Total</b>	<b>36</b>	<b>100.0</b>

The findings in table 4.6 indicate that majority of the banks as indicated by the respondents have those in the retail businesses as their bulk of bank's lending clientele accounting for 58.3% (n=21) while the least have high net worth or corporate as their bulk of lending clientele accounting for 8.3% (n=3). The findings also indicate that 25.0% (n=9) have the SMEs businesses as the bulk of their lending clientele.

**Table 4.7 Measurement of the bank loan recovery**

Loan recovery evaluation	Responses		Percent of Cases
	N	Percent	
Calculation of portfolio at risk	33	78.6%	91.7%
Loans recovered vs unpaid debts	9	21.4%	25.0%
<b>Total</b>	<b>42</b>	<b>100.0%</b>	<b>116.7%</b>

The findings in table 4.7 indicate that 91.7% of the respondents use calculation of portfolio at risk as a way of measuring the performance of bank's loan recovery while 25.0% use the loan recovered vs unpaid debts as a way of measuring the performance of the banks' loan recovery.

**Table 4.8 Strategies put in place for debt recovery**

Debt recovery strategies	Responses		Percent of Cases
	N	Percent	
The loans are secured	9	15.0%	25.0%
Training of relationship officers	9	15.0%	25.0%
Visiting the customers	12	20.0%	33.3%
Auctioneers for recovery	6	10.0%	16.7%
Dedicated department for loan recovery	6	10.0%	16.7%
Use of guarantors	9	15.0%	25.0%
Alerting customers on payment	9	15.0%	25.0%
<b>Total</b>	<b>60</b>	<b>100.0%</b>	<b>166.7%</b>

The findings in table 4.8 indicate that majority of the banks do visit the customers as one way of recovering the loans from the customers accounting for 33.3% (n=12). The banks also have their loans secured as a strategy of debt recovery as indicated by 25% (n=9). The banks also use dedicated departments in place to take care of the debt recovery as indicated by 10% of the respondents.

**Table 4.9 Working together of the bank teams**

How the banks work	Responses		Percent of Cases
	N	Percent	
Relationship managers appraise the customers	27	26.5%	69.2%
The departments work as a team	33	32.4%	84.6%
Credit risk department ensures rules are followed	30	29.4%	76.9%
Debt recovery when there is defaulting	12	11.8%	30.8%
<b>Total</b>	<b>102</b>	<b>100.0%</b>	<b>261.5%</b>

The findings in table 4.9 indicate the responses of the respondents in which they were required to indicate how the debt recovery, relationship management and credit risk departments work

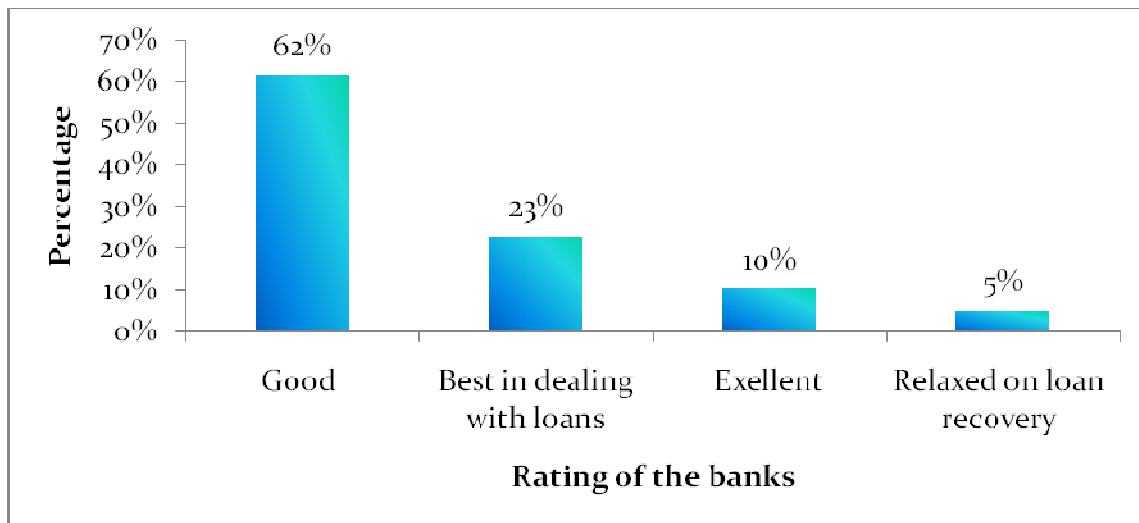
together to address bad debts. The findings indicate that 84.6% of the respondents indicated that the departments work as a team to address the bad debts while 30.8% indicated that they work together in debt recovery when there is defaulting of the debts by the customers.

**Table 4.10 Strategies in success of debt recovery**

Strategies adopted in debt recovery	Responses		Percent of Cases
	N	Percent	
Listing the defaulters at CRB	39	33.3%	100.0%
Acting on time and issue demand letters	30	25.6%	76.9%
Hastening security realization process	15	12.8%	38.5%
Monitoring loan portfolio	18	15.4%	46.2%
Building good customer relations	15	12.8%	38.5%
<b>Total</b>	<b>117</b>	<b>100.0%</b>	<b>300.0%</b>

The findings in table 4.10 indicate that 100% of the respondents indicated that they listing of the defaulters at the CRB as a strategy used to influence the success of their debt recovery. The findings also indicate that 76.9% of the respondents act on time and use demand letters to their loanees as a strategy of influencing the success of their debt recovery. The findings indicate that 38.5% either do monitoring of the loan portfolio or building of good customer relations as a way of ensuring the success of loan recover while 46.2% of the respondents indicated that they hasten security realization process as a strategy of ensuring success in debt recovery.

**Figure 4.6 Rating of the performance of the bank**



The findings in figure 4.6 indicate that most of the respondents (62%, n=24) ranked their banks as good in terms of debt recover performance compared to its peers in the Kenyan market while 5% (n=2) indicated that their banks are relaxed in debt recovery performance as compared to their peers in the market. The findings indicate that 23% (n=9) indicated that their banks are the best in dealing with loan recovery while 10% (n=4) indicated that their banks are excellent in dealing with loan recovery as compared to other banks in the Kenyan market.

**Table 4.11 Challenges encountered in debt recovery**

Debt recovery challenges	Responses		Percent of Cases
	N	Percent	
Court cases take long to conclude	6	7.1%	15.4%
Non-cooperation by customers when collecting debts	21	25.0%	53.8%
High costs of follow ups	9	10.7%	23.1%
Poor performance of businesses	15	17.9%	38.5%
Change of name of businesses by customers	12	14.3%	30.8%
Use of fake documents	15	17.9%	38.5%
Unethical auctioneers	6	7.1%	15.4%
<b>Total</b>	<b>84</b>	<b>100.0%</b>	<b>215.4%</b>

The findings in table 4.11 indicate that most of the banks experience the challenge of non-cooperation by the customers when collecting debts accounting for 53.8% of the respondents while 15.4% of the respondents indicated that they experience court cases that take too long to conclude or the auctioneers depicting unethical behaviours when it comes to debt recovery. The findings also indicate that 23.1% of the respondents have a high cost of debt recovery as a challenge and 38.5% cited the use of fake documents as a challenge in debt recovery. address

**Table 4.12 Addressing challenges**

Tackling challenges	Responses		Percent of Cases
	N	Percent	
Ensuring proper appraisal is done	18	23.1%	50.0%
Reducing paper work for fewer documentation	9	11.5%	25.0%
Using collaterals such as trading bonds and shares	9	11.5%	25.0%
Depositing indemnity cover	9	11.5%	25.0%
Avoiding court cases	6	7.7%	16.7%
Broadening security base	12	15.4%	33.3%
Blacklisting hardcore defaulters	3	3.8%	8.3%
Good customer relations	6	7.7%	16.7%
Visits to customers frequently	6	7.7%	16.7%
Total	78	100.0%	216.7%

The findings in table 4.12 show some of the strategies the banks have put in place to take care of the challenges they encounter in debt recovery. The findings indicate that 50.0% of the respondents ensure that proper appraisal is done before issuance of loan while 8.3% indicated that they blacklist the hardcore defaulters and make them never to take any loan anywhere. The findings also indicate that the banks broaden their security base to curb the challenges of debt recovery accounting for 33.3% of the respondents.

**Table 4.13 Years in existence and the teamwork of the banks**

Years of existence			Team work of the banks				Total
			Relationship managers appraise the customers	The departments work as a team	Credit risk department ensures rules are followed	Debt recovery when there is defaulting	
Existence of the bank in Kenya	1-5 years	Count % within	3 100.0%	3 100.0%	0 .0%	3 100.0%	3
	6-10 years	Count % within	3 100.0%	3 100.0%	3 100.0%	0 .0%	3
	16-20 years	Count % within	3 100.0%	3 100.0%	3 100.0%	0 .0%	3
	Over 21 years	Count % within	18 60.0%	24 80.0%	24 80.0%	9 30.0%	30
Total		Count	27	33	30	12	39

The table 4.13 indicates the comparison of the years of existence and the addressing of the debt recovery, working of the relationship management and risk department and the results indicate that most of the banks which have existed for over 21 (80%, n=24) years have their departments work as a team and credit department ensuring that the rules in debt recovery are well followed. The findings indicate that the banks which have existed for 1 year to 5 years have their relationship managers appraise the customers accounting for 100% of the 3 responses under the category of existence.

**Table 4.14 Years in existence and strategies in debt recovery**

Years of existence			Strategies in loan recovery					Total
			Listing the defaulters at CRB	Acting on time and issue demand letters	Hastening security realization process	Monitoring loan portfolio	Building good customer relations	
Existence of the bank in Kenya	1-5 years	Count % within	6 200.0%	0 .0%	0 .0%	0 .0%	3 100.0%	3
	6-10 years	Count % within	3 100.0%	0 .0%	0 .0%	3 100.0%	3 100.0%	3
	16-20 years	Count % within	3 100.0%	3 100.0%	3 100.0%	0 .0%	0 .0%	3
	Over 21 years	Count % within	27 90.0%	27 90.0%	12 40.0%	15 50.0%	9 30.0%	30
<b>Total</b>	<b>Count</b>	<b>39</b>	<b>30</b>	<b>15</b>	<b>18</b>	<b>15</b>	<b>39</b>	

The findings in table 4.14 indicate that most of the banks which have been in existence for over 21 years either list their customers who default at the CRB or issue demand letters accounting for 90.0% (n=27) of the responses from such banks while the banks which have been in existence for less than 5 years use mostly the listing of defaulters at CBR as a strategy of loan recovery and hence success.



## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATION**

#### **5.1 Introduction**

The chapter gives summary conclusion and recommendation based on the research findings as carried out. The recommendations given in this chapter will be useful to the stakeholders of Kenya Commercial banks of Kenya and academic researchers who may be interested in studying the credit facilities and flow in Kenya.

#### **5.2 Summary**

The study was done with the objective to establish the credit monitoring and recovery strategies adopted by commercial banks in Kenya. All the banks in Kenya formed the study population for this study. The data was collected from these banks and quantitative analysis was done. The study findings has established that most of the banks in Kenya have been in existence for over 21 years indicating that banks are conversant with loan monitoring and strategy adopted for successful loan recovery. The study findings have also established that most of the banks in Kenya have asset base of between 5billion to 15billion Kenya shillings. This indicates that the banks have a stable asset base to facilitate their operations in Kenya and beyond. The study has also found that minority of the banks have over 50 branches with the majority having less than 50 branches in Kenya. Most of the banks in Kenya have extensive and wide customer base to enhance their operation. The study has also established that the banks in Kenya have employed mostly graduates and diploma holders. This indicates that the banks employ qualified personnel to oversee their operations and the personnel who understands technology to implement the policies in loan recovery and administration as have been supported by (Basel, 1999) who indicated that qualified personnel ensures critical performance and managing credit risk. In addition to monitoring credit, banks are responsible for monitoring on an ongoing basis any underlying collateral and guarantees.

On the credit monitoring strategies, the study has established that all the banks monitor loans to ensure proper payment. This indicates that banks take keen interest of loan repayment to ensure that they undergo minimal losses. The study has established that the banks in Kenya do generate

reports to monitor loans by their clients. The reports are generated weekly, monthly or daily. This gives efficient monitoring of the loans as it gives the bank the report on loan recovery and loan defaulting. The study has established that the banks strictly monitor the account operation of their customers for early corrective measures in case of default. This ensures that the banks recover their debts from their clients and understand their clients to make the policies that facilitate the continual debt payment by the customers. The study has established that the banks put their credit proposals to rigorous risk assessment and offer both secured and unsecured loans. This indicates that the banks have policies in place to ensure that the borrowers pay the loans without defaulting. This is supported by the study of Greuning & Bratanovic (2003) who in their findings they said that credit risk often begins at the loan origination or application stage and increased further at the loan approval, monitoring and controlling stages, especially when credit risk management guidelines in terms of policy and strategic procedures for credit processing and therefore the banks must assess the applications in order to reduce risks.

On the credit recovery strategies, the study has established that banks have various ways of measuring risks that include length of time the loan has taken, when the credit facility remains unpaid for 90 days, Portfolio at risk, frequency of payment and assessment of level of exposure of the collateral provide by the customers. This indicates that the banks have adequate policies in place to ensure that the loans are monitored and the risky loans are determined in order to follow up with the customers for payment. This confirms the study of Garber, (1997) who indicated that the banking industry in most cases has a debt recovery unit which is in charge of following loans before they become delinquent and make attempts to recover the loans. The study has established that banks in Kenya evaluate credit applications through account turn over of the clients, ability of the clients to pay the loans, portfolio at risk and profitability of the bank. This ensures that the banks remain profitable for their sustainability of the loans and service to their clients. The study has also established that most banks measure their loan recovery through the portfolio at risk. This indicates that most of the banks in Kenya have the portfolio at risk as the measure of the loan recovery forms the clients.

The study has established that banks have various strategies of debt recovery. The strategies indicated by the study include securing their loans, adequate training of the relationship officers,

informing their customers and visiting their customers to convince them to pay the loans. This indicates that the banks; interest is to make profit and sustain themselves in the competitive banking sector. The study has established the debt recovery, relationship management and credit risk departments in the banking sector work as a team to ensure prompt and efficient debt recovery from the bank's clients. The study has also established that timely follow-ups and coordination amongst the departments in the bank are used as strategies that influence success in debt recovery. This indicates further that the banks various departments work as one entity to achieve the objectives and goals of the bank.

The study has also established that there are various challenges that area experienced by banks in Kenya in debt recovery that include court cases which take long to conclude, non corporation by the customers and change of business identities by the customers. These may make the recovery of the loans difficult by the banks. The study has also established that the banking institutions in Kenya have various ways of curbing the challenges that include the Ensuring proper appraisal is done, Using collaterals such as trading bonds and shares, Visits to customers frequently, Good customer relations and Broadening security base to ensure the debts are recovered without any hurdles on the way.

### **5.3 Conclusion**

Well established policies on risk and debt recovery in banking institutions helps in sustainability of the banking institutions in the competitive banking market in Kenya. Good asset base and extensive network facilitates the operations of the banks in an efficient and effective manner in financial service delivery. The employment of adequate and qualified personnel ensures that integrity and high standard services are delivered to the customers. The study therefore concludes that the banks have employed educated and more qualified personnel in the banking sector to ensure that the polices on loan recovery are well followed and well implemented for better understanding.

The credit monitoring strategies ensure that there is proper loan payment by the customers so as to avoid confrontation and delays in servicing of loans by the customers. The study has established that reports are generated to monitor customer's repayment of loans and the banks

monitor the account operation of the customers to offer any corrective measures in case of decline in the account operation by the customers. The study therefore concludes that the policies and strategies ensure that the customers pay the loans without defaulting. Rigorous risk assessment ensures that the banks only give loans to the customers who can pay the loans without defaulting and therefore the banks can offer both the secured and unsecured loans to the customers after assessment.

The study has established that there are various ways through which risky debts are measured that include the period or interval of payment by the customers. This indicates that the banks continuously monitor loans borrowed by their customers to ensure that they pay. The banks evaluate the credit application by the customers to ensure that only those who can service the credits qualify for the loans. The study concludes that the banks in Kenya make follow-ups to the customers' premises as a way of debt recovery. This ensures that the banks are in a continuous touch with the customers and make the servicing required by the bank. The bank's debt recovery section, the relationship management and risk department work as a team in dealing with loan recovery. The relationship managers evaluate the customers' eligibility, the credit department ensures that credit policies are adhered to and the credit recovery ensures that defaulting customers are followed to recover bad debts. Timely follow-ups on bad debts and coordination among the various departments of the banks influence the success of debt recovery in the banks. This indicates that banks are keen in debt recovery in order to avoid losses.

There are various challenges encountered in loan recovery by the banks. The challenges include the use of unethical auctioneers in loan recovery, change of businesses names by the customers and use of fake documents amongst others. This gives the loan recovery obstacles and leads to rise in bad debts by the customers. However, the banks have put in place policies to ensure that such challenges are taken care of. The strategies put in place by the banks strictly scrutinizing the documents during the application and offering of adequate securities by the customers. The study therefore concludes as established by the study that there are various credit monitoring and recovery strategies adopted by commercial banks in Kenya to ensure they offer effective loans and are properly serviced.

#### **5.4 Recommendation**

Based on the findings of the study, the research gives the following recommendations to the policy makers of the banking institutions as well as recommendations for further studies.

The policy makers in the banking institutions should use credit score card as a tool of monitoring of loan and recovering of such loans. The credit score card is a number that is based on a statistical analysis of a borrower's credit report, and is used to represent the creditworthiness of that person.

The policy makers in the banking institutions should make good use of private collection agencies in which the creditor agency retains the final authority to resolve disputes, compromise debts, suspend or terminate collection action, and refer accounts to Credit Reference Bureaus in order to avoid long court cases.

The policy makers in the banking institutions should build good customer relations to ensure that their customers do not change names and notify them in times of changing business names to avoid the rise of bad debts that lead to the losses made by the banking institutions as a result of high bad debts.

#### **5.5 Limitations of the study**

The respondents might at times give acceptable answers in order to please the researcher. However, the researcher required them to be honest. In addition, they were assured that their identity would be confidential and be for the study only. The study focused in getting data from departmental heads. These are senior bank officials and it was difficult get responses from the study population. Nonetheless, the success rate in terms of responses was satisfactory.

This study as it was limited to acquiring data from these senior bank officials, the lower cadre of staff were not incorporated. These staff might as well have had useful information to the study. The researcher experience time constraints in reaching the respondents as they are most times busy.

## **5.6 Area for further study**

There should be a study to determine the effect of bad debts to the operation of the banking institutions and recommendations be given on how they can be reduced.

There should be a study done to determine the perception of the banking institution customers' on loan and loan payment and recommendation be given on how their perception can be nurtured to ensure efficient loan application and recovery.

## **5.7 Implication on policy theory and practice**

This shapes banks' relative advantage in providing financial products and services to customers, their ability to diversify credit and liquidity risk and adopt better strategies for monitoring and recovering of debts. The aspects of banking in the line of advancing credit has the highest returns in terms of interest incomes and processing fees compared to other lines of bank operations. When these strategies are well adopted, it affects the banks performance and thus they have no choice than to manage the loans for them to keep in profitable business, lack of which could lead to significant non performing loans which in turn eat into the income.

Banks have to reduce risk to eliminate occasions of financial misfortunes and they also have an incentive to exploit line of credit but which needs good policy formulation and implementation. The study has given an indepth look in these monitoring and recovery strategies.

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## APPENDICES

### APPENDIX I: QUESTIONNAIRE

#### Instructions

*This questionnaire is designed to collect data that will help in better understanding the credit monitoring and recovery strategies adopted by Kenyan Commercial Banks. The data provided by this questionnaire will be treated in strict confidence.*

#### SECTION 1: RESPONDENTS BACKGROUND

1.) Name of your Bank .....

2.) How long has your bank been in existence in Kenya?

- a) 1 – 5 years
- b) 6- 10 years
- c) 11 – 15 years
- d) 16 - 20 years
- e) Over 21 years

3.) Kindly indicate below how you would rate your bank in terms of asset base.

- a) Less than 1 billion
- b) Between 5-15 billion
- c) Over 15 billion

4.) Please indicate how you would rate your bank in terms of branch network.

- a) Less than 50
- b) Between 51-100
- c) Over 100

5.) How long have you been in credit department?

- Less than 2 years                2-5 years

5-8 years                    ( )                    over 8 years                    ( )

6.) What is your academic background?

University degree & above    ( )                    Diploma                    ( )

Certificate                    ( )                    Secondary                    ( )

**SECTION 2: CREDIT MONITORING STRATEGIES**

1.) Do the bank monitor loans to ensure proper payment?

Yes [ ]                    No [ ]

2.) Are there daily, weekly or monthly credit reports generated to monitor loans?

Yes [ ]                    No [ ]

3.) Do the bank strictly monitor the account operation of its customers for early corrective measures in case of a default?

Yes [ ]                    No [ ]

4.) Do the bank subject credit proposals to rigorous risk assessment?

Yes [ ]                    No [ ]

5.) Do the bank the bank offer both secured and unsecured loans?

Yes [ ]                    No [ ]

**SECTION 3: CREDIT RECOVERY STRATEGIES**

1.) How do you measure risky debts?

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2.) How do you evaluate credit applications?

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3.) What segment of the population form the bulk of the bank's lending clientele?

a.)  SME b.)  Retail c.)  Corporate d.)  Institutions e.)  High Network

4.) How is the performance of the bank's loan recovery measured?

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5.) What strategies do you have in place for your debt recovery?

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6.) How does debt recovery, relationship management, and credit risk departments work together to address bad debt? \_\_\_\_\_

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7.) What strategies influence the success of your debt recovery?

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8.) How would you rate you bank's debt recovery performance compared to its peers in the Kenyan market?

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8.) What challenges do you encounter in debt recovery?

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9.) How are you trying to address these challenges?

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**~THANK YOU ~**

## APPENDIX II: LIST OF COMMERCIAL BANKS OPERATING IN KENYA

1 African Banking Corporation, Nairobi
2 Bank of Africa Kenya, Nairobi
3 Bank of Baroda, Nairobi
4 Bank of India, Nairobi (foreign owned)
5 Barclays Bank of Kenya, Nairobi (listed on NSE)
6 CFC Stanbic Bank, Nairobi (listed on NSE)
7 Chase Bank Ltd, Nairobi
8 Citibank, Nairobi (foreign owned)
9 City Finance Bank, Nairobi
10 Co-operative Bank of Kenya, Nairobi
11 Commercial Bank of Africa, Nairobi
12 Consolidated Bank of Kenya Ltd, Nairobi
13 Credit Bank Ltd, Nairobi
14 Development Bank of Kenya, Nairobi
15 Diamond Trust Bank, Nairobi
16 Dubai Bank Kenya Ltd, Nairobi
17 Equatorial Commercial Bank Ltd, Nairobi
18 Equity Bank, Nairobi
19 Family Bank, Nairobi
20 Fidelity (Commercial) Bank Ltd, Nairobi
21 Fina Bank Ltd, Nairobi
22 First Community Bank Ltd, Nairobi
23 Giro Commercial Bank Ltd, Nairobi
24 Guardian Bank, Nairobi
25 Gulf African Bank Ltd, Nairobi
26 Habib Bank A.G. Zurich, Nairobi (foreign owned)

27 Habib Bank Ltd, Nairobi (foreign owned)
28 Housing Finance Co. Ltd, Nairobi (gov) (listed on NSE)
29 Imperial Bank, Nairobi
30 I&M Bank Ltd (former Investment & Mortgages Bank Ltd), Nairobi
31 K-Rep Bank Ltd, Nairobi
32 Kenya Commercial Bank Ltd, Nairobi (gov) (listed on NSE)
33 Middle East Bank, Nairobi
34 National Bank of Kenya, Nairobi (gov)
35 National Industrial Credit Bank Ltd (NIC Bank), Nairobi (listed on NSE)
36 Oriental Commercial Bank Ltd, Nairobi
37 Paramount Universal Bank Ltd, Nairobi
38 Prime Bank Ltd, Nairobi
39 Southern Credit Banking Corp. Ltd, Nairobi
40 Standard Chartered Bank , Nairobi (listed on NSE)
41 Trans-National Bank Ltd, Nairobi
42 UBA Kenya Bank Ltd., Nairobi
43 Victoria Commercial Bank Ltd, Nairobi
44 Jamii Bora Bank

Source: CBK, (2011)