DEPOSIT AND LOANS MANAGEMENT IN COMMERCIAL BANKS: A STUDY OFSELECTED BANKS IN NIGERIA

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DECLARATION

I hereby declare that this work has been written by me, and it is the product of my research findings. All materials from other sources have been properly acknowledged in the footnotes and bibliography.

Any discrepancy should be attributed to me and nobody else. No material(s) should be used from this work without due acknowledgement to the researcher.

CERTIFICATION

This project, titled "DEPOSIT AND LOANS MANAGEMENT IN COMMERCIAL BANKS: A STUDY OF SELECTED BANKS IN NIGERIA" by IGBOJUBA IFEACHO GEORGE meets the regulations governing the award of the degree of Masters of Business Administration (M.B.A.) of Ahmadu Bello University (A.B.U.), Zaria and is approved for its contribution to knowledge and literary presentation.

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DEDICATION

This work is dedicated to mum and Rose.

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I wish to express my profound gratitude to God for His guidance throughout the period of this course and also to those who in one way or the other contributed to the successful conclusion of this work.

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ABSTRACT

This work is a study of activities related to the management of deposits and loans by the commercial banks in Nigeria. Specifically Tropical Commercial Bank, Afribank and Credit Lyonnais.

The study was set out to find out what methods and strategies these hanks use in attracting optimum deposits and subsequently how the credits are evaluated.

The findings which are the major work in chapters four and five indicated that availability of funds, and "competition" play the major role in determining interest on deposits. There seem to be a correlation betwee; customer volume and the banks premises aesthetics. Advertising was observed to be the major link between the banks and their public.

In relation to credit management All the banks studied use conventional methods. It seems quantitative techniques is yet to be introduced.

Character and capacity are observed to be the bank's major criteria of credit evaluation.

"Connection" is also generally used as a viable oriteria. All the banks with the exception of Afribank follows the prudential guidelines strictly in accounting for non-performlng loans. Afribank in addition to the prudential guidelines has her own policies.

Finally, the tented hypotheses indicated that there is no significant difference in the strategic approaches of the these banks in both credit and deposit management.

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CHAPTER ONE

INTRODUCTION

1.1 A General Introduction

The financial institutions have a significant contribution towards the economic growth of any economy. As Porter (1966) put it "The visible correlation in the world between financial and real development are indeed commendable... the relationship between real and monetary variables is undeniable."

Some authors attribute this significant effect the financial institution has on the economy to the intermediary role which it plays in mobilising funds for investment in the economy. According to Cameron, (1972), "The function of the banking system is as an intermediary, the supplying of money, the activation of entrepreneurial talent and guidance for the economy as a whole."

The way in which banks perform these functions may well determine the degree of success of the development effort. As intermediaries, they may vigorously seek out and attract reservoirs of idle funds which will be allocated to entrepreneurs for investment in project with a high rate of social return, or they may listlessly exploit their quasi monopolistic position and frither away investment possibilities with unproductive loans.

A lot of literature are bound in studies concerning the role of banks in the economy. The effect of the banking activities in the economy cannot be over-emphasized especially in a depressed economy. It is hoped that efficiency in the financial institutions will eventually rub off on the economy as a whole, since they have

a direct influence on the volume and direction of investment in the economy.

This work is interested in finding out what instruments the commercial banks use in performing their primary function of attracting deposits and managing the credits. Also how effectively these instruments are utilized and whether there is a strategic difference between the new generation of banks and their older counterparts.

1.2 An Overview

"The financial system of any society is the framework within which capital formation takes place through the intermediation of financial institutions..." Orji (1988).

Thus, the Paton Commission (1949) defined banking as... "the business of receiving from the public on current account money which is to be repayable on demand by cheque and of making advances to customers."

The Bank Act (1969) states that "Bank" means any person who carries on banking business and includes a commercial bank, acceptance house, discount house and financial institutions.

It further adds that:

"Banking business means the business of receiving monies from outside sources as deposits irrespective of the payment of interest or the granting of money loans and acceptance of credits or the purchase of bills and cheques or the purchase and sale of securities

for account of others; or the incurring of the obligation to acquire claims in respect of loans prior to their maturity or the assumption of guarantees and other warranties for others or the effecting of transfers and clearings and such other transactions as the commission may on the recommendations of the Central Bank by order published in the Federal Gazette designate as banking business."

A commercial bank according to the Act is a bank whose business includes the acceptance of deposits withdrawable by cheque.

Acceptance houses specialise in granting of acceptance facilities, while discount houses are those whose main business consists of trading in and holding commercial bills of exchange.

A merchant bank is defined as anybody engaged in wholesale banking, medium- and long-term financing, equipment leasing, debt factoring, investment management, issue and acceptance of bills and the management of unit trust.

The Act added that financial institutions mean those institutions allowed to transact banking business, but which are neither a commercial bank, nor an acceptance house, nor a discount house, nor a discount house, nor a merchant bank. Included in the category are: Development banks, Industrial/agricultural banks, Savings and Loans Associations, Insurance companies, Credit Unions, Investment and Finance Corporations and Mutual Saving Banks or Groups.

Adekanye (1989) stated that in practice these functions overlap as these various institutions actually duplicate one another to some

extent. He observed that the definitions are not strictly streamlined. No matter the nature of the definitions, it is able to tell us in a nutshell what the financial institutions with regards to the commercial banks is all about.

Historically, Nigerian banking history could be said to have started in 1892 with the establishment of African Banking Cooperation - Nwankwo (1980). A Shipping Company based in Liverpool, Elder Dempster & Co. was instrumental in its formation. This bank was later taken over by the Bank of British West Africa in 1894. It later became Standard Bank and subsequently First Bank of Nigeria PLC.

The next was Barclays Bank DCO which was established in 1977. It is now metamophosed to Union Bank.

The first indigenous bank was established in 1933 i.e. National Bank of Nigeria. Other banks established briefly after National Bank were all a failure as they could not survive any length of time. Between 1945 and 1947, four new banks were established out of which only two survived, African Continental Bank and Agbamagbe Bank (now Wema Bank).

In 1947, the British and French Bank (now UBA PLC) was established. Actually between 1945 and 1952, a lot of banks were established but by 1954 most of them have gone under.

A lot of factors led to the failure of these banks. Most had insufficient capital and many were victims of over trading, i.e. they expanded their offices too fast. The indigenous banks lacked skilled manpower, experience and confidence. Many of the banks originated from State support. So sometimes they suffer political interference.

To cap it all, there was no banking regulations to specify the code of conduct.

Presently, as at June 1971, there were about 65 commercial banks, 53 merchant banks with 1966 and 82 branches respectively. There are also numerous other non-bank financial institutions.

The banking sub-sector like other sectors of the economy have since undergone fundamental and substantial changes. Especially with the advent of SAP (Structural Adjustment Programme). During this period the number of commercial banks was increased by at least 80%, and a lot of deregulation policies as listed below were implemented.

1) Increasing Monetary base of the commercial banks;
2) Allowing interest rate to float;
3) Payment of interest on Current Account;
4) Withdrawal of government parastatals deposit from the commercial banks to the Central Bank;
5) Expansion of banks to rural areas as well as the introduction of the peoples and community banks;
6) Disallowing deposits in foreign banks to be used as collateral for securing domestic loan;
7) Exchanging value of the Naira to be determined by market forces;
8) The prudential guidelines.

Considering all these regulations and the present economic environment it could perhaps rightly be said that the banks

particularly the commercial banks are undergoing a steady but silent revolution. They have to reappraise their positions, operational tactics and policies in order to fit in more competitively. There is no doubt that the banking sector as a whole has become increasingly very competitive. So much so that there is a speculation of a possible repetition of what happened in the late 1940s and early 50s when a lot of banks crashed. It becomes imperative for any bank to survive the present banking environment, it will need much more than a mediocre effort. Discipline inovation and efficiency must become the watch word.

1.3 Statement of the Problem

Banks specialise in debt creation. They have to generate or conserve funds which they then disburse either in terms of investment or loans to others who will in turn invest it.

The commercial banks plays a very significant role in the economic development of any nation. A role which becomes even more significant in times of economic depression. The banks then are looked upon by the authorities as a medium through which they could inject discipline and financial prudence into the economy. This perhaps explains the present prominence which the banking sub-sector are enjoying in Nigeria. As if to support the above assertion the goverment have increased the number of banks by more than 100% since the last five years.

The question is how are these banks faring in the face of stiff rising competition and tight economic environment?

Ayodele (1990) argued that the problems of financial system in Nigeria, which includes the commercial banks are: "Inadequate capital base, imprudent lending practices leading to large and increasing bad and doubtful debts...."

He further pointed out that the SAP period have imensely increased the responsibility of the commercial banks in the nations economy.

Odozi (1988) observing that the returns to banks relative to their capital base and funds employed are not out of tune with the earnings of comparative firms in the manufacturing and commercial sectors of the economy, pointed out that with the escalation in personnel costs and increased competition arising from the rapid growth in the number of banking firms, it is unlikely that the present level of profitability in the industry will be sustained in the medium and long-terms. This assertion seems to call for banks to be much more efficient and effective if they are to maintain their positions and survive the future. Perhaps this calls for the individual banks to overhaul their objectives and strategies and consequently the reappraisal of their deposit and lending policies. At this juncture some questions in relation to the operations of the banks are pertinent.

1) Considering the importance of deposits, the stock in trade and life wire of commercial banks. Are the banks doing enough to attract optimum deposits from the public? What methods are these banks using to achieve this?

2) How are the loans or credits managed by the banks? Do the customers honour their obligations?

3) What method(s) do the banks use in evaluating the credit worthiness of their customers?

4) What strategic differences in relation to the above, if any exists between these commercial banks.

These are some of the questions which I hope some answers will be provided for in this work.

1.4 Objective and Scope of Study

"A healthy economy is virtually dependent on efficient transfer of funds from those who have conserved fund(s) to those who need them for investment." Shehu (1989) p. 7. This statement seems to highlight the inaleanable role of the financial institutions as a whole, since they are the medium throughout. Perhaps one could add that how healthy an economy is, may depend on how efficient the financial institutions carry out their intermediary role. Thus Yakasai (1987) described financial institutions as the life blood of any economy.

With the above assertions I believe no more emphasis need be made about the prominence of the financial institutions in an economy, especially when the economy is ailing.

To this noble institution belongs the commercial banks which constitute a major part of it.

This work intends to find out how efficiently the commercial banks have been carrying out these functions and with what tools.

A critical and comparative analysis of the tools used by these commercial banks will be rendered.

Also this work will sought to find out if there exists any strategic differences in the methods and approaches of the Banks.

This study will concentrate on the studies of 3 selected commercial banks. Two of older generations and one of younger ones.

Although there are as many as 100 commercial banks in the country. The choice of these banks are quite relevant as they are selected to cover two generations of banking in Nigeria.

1.5 Limitations of the study

This study is really constrained by time and funds.

The time and necessary resources to include more banks in the research was simply not available. It is because of this limitation in financial resources that all the sample banks are from Kano. But a deliberate attempt was made in choosing these banks to represent the new and older generations of banking in Nigeria. Although more banks could not be added I believe the datas obtained from these three / banks is a fair representation of the commercial banks in Nigeria.

1.6 Arrangement of the Project

This work is divided into five chapters with the first chapter discussing an overview of the commercial banks' environment. The statement of the problem and objective of the

study including scope and limitations of the study. Chapter two discusses the relevant literatures of the subject matter. This chapter is basically divided into two sub-areas, Account receivable literatures and that of the deposits.

Chapter three presents the methodology of the study. It discusses the instrument of data collection and the methodology of data analysis, while chapter four contains data presentation, analysis and interpretation.

Finally, chapter five contains the research findings and recommendations.

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CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter consists of related works that have been done by other people in the area of credits and loans management.

The first segment deals with the banks' major sources of acquiring funds and the basic objectives in managing them. The second part deals with the policies of banks in lending and how credits are evaluated. The chapter is rounded up with the measurement of bank profitability. This part tries to analyse the instruments with which the profitability of a bank is evaluated.

The major contributors here are Compton (1983), and Grosse (1963). Others are Nwankwo (1977), Kirkman (1977), and Steiner (1953).

2.2 Definition of key terms

Liquidity: It is the bank's ability to meet customer demands for the withdrawal or payment of funds.

Credit standards: Is the maximum risk of acceptable credit accounts.

Capacity: It is a subjective judgement of the customers' ability. This is done by using the customers' past records, together with the physical observation of the customers' shop or business. An investigation may actually be conducted.

Capital: Money/wealth/property that may be used for further production. Refers to general financial position of the customer or firm.

Collateral: It refers to the assets that the customer may give as a pledge for security to meet his obligation.

Conditions: This is the impact of the general economic trends on the firm or special development that may affect the customer's ability to meet his obligation.

Character: Refers to the customer characteristic, or personality to honour his obligation.

Connection: This refers to the personal relationship of the customer with any influential person in the society.

Recovership Manager: This is a manager charged with the responsibility to take over management of the firms that could not meet their obligation due to bad management.

Financial Institutions: An institution that uses its funds chiefly to purchase financial assets (deposits, loans, bonds) as opposed to tangible property. Financial institutions can be classified according to the nature of the principal claims they issue: None deposit intermediaries include, among others, life and property/casual ty insurance companies and pension funds whose claims are the policies they sell, or the premise to provide income after retirement; depository intermediaries obtain funds mainly by accepting deposits from the public.

Credit: Money given to customer for which the payment of principal plus interest is expected later.

2.3 Sources of Funds

A writer once described a bank as a dealer in debts. "It (banks) is a book keeping institution that shifts claims among individuals and business firms. Its assets consists of debts of others while its deposits are liabilities that are used by individuals and business enterprises to pay their debts," Steiner (1953). Nigerian commercial banks like their foreign counterparts elsewhere in the world obtain their funds from two major sources, one is capital and reserves, while the other is deposits. The later (deposits) is by far the greater of the two. For instance, capital and reserve as a percentage of deposit in 1958 is 4.3% and in 1977 3.9%, Nwankwo (1977), also the table below illustrates the more recent comparisons.

Table 2.1 Nigerian Commercial Banks Sources of Funds (in millions of naira)

Year	Capital Acct.	Deposits				Capital Deposit %
		Demand	Time	Savings	Total	
1984	966.7	6,343.5	6,030.0	3,361.3	15,734.8	6.1
1985	1,128.7	7,046.2	6,851.0	3,699.9	17,597.1	6.4
1986	1,298.7	6,649.8	7,217.6	4,270.3	18,131.6	7.2
1987	1,545.1	7,998.0	9,882.0	5,206.7	23,086.7	6.7
1988	1,932.4	10,667.9	10,274.5	7,122.7	29,065.1	6.7

Source: Extract from CBN Economic and Financial Review 1989, Vol. 16, No. 3.

It could be seen that the sources of fund of the commercial banks are mostly deposits. In other words their debts far outweigh their capitals. Both the capital and deposits of commercial banks have been undergoing a steady growth in line with the growth of the economy itself. Capital which in 1958 was a paltry ₦4.5 million Nwankwo (1977) have grown to approximately ₦1.9 million in 1988 and deposit which

was a meagre ₦137 million in 1960 have grown to ₦29.1 billion in 1988.

While capital and reserves provide for fixed assets and discharge functions like contingency needs and future expansion, deposits provide the working capital which is the stock-in-trade of the bank. Just like no business could operate without a working capital, no bank can operate effectively if at all without deposits. Deposit is the origin of banks. The early bankers started by accepting deposits which they undertake to return on demand or as agreed. With time the banker realised that only a small proportion of the deposits were withdrawn at any point in time, thereby leaving the rest of ths deposit for him to do as he wishes. Thus he started lending out for profit. He canvassed for more deposits. The more deposits he has the more he can lend, and the more he can lend, the more profit he can make. This gave birth to the modern bank as we know it today.

2.3.1 Types of Deposits

(1) Current Account

This is the principal and most popular account of a bank. They are accounts opened so that cheques can be paid into them and drawn on.

Deposits on current accounts are payable on demand (i.e. no notice is required before money can be withdrawn). Thus, it is also called a "demand deposit". References are normally required in the opening of current account. The account is expected to have a credit balance all the time except in a situation when an overdraft (loan) have been granted to the customer. In Nigerian context, formerly fees are charged on this account by the bank for services rendered but the situation now is that banks are expected to pay 5% interest

to current accounts. This is government regulation.

(2) Deposit Accounts

With this type of accounts a customer is supposed to give short notice before he can withdraw his money. This is not always followed in practice. This deposit usually earn a higher interest rate than the other accounts. No references are needed to open this type of account and no cheque book is required to operate it. The deposits could be fixed i.e. over a specific period of time for example the money could be kept for 3 months, 6 months, 9 months, and 1 year. This money can not be withdrawn until after the fixed period. It is also called "time deposits".

(3) Savings Deposit

This deposit is very much similar to the "time deposit" in many ways. They attract fixed interest rate and funds can be withdrawn by the customer without notice.

2.3.2 Bank-Customer Relationship

The relationship between a bank and the community it serves is a dynamic one. A bank is an integral part of the community's economic life. The object of a bank's community relations therefore is not directly sales and promotion but the effective functioning of the bank as a vital organ in the community's economic life and growth. The overall objective of a bank's community relations program should be the growth of productive credits. While unprogressive banks can actually deter the growth of their communities, the progressive banks, on the other hand, can readily

stimulate growth and aid their own long run profits.

To contribute effectively into the communities economic life, the bank must know its customers, their needs and prospects. A rounded knowledge of this will dispose them favourably to plan a positive programme for the community.

In order to achieve the above objective the bank could start by doing internal customer analysis. This can also be supplemented by external marketing research. Dale (1961) suggested the following as some of the questions a bank needs to get answered.

"Who uses the bank's various services? What is their age, sex, and economic status? To what extent do large or small accounts dominate the bank's business? From which geographical, ethnic or occupational segments of the bank's trade area does its customers come? Are there presently sections or groups which are not using the bank's facilities? Who are the suppliers of competing services? How has the bank been faring in competition with them? How do the customers of the bank evaluate its services. What are their reasons for using them? etc." Answers to these questions and more will enable the bank to evaluate its objectives in relation to the community's financial needs and aspirations.

In order for a bank to boost its customership and customer relations, it needs to search out for its support from the public. The banks could reach out to its public through advertising, lectures and conferences, direct customer solicitation, direct customer contacts, special groups in the communities.

(1) Advertising

Community relations to banks is primarily a question of relating the community needs for banking services to the ability and willingness of a bank to supply them. The most effective advertising copy, whatever its form, will be that which clearly relates a potential customers needs or desires to specific services which a bank is able and anxious to provide, (Lindquist 1986).

Not quite long ago, bank advertising was not a common sight on our screens. But, perhaps due to the more competitive environment of the banking industry now, this situation has changed. It has to be noted that some of the advertisements still lack practical imagination.

(2) Lectures and Conferences

This is a situation whereby the banks organise formal lectures, to educate or enlighten the community about the services of the bank, and its relevance to the needs of the community. A forum here is established where the customers or potential customers could ask questions about their financial needs. Also participants receive on-the-spot financial service. This kind of lectures are usually organised in specialised areas, e.g. agricultural financing. Apart from the public, notable individuals of the community who are relevant to the area of talks are invited.

(3) Direct Customer Solicitation

Whereas advertising is usually aimed at a wide spread audience, the direct solicitation involves meeting actual and potential customers. For particular purposes this could be very effective. Crosse (1963) holds that 'many banks require their officers to make

a certain number of calls each month and render reports on them."

(4) The Bank's Environment

Now the image of a bank depends to a large extent on the bank's business environment. This environment includes the bank premises, facilities, conveniences and most of all the bank employees.

It is alright to advertise about the friendliness and efficiency of a bank. But when the customer comes calling, he expects to see those things advertised about in practice. What the customer finds when he comes to the bank goes a long way towards influencing his dispositions towards the bank.

Of recent in Nigeria banks have taken to improve their environment of business. Beautiful architecture, drive-in and parking lots. Well decorated internal atmosphere, and well mannered staff. All this, to improve the image of the bank and appeal more to the customer.

Apart from these specific ways through which the bankers can improve contact with their actual and potential customers, there are also specialised groupings in the community to whom the banks can also appear to collectivity. According to Linquist (1956) "Educational and promotional programmes may be devised even for rather narrow groupings e.g. automobile dealers, accountants, teachers, association executives etc."

Having tried to establish the fact that deposit is the foundation upon which banks are built, and having earlier emphasized the importance of banks in the financial and economic development of a community. It becomes pertinent to enquire if the banks are putting in optimum efforts

towards deposit management. The banking industry have passed the stage where a bank manager may just sit in their office and wait for depositors. They have to do something positive. According to Compton (1983),

> "Corporate institutions, individual and government customers are quick today to take full advantage of the many opportunities available to them. They tend to leave deposits only where there is an attractive rate of interest or range of services or both" (pp. 87-88).

From the quotation above, it seems that there are two major factors that may attract depositors and that is the level of interest rate and the range of services. In other words, for a bank to increase the attraction of deposits into their bank they have to improve the interest rate to a favourably competitive level, and expand their range of services.

(i) Interest Rates

Fixing interest rates is a complex process involving a lot of factors, both internal and external. One of the major external factors is the government or the Central Bank as in the case of Nigeria. CBN may set the interest rate limit or range. Another big factor which is external is the competitive environment. The financial institutions with emphasis on the commercial bank is one of the most competitive industries in Nigeria right now. A bank can not fix her own interest rates in isolation from the rates of the other banks. Another fundamental issue is that of supply and demand of funds.

According to Compton (1983), "Essentially, money is supply and demand commodity: Its availability sets the price that must be paid for it" (p. 104).

Other factors which may influence interest rate are safety, time, and profit margin. If a loan is considered to be safe, then the interest rate would be considerably lower than otherwise. Long term loans generally carry more interest rate, because with the longer time, there is room for more uncertainty. A bank, like any other business organisation, thrives on profits. The banks would have to add a comfortable profit margin to whatever loan they have to give out.

(ii) Range of Services

The banks products are services. In other words banks sell services for profit. Just like there are different types of goods which a company could produce, likewise there are variety of services which a bank may offer. Most banks try to specialise or lay more emphasis in certain areas. The range of services of a bank may be reflected in the different types of deposits which a bank offers and the different type of loans which they extend to her customers.

Summarily, a bank needs to improve her interest rates and expand her range of services in order to attract more deposits. Actually there is no limit to the number of services a firm can offer. It depends on the initiative, drive and dedication of the bank managers.

Another source of funds is borrowing. A bank pressed for cash could borrow from another bank but the cost is higher than if they had deposits. They may also borrow from Central Bank, but this must be for a very short duration, and it should not be frequent. There is nothing wrong in a bank borrowing in order to finance a profitable loan but, the idea of borrowing may portray the bank as not having sufficient deposits. A situation which the customers might not view favourably.

2.4 Objective of Funds Management

The basic objective of funds management is to strike an optimum balance between the three cardinals of debt management. They are liquidity, safety and income.

(i) Liquidity

Liquidity for a bank can be defined as "the banks ability to meet customer demands for the withdrawal or payment of funds", Thomas (1964) In practice since it is not possible for all the bank customers to demand their money back at the sametime, it means that there is always some amount which the customers would not demand for at any point in time.

The basic problem of a bank is to determine that amount which will be demanded so that he can profitably utilise the others. There is no exact science in trying to determine this, but the bank manager draw from his experience what percentage is likely going to be requested for. Statistics on the previous years can be projected as an aid. The total liquidity requirement of a bank is the combination of the total figure needed for withdrawals along with the amount needed for an increase in loans. If a bank can estimate this figure then it will be operating at optimum level.

(ii) Safety

A customer only goes to deposit his money in a bank if he has confidence that his money will be safe. Any investment or loan made by a bank represents a commitment of the customers funds and these funds have to be safe. Obviously a bank is a profit making organisation and most of its fundamental objectives are profit-oriented. The only

way a bank can make profit and survive is by investing and giving out credit. For absolute safety a bank may have to commit her funds only on relatively riskless loans and investment. But these categories loans and investment usually have very low interest and therefore will not constitute enough income to survive the bank. On the other hand investing in highly profitable but very risky venture may lose the depositors money through bad debts. It seems then that the bank manager will have to strike a balance somewhere in between.

(iii) Income

The Bank is a business organisation, basically established to make profits with which it may finance all other objectives. It is therefore, very important that whatever the policies of the bank in relation to fund management, it must be such that will enable the bank to make profit. Meanwhile liquidity requires that enough funds be kept aside to honour the customers withdrawal order anytime. Safety requires that in order that the customer deposits may be safe even if the banks make investment it must be at a very little or no risk. Income dictates that the bank must be out there making profits. There is a confliot somewhere there which requires the professional touch of an experienced manager to balance out, even though it is a very delicate balance.

2.5 Lending Policy

Lending is the basis of the development of the commercial bank and is usually based on policies or traditions established by the banks. Consequently the formulation and implementation of sound lending policies are a prerequisite to an effective credit management.

Gross (1963) seems to support the above statement when he stated that

> "Policy decisions are required with respect to the kind and number of loans a bank will make, as well as to whom it will lend and under what circumstances" (p. 84).

When deposits are accepted from customers and concentrated in a bank, there are three major ways these funds may be disbursed. (1) Reserves (including statutory reserves). (2) Investments. (3) Loans. Of these three, this study is interested in the last one which is by far the largest of them as the table below shows.

Table 2.2 NIGERIAN COMMERCIAL BANKS DEPOSIT AND USE OF FUNDS (IN MILLIONS OF NAIRA)

Year	Deposit	Investment	Loans & Advances	Reserves	Total Asset
1961	153.8	2.6	111.8	75.4	288.8
1962	173.8	3.2	143.0	48.6	280.6
1963	191.8	3.2	148.8	63.0	322.0
1964	230.0	3.2	207.6	41.4	390.6
1965	265.0	3.0	221.4	51.0	430.4
1971	657.2	10.3	489.4	38.1	1,275.9
1972	793.8	10.1	603.3	31.2	1,437.5
1973	1,013.0	7.4	740.6	59.9	1,772.0
1974	1,693.9	22.9	915.0	109.0	2,811.1
1975	2,839.2	104.0	1,475.6	183.8	4,308.1
1985	17,597.1	10,875.8	12,170.3	NA	31,997.9
1986	18,137.6	5,715.2	15,701.5	"	39,578.8
1987	23,086.7	8,714.7	17,531.9	"	49,828.4
1988	29,065.1	10,310.0	19,852.3	"	59,226.2
1989	27,164.9	4,606.4	22,221.3	"	64,874.2

Source: Extracted from Nigerian Financial System by G.O. Nwankwo and CBN Economic & Financial Review. 2 (1989).

It would readily be seen that the bulk of the deposit money goes towards financing loans and advances, in effect fulfilling the credit needs of the economic environment. This underlines the importance of studying the effectiveness of the bank credit management, both to the bank and the society in general.

Credit management involves the evaluation of credit and loan recovery or account receivable policies. It requires that the expected gains from sales or services offered be balanced against possible loss, in the event, the amount receivable is not collected. This does not mean a good credit policy will eliminate bad debt but it will reduce the amount lost and the collection cost.

The first step towards effective credit management is developing sound policies:

> "Well conceived lending policies and careful lending practices are essential if a bank is to perform its credit granting function effectively and maintaining the risk inherent in any extension of credit." Gross (1963), p. 204.

Policy design are required in almost every aspect of lending. For instance, the following questions usually seek urgent answers from the policy:

1) What kind or type of loans to make?
2) How many of the loans is to be made?
3) To whom is the loan to be made?
4) How much is the limit in terms of money?
5) What is the acceptable risk limit, etc?

A well established credit policy should be able to answer these questions in as clear terms as possible.

In building a policy for bank lending the following steps may be followed:

2.5.1 Community needs

In developing loan policy, the first place to start is studying the community or the economic environment in which the bank is established. This will give the manager an insight to the available credit market and the legitimate credit needs of the community. The legitimate credit needs of a community, could be viewed as any bank credit which could further the economic well being of the community.

Although by analysing the customers that come to a bank one can reasonably assess the credit needs of a community, the best way is to go out into the economic environment, at least mentally. This will help in determining what viable credits the community needs both in the present and in the future.

2.5.2 Assessing the Bank Loan Portfolio

After the analytical appraisal of the community in which the bank is situated and having been equiped with the knowledge of what credits the community needs, the next step is to analyse the bank's ability to meet those needs. Generally it is expected that a bank should give all the legitimate credit (viable) within its community. This means that the limiting factor should be the community needs and the bank's ability to meet them. The bank could also help to source outside financial institution whereby it cannot meet their needs.

There is an argument against a bank giving too much loan to the same community. They argue that the bank would be putting all her eggs

in one basket. This may be true, but the idea of branch banking takes care of that. Under this sub-heading the manager would have to determine its capability in relation to the communities needs, this would be reflected in the policy.

2.5.3 Character of Loans

There are different types of loans. Some banks may decide as a matter of policy to undertake certain kinds of loans more than the others. Instinctively all banks would naturally want to be involved with high interest and low risk areas. Perhaps with more emphasis on short term loans. But these type of loans may not necessarily be to the best interest of the society, especially a developing economy. As a result, governments sometimes influence these banks to invest and give loans to certain desirable but not very profitable sector of the economy e.g. agricultural loans.

In order to establish equity in the manner of lending, bank managers should determine areas of the economic community where sound loans could be given. The credit lines should be distributed in such a way that no one area is overtly emphasized at the expense of the others. The word "sound", used here actually means loans that will help in furthering the economic well being of the community, and that of the bank on the long run. This word "sound" is more important than safety as some loans may be safe but not necessarily sound. A sound loan should have an element of safety but safety is not the only factor to be considered.

The character of loans, relates more to "sound" loans rather tha the forms which the loans eventually take e.g. mortgage loans, busine

loans, consumer credits etc. The form of lending usually reflect the credit needs of the community. It is more important that a loan be sound, whether it is mortgage loan or consumer credit. There are several factors which help to serve as a basis for lending. They are:

1) Arrangement made for the repayment of the loans;
2) The purpose for which the loans are granted;
3) The safety of the loan.

These are factors which if analysed critically, will form a sound bases on which credits are granted. Some writers refer to the above criteria as the three Ps of lending policy i.e. payment, purpose and protection. This shall be discussed in more detail later.

2.5.4 Credit-worthiness

It is a fundamental policy to decide whether a borrower is worthy of a loan. This is usually made certain by the borrower producing an unimpeachable evidence of his ability and willingness to pay his loans as agreed. The evidence produced will have to be subjected to a critical analysis. In this process there is a high element of human judgement involved which makes it an art rather than science. Character and reputation influence a lot of the credit ratings of a person or borrower.

Character is established by understanding the past experiences and actions of the borrower. This may not be very easy as there are always lack of enough information in this regard, especially with a new customer. But the policy should be to obtain as much information as possible. It may also be necessary to establish formal channels and

procedures of sourcing these informations.

The financial position of a borrower, which would be shown by his financial statements, assumes more importance as the size of the loans increases. Financial statement analysis is a fundamental banking art. There should be certain basic computations and financial ratios which should always be extracted from the statements provided. This comparative figures then form a basis of decision. For instance, the customers networth may help in determining the borrowers eventual ability to pay. It may also help to determine the maximum amount to be lent to him. It may not be advisable to lend a customer more than his business is worth.

Earning capacity may help in deciding how effectively the business could discharge its current financial obligations.

From a policy point of view, the most important thing is that the borrower is made to provide adequate materials to appraise the loan. This should be devoid of sentiments. Financial statements and earning records must be provided by all important borrowers, no matter how sterling their characters may be. The statement must be complete and in sufficient detail, if necessary the account should be audited by a reputable accounting firm.

> "For precision workmanship, an audited statement is the sharp true blade of analysis. Unaudited figures may be a dull and unpredictable tool". Murey (1959) p. 78.

It may be necessary that policy insists on a close analysis of the financial position of the borrower. The directors of the bank can accomplish this by establishing requirements for periodic appraisal of all outstanding loans of specified classes and categories. This

will normally enable the manager to keep a close watch over the financial activities of the borrower. Thus enabling corrective measures to be taken when an unfavourable trends show up. The larger the loan the greater the risk factor, the closer the banks' contacts with the borrower should be.

2.5.5 Pledged Assets for Security

The idea of pledging assets for security connotes uncertainty on the part of the manager. If all the basis for granting the loans have been analysed with precision, then there should be no need for pledging assets. But as it happens there is never a hundred percent certainty in issues concerning loans hence the need for a collateral. It should never be the basis for granting loans, but should rather be seen as a last resort. It sometimes helps managers to grant economically desirable loans or to work out a weak credit situations. In many cases, this collateral takes the form of direct pledging of fixed assets, in case of default, i.e. the lender obtains lien on the asset(s) of the borrower.

> "No matter how wealthy the individual, no matter how "good" his statement, he should be required to secure his obligations". Seber (1961), p. 85.

A firm policy in this collateral issue will avoid the necessity of making many difficult decisions in berderline cases.

2.5.6 Interest Rates Policy

Most often the interest rate administered by a bank, is controlled or determined to a considerable degree by forces outside the bank, i.e. the level of interest rates in the market and the forces of competition.

The interplay of demand and supply of funds generally affect the interest rates in the market. The level of demand and supply

is in turn affected by the level of business activities. For instance, if business activities are high the level of demand for funds will be high, consequently, the interest rate may increase as the level of funds for supply decreases. Likewise if business activities are low then the demand for funds will be very low. This will subsequently lower interest rates to induce marginal borrowers to come into the market.

The forces of the market notwithstanding the interest charged by a bank must be sufficient to cover the following costs according to Robinson (1951):

1) The cost of the funds loaned;
2) The cost of making and servicing the loans;
3) A cost factor for probable loss of the loan;
4) A reasonable margin of profit.

How much interest is billed on a loan then will depend on what estimate of costs based on the above the banker have calculated. There are also some other minor variables which may influence lending rates. On the whole there is actually a very low "rate" competition in the banking industry.

> "It has been frequently pointed out that banking is an enterprise in which there is a minimum of rate of competition". Anderson (1961).

2.5.7 The three Ps of Lending Policies

The three Ps of lending policies are:

- Payment
- Purpose
- Protection.

These three policy points are usually developed after due consideration of the different areas of the lending process such that to a considerable extent it acts as a kind of summary or focus point of bank lending policies.

1) Payment

Repayment is on the other side of the coin of lending. Immediately a credit is contemplated, the ability to pay-back comes to mind. The importance of this sometimes cloud the mind of managers for good reasons. If it is accepted that credit is the life blood of an economy then inability to pay back a loan represents the hardening of the blood vessels.

The money lent to any customer should flow back to the bank, as the programme for which the loan was borrowed is being executed. This should be an important policy point.

> "Even with loans secured by stock market collateral, having having clearly adequate margins, it is desirable to have some orderly plan of repayment for the benefit both of the borrower and the bank." Rober (1944) p. 98.

The above statement rather infers that a good loan should be collectible from the anticipated income or profit of the borrower as the programme is being executed. As a policy then, what should be important here, is to estimate the rate of repayment and the ultimate final payment date at the time the loan is being granted. Based on this a repayment schedule would be established.

Collecting the repayment progressively as the programme is being executed, also allows banks to effectively monitor the progress of the programme. A corrective measure would be taken on immediately if

unfavourable trend is noticed. This corrective measure could be in terms of technical advice offered to the borrower or getting ready to make the necessary provision in case the debt becomes bad. The financial advice given may turn out to be just the tonic needed to put the business back on its feet; thus, saving the situation for both the borrower and the bank. It is notable that Progress Bank of Nigeria PLC, one of the most enviable State banks (recently adjudged as the best State run bank), has a policy of stepping to record the the interest of a loan after 90 days of default and making provisions for the loan after 6 months.

> "... which means that after three months we suspend interest on any non-performing credit facility and after six months we make a provision". "Business" (Nov. 1991).

This is very akin to the "prudential guidelines" released by the Central Bank of Nigeria, to regulate bank loans accounting records.

(2) Purpose

This factor in the loan policy may portray a rather low profile when compared with repayment. But when considered in terms of the "soundness" of a loan its significance becomes clearer. As has been written about earlier not all perfectly repayable loans are "sound" as the impact of the loan may not be for the general well being of the banks community. For instance, it is quite possible to give a perfectly repayable loan to buy gambling machines but its positive impact to the community economy is debatable.

It is quite obvious that a banker may not know whether the money he lends will produce income or profits to repay the loan, and cannot relate the repayment programme to the nature of the transactions

unless he knows what it is. This points out that actual purpose and payment are very much inter-woven.

When credit is scarce, "purpose" becomes even more important as moral responsibility demands that the few available funds be invested or loaned to the best sound ventures available. It must be remembered that on the long run, the bank also enjoys the benefits of the economically healthy and progressive community in which it is operating.

In summary, as a matter of policy banks should be interested in the purpose to which a credit is to be used.

3) Protection

The mere mention of protection or collateral brings to mind the fact that even if all the necessary steps are taken in order to give "sound" loans, something might still go wrong. This is pherhaps as it should be, as nothing is certain in the life of a business, even life itself. Protection is principally necessary for unforeseen circumstances as one can only plan and make adequate provision for the present and the predictable future. With respect to business loans, the real significance of collateral or other protective arrangements lies in the fact that such devices enable bank management to make economically desirable loans or to work out weak credit situations when such action would not be entirely safe without security.

Many loan to small business or rapidly expanding business could not be justified on credit worthiness alone.

As a last resort against unforeseen contingencies, credit worthiness and the value of the collateral pledged should be given serious thought as a matter of policy.

2.6 Credit Evaluation

2.6.1 Lending Policy

Credits or loans are usually evaluated against the backdrop of lending policies already established. Lending policies has been exhaustively treated in the last chapter.

In evaluating credits, there are uncontrollable factors that the credit manager cannot ignore in trying to carry out his duties. They are such as, general economic conditions e.g. during recessions or booms, government interventions etc. Other credit policy variables are within the control of the manager and they include the following:

a) Credit standard or the maximum risk of acceptable credit accounts.

b) Credit period or the length of time for which credit is given.

c) Discounts given for early payment.

d) The firm's collection policy.

In the area of credit evaluation the first and last variables i.e. credit standards and collection policy are often emphasised.

2.6.2 Credit Standard

The level of operations of a firm is usually affected by the credit standards of the firm. It is believed that if firms make credits to only the strongest of their customers, they will not incur bad debts, and expenses of the credit department will be that much reduced. On the other hand the bank will loose sales and the probable profits on the lost sales could be much more than the cost it has avoided. This obviously mean that there has to be a trade-off.

According to Seber (1961)

> "These categories (strongest customer) of people are very casual about spending and buying and they may not remember what they have spent or what they own, there is no question about the strongest customer ability to repay. Since they become very irritated by even gentlest reminder of a bill that is even a month overdue".

For this categories of customer referred to, there is no problem but where do one draw the line. Determining the optimal credit becomes essential. This involves equating marginal cost of credit to the marginal profit on increased sales. The marginal costs includes default on bad debt losses, higher investigations costs or collection costs.

Credit cost and credit quality are inter-related. So it is important to judge the quality of an account, and this can be taken to mean the probability of default. In order to evaluate the credit risk of a borrower the 5 (five) Cs of credit have to be considered. This must be done against the credit policy already established by the bank. Usually because of policy differences a certain loan evaluated as risky in one bank may be regarded as favourable by another bank.

The five (5) Cs are: character, capacity, capital, conditions and collateral. Kurri (1992) in one of his lectures added another C. This he called connection.

1) Character

This refers to the personality of the individual customer or borrower. It has to do with the nature, characteristics and qualities of a potential creditor.

Translated in banking, it is the probability that a customer will honour his obligations as and when they fall due. The appraisal of the customers' moral qualities are based on experience with him or

analysis of his past records. This moral quality is considered to be a very strong point in credit analysis. A lot of other assumptions may go wrong but the character of a person remains fairly stable.

Experienced bank managers often consider character as the most important of the 6 Cs. They hold that the able and honourable man will pay and will also find some way to pay despite whatever difficulties he may encounter.

Majone (1968) in a congressional hearing was asked why he has to lend a business man money. His answer was "character, Sir, *character, nothing else matters.*" This rather emphasizes the importance of character to a banker.

2) Capacity

This refers to the financial power or ability of the intending customer. This perhaps according to some scholars is the most objective of the Cs since it depends on analysis of certain financial facts, based on established techniques. A lot of ratios are computed here, figures indicating his net worth, past, present and future income and profit trends.

These figures are usually obtained from his financial statement and other necessary documents as a matter of policy. The larger the loan the more important this capacity factor becomes. The loan requested is compared to the borrower's relative financial needs. A comparative analysis is also made to see if the business could cope with an expected programme of repayment. There is a lot of policy matter here. Some banks emphasizes certain financial ratios than the others in their analysis. There is a greater probability of a

customer paying up if he has the capacity than otherwise.

3) Capital

The general financial position of the firm or the borrower is considered here. There is also financial ratio analysis with emphasis on capital or net worth.

4) Conditions

This criteria usually has to do with the external environments. Most of the times it is also outside the control of the bank managers. They include things like economic conditions in the community, political interest etc.

5) Collateral

This is the physical assets which the borrower presents as an offer in case he defaults. Osaze (1985) sees the collateral as an ultimate last resort. He asserts that the loan must be able to stand on its own without considering the collateral. He further points out that whatever asset presented, the bank manager must make sure that the borrower:

1) Owns the asset
2) hasn't pledged the asset to others
3) has no other encrumbrances or encroachment on the property.

6) Connection

This is the personal relationship between the customer and the executives of the bank, or even some influential politicians. Actually this is not a sound banking practice neither is it conventional. But it is part of the Nigerian banking reality.

Generally, at the request of a loan, the customer will be given some forms which he is expected to fill as objectively as possible. The questions contained will usually be as regards information on his character, capacity, capital and collateral. The management may decide not to accept the informations on face value. This means that the manager could source independent information, based on which he would be able to make a more objective decision.

Robert (1984) stated that the credit worthiness of a borrower can be worked out by using the average age of credit of applicant, outstanding accounts payable. This he said can be worked out from his income statement. For instance if purchases of raw materials amounted to ₦120,000 for the year and outstanding accounts payable amounted to ₦20,000. We will estimate that 60 days account remain unpaid for the purchases.

$$\text{i.e. } \frac{20,000}{120,000} \times 360 \text{ (days)}$$

$$= \underline{\underline{60 \text{ days.}}}$$

If the credit manager discovers that the supplier in that industry customarily sell on terms "Net 30" then certainly, it will mean that the prospective customer is not doing very well. But if on the other hand the supplier is operating on "Net 90" then the prospective customers' credit is in line.

In summary, optional credit standards is established in such a way as to balance costs and benefits. However, the choice of a credit standard eventually adopted by a bank, would be determined by the bank's objective and the lending policies of the bank.

2.6.3 Collection Policy

This topic talks of ways through which banks obtain overdue accounts. There is no doubt that prompt collection of overdue accounts helps tremendously to increase the volume of firm's operation. It follows that an effective collection system will do the bank a lot of good.

A successful collection system should be designed in such a way as to involve an accounting procedure which will show

1) Mature account
2) A method of determining why accounts are delinquent and
3) A method of recording every action taken to secure payment of account.

Collection processes are usually expensive either in terms of direct expenses or goodwill. Any method eventually adopted should be last and relatively cheap, and must not be harsh in order to avoid excessive loss of goodwill.

In support of the above, Seber (1961) said that the first thing to do after issuing credit is to compile and maintain accurate records, having an excellent information on the customers receivables, keep detailed, accurate and complete record. If this is not done good receivables can turn into overdue ones, and then into collection problems, then to losses.

In trying to collect overdue account Seber further suggested that letters should be sent to the debtors by a customer. These letters according to him should not carry the same content. The first and second letters should sound friendly and gradually it would sound more harsh until it becomes a demand.

A sample letter may read as such, 'It is easy to forget to pay a bill, that is probably what you did about the last bill we sent you. Now we have the unpleasant task of reminding you that your account is overdue.

If you haven't done so already, please be kind enough to send us your cheque for ₦... as soon as possible'.

Harward D. Crosse (1963) points out that "any failure to comply with original repayment terms should be promptly followed up, the reason for deliquent / ascertained and corrective action insisted upon" p. 84.

However, he also believes that if the borrower gives a good reason for failing to pay up reversing the payment schedule should be considered.

Other scholars like Kirkman (1977) believes that letters will not make much difference to some group of debtors. He then recommended that debtors be categorised into three main groups:

1) Those who cannot pay any of their debts;
2) Those can pay part, but not all the debt;
3) Those who can pay all their debt but not for one reason or the other has to delay payment as long as possible.

He noted that reminder letters will make no difference at all to the first category but if effectively followed may improve the chances of recovery for the second and third ones.

2.6.4 Analytical Approach

In literature, credit management have moved from the traditional or conventional approach to quantitative approach. This approach is

based on alloting figurative weights to the necessary variables of credit and then based on it weights are alleted to the variable possessed by the applicant. A cut-off point is established and an applicant whose mark is not up to the cut-off point is not given while those whose mark are up to, are given. The higher the applicant score the better the credit worthiness.

There are two major analytical methods

(a) Multiple Discriminant Analysis (MDA)

MDA is a quantitative method of analysing credit developed by Durand (1941). In applying the method the credit manager has to:

i) Determine significant factors like liquidity, use of working capital, leverage, loan repayments to income ratio etc. and these factors must be statistically independent and quantifiable.

ii) In selecting the sample, the size must be large enough to ensure reliability.

iii) Weights must be assigned to factors in order to develop an index.

In constructing the discriminant index, the discriminant function

$Z = V_1 X_1 + V_2 X_2 \ldots\ldots + V_n X_n^7$ is used

Or $Z = \sum_{Z=1}^{n} V_2 X_2$

$Z = 1, 2, \ldots\ldots n-(i)$.

$V_1, V_2 \text{------} V_n$ = Discriminant coefficient (weights attached to independent variables)

V_1, V_2 ——— V_n = Independent variables (using ratio such as quick ratio, net worth to total assets, cash flow to total assets etc).

iv) Cut-off values for accepting and rejecting potential credit requests must be established.

Majone (1968) in his work reviewed the technique of linear discriminant analysis and questioned its reliability in the credit scoring situation. He pointed out that most of the arguments do not hold. While acknowledging its simplicity, he accepts that it lacks theoretical properties.

Majone later developed his own model. He classified an applicant into one of a set of risk categories and includes Bayesion prior probabilities, he also added a loss function associated with misclassification. He suggested that repayment behaviour should be treated as an applicant debtor characteristics. There were other critics like Oshen and Hammer.

b) Sequential Decision Process (SDP)

SDP is another credit evaluation technique. This technique was developed by Mehta D. It is focussed on the problem of credit expansion and the evaluation of such policy. He provided a rule based on the analysis of past experience concerning bad debt levels, credit periods, length of collection activities and lost sales level.

To use this technique, the credit manager must be very conversant with the credit applicant accounts.

Summarily, the quantitative analytical approach to credit evaluation has not been very popular. This could be partly because

of its technicality.

Whatever approach taken the important thing is to produce a sound credit appraisal based on a sound lending policy.

2.7 Measures of Bank Profitability

The profitability of a bank is important both to the owners of the bank, depositors and the community at large.

Certain ratios have been derived which is used to test the profitability of these banks. Some of the basic ones are:

1) Return on Assets (ROA)
2) Return on Equity (ROE)
3) Capital Adequacy
4) Earning Per Share.

1) ROA

This is calculated by dividing a bank's earnings before securities transacted by its average assets during a certain period.

$$\frac{\text{EBS}}{\text{Average Assets}}$$

2) ROE

This shows the rate of return on the capital base. It is calculated by dividing EBS by the amount of stockholders investment

$$= \frac{\text{EBS}}{\text{Capital Base}}$$

3) Capital Adequacy or Capital Ratio

This is computed by dividing total stockholders equity by

total assets

$$\frac{\text{Equity}}{\text{TA}}$$

This usually shows the strength of a bank. The higher the ratio the stronger the bank.

4) Earning Per Share (EPS)

This is computed by dividing the firm's after-tax profit by the total number of shares outstanding:

$$\frac{\text{EAT}}{\text{No. of shares}}$$

The figures obtained could also help us determine how the bank is regarded in the market place i.e. the value of its price per earning ratio, e.g. if the EPS of a bank is ₦8 and the market price of the stock is ₦40, then its

$$P/E = \frac{40}{8} = 5.$$

This ratio can be compared with other banks' ratios in order to determine their relative ratios.

No one ratio can be considered in isolation to the others. They all overlap and strengthen one another in interpretation.

2.8 Conclusion

Having exhaustively discussed the intricacies of credits and debts in relation to their management by the banks it will be obvious by now that it is actually a complex assignment. But then managers are equally trained to handle such complexities. It appears that the most important thing is for managers to be very aware of all the factors involved in this management. They should familiarise

themselves to such an extent with it that it will always be at their finger tips. No factor is either too small or too big, their effects should always be considered. A manager must always try to arrive at an acceptable and optimum balance of the three basic principles of fund management: liquidity, safety and income.

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CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section presents the procedures and methods adopted for the study. The section is divided into the following segments:-

a) Definition of the population sample

b) Instruments for data collection:

1) Mini-testing of the questionnaire

2) Developing the questionnaires (instrument)

3) Data collection: using the instruments.

3.1.1 Definition of the Population and Sample

The population of the study is the financial institution, specifically the commercial banks in Nigeria. These banks were randomly selected. Afribank, Tropical Commercial Bank, and Credit Lyonnaires. The first two banks are classified as part of the older generation banks, while the third one credit Lyonnaires is taken as a representative of the newer banks. This is based on their years of establishments.

In these three banks, only personnel in the relevant department of the banks were selected to fill the questionnaires.

3.2 Instruments for data collection

Two sets of questionnaires were used for this study, one for the advances/loan Officers of the banks and the other for the customers. The customer's questionnaire were designed as a guide for verbal questions. The information obtained are recordedd.

Basically the customer questionnaire was developed to help in varifying some of the information obtained from the banks.

The questions in the questionnaire were developed based on the objectives of this work (i.e. the problem statement) and the necessary analytical instruments. This is in line with Borg and Gall (1983).

"The first step in carrying out a satisfactory questionnaire study is to list specific objectives to be achieved by the questionnaire. You should keep in mind the methods of data analysis that you will apply to the returned questionnaires" (p. 415).

3.2.1 Mini-testing of the instrument and reliability

The first draft of this questionnaire was made in early 1992, in relation to a term paper in managerial finance. It was administered to certain banks in Zaria then, and responses were received.

Before drafting the final one used in this work, shortcomings of the first one were noted and used in restructuring the questionnaire. More questions were also added. The mini-testing helped to improve the reliability of the final one used.

3.2.2 Data collection

The questionnaires were administered by the researcher directly to the banks. Eight questionnaires were presented to each of the banks at the headquarters of Tropical Commercial Bank and the Area Head Office of the other two banks. The eight questionnaires were

administered with the hope of getting back at least five each. At the end of the exercise, Tropical Commercial Bank, Credit Lyonnaire and Afribank returned 5, 4, and 6 questionnaires respectively. Initially all the banks refused to cooperate. They complained about the possibility of the informations getting into the hands of their competitors. They agreed after I convinced them of the fact that the information obtained will be treated as confidential and used solely for this academic exercise. They all gave different time for the collection of the filled questionnaires which none of them could meet. But eventually they did fill the ones collected.

3.3 Methodology of data analysis

Two types of questionnaires as stated earlier were used but only the one used for the bank was tabulated.

The customers questionnaire was only used for cross-checking the information obtained.

The statistical tools, frequency and percentages were used for analysis and interpretation.

Karl Pearsons chi-squared, distribution (x^2 - distribution) were used to test relationships, Thirkettle (1969).

Where $x = \frac{(O - E)^2}{E}$

Where O = observed frequency of officers, in relation to the questions answered.

E = corresponding expected frequency, since the corresponding expected frequency is not known each was obtained by calculation.

The x distribution table was used with a significant level of 0.05 (5%).

3.3.1 Verbal interviews

Several discussions and interviews were carried out verbally with the bank managers in relation to some of the questions.

In the process of this interviews, some information which could not be obtained from the questionnaires were also obtained.

3.3.2 Records, Reports and Publications

These are the major sources of secondary data used in the work. Some of the documents were collected from the banks. But majority of them came from the library.

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CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter contains as the heading has indicated, the analysis and interpretation of data obtained in the research. These are data collected by means of reviewing some literature (bank publications), the administered questionnaires and interviews with both banks officials and the bank customers. As stated before, the customer's interviews may not be presented directly as they are used mostly to verify the information from the bank officers.

The findings as presented in this study are structured into two major parts:

a) Findings related to the banks' lending and collection policies

b) Findings in relation to the banks' strategies of deposit acquisition.

Both sections will round up with a comparative analysis of the three banks. The chapter starts with a brief historical introduction of the three banks used in the study.

4.2 Brief History of the Selected Banks

a) Tropical Commercial Bank

The Tropical Commercial Bank Limited was established in 1974 as a Limited Liability Company with the name, Kano Cooperative Bank Limited. The Bank started business 1st April, 1976 with one branch at Bello Road, Kano.

The Bank's name was changed from Kano Cooperative to Tropical Commercial Bank in March, 1988. This is in order to give it a wider scope and image, taking note of the increasing competition in the banking industry, according to one of the managers.

The authorised share capital of Tropical Commercial Bank is sixty million naira (₦60 million) while the paid up capital of the Bank as at October, 1991 stood at ₦20,249,992.00. As per the information available from the management, there is an arrangement to increase the paid up capital of the Bank to ₦50 million as required by the Central Bank of Nigeria (CBN).

The shareholding structure, which has been recently changed in line with Federal Government Privatization Policy, is as follows:-

1)	Kano/Jigawa State Governments	20%
2)	Kano/Jigawa State Local Govt. Councils	20%
3)	Private individuals/Institutions	40%
4)	Technical Partners (NAL Marchant Bank Limited)	10%
5)	Kano Co-operative Federation	5%
6)	Staff of Tropical Commercial Bank	5%

The services offered by the Bank are Current accounts, Savings Accounts, Foreign Exchange, Letters of Credit, Bills for collection Fixed-term deposits, Agricultural Loans, Equipment leasing, Loans and Advances, Transfer of funds and Saturday Banking Services, etc.

b) **AFRIBANK**:

Afribank Nigeria Limited was established in Nigeria in 1960. It began operation in 1960 at Kano and thereafter moved to Lagos in

1961 to its present Headquaters at 94 Broad Street.

The Bank was formerly known as "International Bank for West Africa". This was changed in 1988 to the present name Afribank Nigeria Limited.

The Banks Capital structure are 50% Federal Government, 10% Staff and 40% Foreign equity participation.

Afribank has four other subsidiaries as follows:-

1) Afribank International Limited (Merchant Bankers)

2) Afribank Insurance Brokers.

3) Afribank Estate Limited.

4) IBWA Finance Company Limited Dublin

c) CREDIT LYONNAIS.

This is an affiliate of the Credit Lyonnais International France. It was established in Nigeria in 1984. It started operations the same year at Ikeja Lagos.

The Capital structure is 60% Nigerian and 40% Foreign. In 1991 the Kano Branch was established. It also has branches at Warri, Onisha, Port-Harcourt and Ibadan.

4.3 CHARACTERISTICS OF SAMPLE BANKS

The three Banks are Commercial Banks based in Nigeria. Two of the Banks Afribank and Credit Lyonnais have their Head quaters in Lagos while Tropical Commercial Bank has it's Headquaters in Kano. The three Banks are established in Nigeria with almost a decade interval between them. Afribank 1960, Tropical Commercial Bank 1974 and Credit Lyonnais 1984.

Tropical Commercial Bank started off as a State Bank (Kano State). But the Bank recently have decided to go National To this effect, the name was changed from Kano Co-operative Bank to Tropical Commercial Bank. Also the Capital structure has been changed as shown ealier to reflect this decision.

4.4 DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.4.1 Findings and Interpretation related to the Banks' Lending and Collection Policies.

The analysis made here is based on some selected indicators of lending and Loan Collection Management.

The following table shows the distribution of Officers of the Banks in terms of their years of experience.

Table 4.1
DISTRIBUTION OF OFFICERS OF BANKS IN TERMS OF YEARS OF EXPERIENCE

Experience	Tropical		Afribank		Lyonnais	
	FREQUENCY	%	FREQUENCY	%	FREQUENCY	%
1 - 5 Years	2	40	4	66.67	4	100
6 - 10 Years	3	60	2	33.33	-	0
11 - 15 Years	-	0	-	0	-	0
15 and above	-	0	-	0	-	-
Total	5	100	6	100	4	100

Source: Questionnaire administered to Banks (See Appendix I)

The above table shows the percentage of the respondents of the three Banks in relation to their years of experience with the Banks.

Both Afribank and Credit Lyonnais have the responding officers more in the bracket of 1 - 5 years experience. While Tropical Commercial Bank has 60% in 6 - 10 years experience bracket and 40% in the 1 - 5 years level. None of the respondents it seems have more than 10 years experience with the respective Banks.

Credit Lynnnais has all the 4 respondents from the 1 - 5 years bracket. This may be explained by the fact that the bank is rrelatively new both in terms of establishment and operation in Kano.

Also from the verbal interview, some of the respondents acknowledged having spent more than the number of years they indicated in the banking industry. In other words, some of them already have some years of banking experience before coming to their present banks.

In relation to questions one and two, all banks operate one form of loan scheme or the other.

All the respondents indicated that it takes their respective banks less than three months to evaluate the application for a loan. Some of the customers interviewed disagreed with this. One particular customer of Tropical Commercial Bank said it took him up to six months to get a loan he applied for. Whatever the case may be, an efficient and early dispatch of applications will be beneficial to both the customer and the bank.

Table 4.2 PROCEDURES FOR APPRAISING AN APPLICANT'S ABILITY TO PAY

Procedures	Tropical		Afribank		Lyonnais	
	Frequency	%	Frequency	%	Freqeency	%
Personal interview	-	0	4	33.3	4	50
Investigating application	4	40	4	33.3	2	25
Application forms	-	0	-	0	2	25
All of the above	6	60	4	33.3	-	0
Total	10	100	12	99.9	8	100

Source: Questionnaire administered to banks (see Appendix I).

Question 4 in the questionnaires sought to know the procedures used by each bank to appraise a loan request from an applicant.

From what we have in table 4.2, it seems that the individual banks use different methods to a certain degree.

Tropical Commercial Bank uses all the proceduress 60% of the time while it uses investigation alone 40% of the time. It appears that Tropical Commercial Bank does not use either personal interview or application forms alone.

Afribank on the other hand uses personal interview, investigation and all of the above "equally 33.3% of the time each." Meanwhile they do not appear to lay much weight on the application form. No respondent from Afribank indicated the use of application. When asked if applications are not significant, one of the respondents from the bank stated that excepting the application contains other relevant informations and documents it is a mere formality. He asserted that

even at this, the authenticity of the documents has to be investigated. He also mentioned that the procedures used to appraise a particular loan depends on a lot of other factors surrounding the loan. For instance, according to him, an old customer who has been borrowing and repaying the bank may not need much investigation as compared to a new customer.

Credit Lyonnais Bank, on the other hand uses personal interview 50% of the time and 25% each for investigation and application form.

When interviewed, one of the bank officials stated that for whatever loan they have to give, there must be a personal interview between the applicant and the loan officer responsible. Thereafter, if necessary, the applicant may be investigated.

Respondents from Afribank further broke down the necessary areas to be analysed as follows-

1) Financial statements
2) Audited Accounts
3) Cash flow projection
4) Continuum statistics.

Murey (1959) seems to agree with the above respondent when he said "for precision workmanship an audited statement is the sharp true blade of analysis.

4.4.1 (a) Collaterals used by banks for credit evaluation

On the question of collateral, all the banks said they require some collateral security for any amount and category of loan. This seems to be a sound practice and is supported by Seber (1961) when he stated

"No matter how wealthy the individual, no matter how "good" his statement, he should be required to secure his obligations." (p. 85).

Furthermore, when interviewed one of the responding officers from Afribank said collaterals are sometimes implied and may not necessarily be very elaborate. For instance, according to him, an overdraft granted to a salary Current Account customer is guaranteed by the next month salary which will surely come to the bank.

What should be at the back of the mind of a bank manager or anybody connected with loan is that collaterals must be the ultimate last resort, (Osaze 1985).

In other words, the loan must be able to stand on its own. This means that loans should be granted because they are viable and not because they have adequate collaterals.

Table 4.3 THE ACCEPTABLE COLLATERALS OF THE BANKS

	Tropical		Afribank		C. Lyonnais	
	Frequency	%	Frequency	%	Frequency	%
Credit Life Insurance	2	14.29	6	25	2	20
Claims to personal and real property	5	35.71	6	25	4	40
Stock and bonds	2	14.29	6	25	4	40
Monetary deposits	5	35.71	6	25	-	0
Total	14	100	24	100	10	100

Source: Questionnaire administered to banks (see appendix I).

From table 4.3 Tropical Commercial Bank uses all the four samples of collateral. But the bank relies more on claims to personal and real property and monetary deposits both of which it uses 35.71% of the time each. The Bank, though it uses Credit Life Insurance and Stocks and Bonds, it does not seem to rely on them much. They are only used to the extent of 14.29% in each case.

Afribank on the other hand uses all the collateral samples distributed. From the equal percentages, it is difficult to know the one most preferred.

Afribank's respondents further specified that they also use personal guarantees.

Credit Lyonnais uses claims to personal and real property and stocks and bonds 40% of the time and credit life insurance 20% of the time. It appears the bank does not consider monetary deposits.

Using collaterals as a last resort protection, as has been stated is a sound policy, but as Osaze (1985) warns, the manager must make sure that the borrower

1) owns the asset
2) hasn't pledged the asset to others
3) has no other encumbrances or encroachment on the property.

This is necessary because any of them could easily invalidate or defeat the purpose of the collateral.

4.4.1 (b) Other factors of credit evaluation

Apart from collateral the other factors of the 6 Cs of credit (p. 37) were also featured. The researcher wanted to know the particular one each bank holds as most important.

Tropical Commercial Bank holds character as the most important of the 6 Cs. This reminds one of Majone (1968), during a Congregational hearing: He said that the only factor he considered in giving out the loan in question was character.

According to him any customer who established a good and consistent history of borrowing and repaying will always want to maintain his reputation, no matter what the adversity is. Most of the managers interviewed agreed with Majone, but a manager from Afribank said that from his experience it seems character must be supported by capacity. He maintains that even the most reputable customer will be hard pressed to repay if the fund is simply not there. He further stated that on the average most customers willingly repay their loans if their business can finance it. From the above interview it is no surprise to find that in the table of preference which was later computed (table 4.4) that Afribank recorded 40% each for both character and capacity. It would appear that Afribank has a policy of giving equal weight to the two factors. Capital commands 20%.

Credit Lyonnais recorded 50% each for character and capacity. A respondent officer in the bank explained that they do not consider one in isolation of the other.

Table 4.4 CREDIT STANDARD PREFERENCE INDICATED BY THE RESPONDENTS (NOTE: COLLATERAL (C) EXCLUDED)

"Cs"	Tropical		Afribank		C. Lyonnais	
	Frequency	%	Frequency	%	Frequency	%
Character	5	100	4	40	2	50
Condition	-	0	-	0	-	0
Personal connection	-	0	-	0	-	0
Capital	-	0	2	20	-	0
Capacity	-	0	4	40	2	50
Total	5	100	10	100	4	100

Source: Questionnaire administered to Banks (see appendix I).

When asked to point out the "Cs" they usually consult in their normal evaluations (not the most important) the table below was produced out of the response to this.

Table 4.5 GENERAL USAGE OF CREDIT STANDARDS INDICATING THE WEIGHTS ATTACHED TO EACH STANDARD

(Note: Collateral (c) excluded)

C's	Tropical		Afribank		C. Lyonnais	
	Frequency	%	Frequency	%	Frequency	%
Character	4	40	6	23.08	4	50
Conditions	-	-	4	15.39	-	0
Personal connection	2	20	4	15.39	2	25
Capital	-	-	6	23.08	-	0
Capacity	4	40	6	23.08	2	25
Total	10	100	26	100	8	100

Source: Questionnaire administered to Banks (see appendix I).

The analysis of table 4.5 is not much different from that of 4.4, the only new and significant factor is that all the banks appear to use personal connection as part of the 6 Cs. The significant thing about this fact is that personal connection does not exist in any banking literature as a conventional standard for credit evaluation. When interviewed, a manager from Tropical Commercial Bank agreed that it is not one of the credit standards. But he was quick to point out that it is part of Nigeria banking reality. He said that he believes all banks use it, though to different degrees. An officer of Afribank sees it as part of personal guarantees. He does not see anything wrong with it, if it is objectively appraised.

The problem with personal connection is that it is always subjective. There is always an "extra" banking interest involved.

4.4.1 (c) Collection of defaulted loans

On the issue of collecting defaulted loans it seems the three banks use similar procedures as the table below shows.

Table 4.6 PROCEDURES USED FOR COLLECTING OVERDUE LOANS

Procedures	Tropical		Afribank		C. Lyonnais	
	Frequency	%	Frequency	%	Frequency	%
Reminder letters	5	31.25	6	33.33	4	33.33
Direct contact	5	31.25	6	33.33	4	33.33
Demand letters	1	6.25	-	0	-	0
Court Action	5	31.25	6	33.33	4	33.33
Total	16	100	18	99.99	12	99.99

Source: Questionnaire administered to Banks (see appendix I)

Methods of collecting overdue loans seem not to be very different in all the banks. The table indicates they use all the procedures listed in the question.

All respondents interviewed said that usually they start off by writing reminder letters to the customer. After about two or three reminders on the average, direct contact is made with the customer either through the phone or a personal call is paid to the customer.

Tropical Commercial Bank indicated that after direct contact yields no fruitful result, demand letters are now written to the customers.

All the banks as indicated in the table agree that court action is used. But they all pointed out that it is only as a last resort. This is probably because court actions may not have any positive contribution to the image of the bank.

On the question of what period of grace is usually given to a defaulting customer before being taken to court. Most of the respondents said it depends on terms of the loan.

They also indicated that either the branch or the head office could handle such issue, depending on the particular case, i.e. the nature of the loan and the amount involved may determine who handles it.

All the banks stated that the incentive given to customer for early payment of their loan is that future loan will be made easier for them.

Afribank also stated that commendation letters are written to them. Furthermore, the three banks unanimously hold that their lending and collection policies are only reviewed when the need arises.

On the question of when the banks stop recording interest on overdue loans. Most of the respondents stated that they follow the "prudential guidelines" provided by the Central Bank.

Afribank respondents stated that as a matter of policy, the bank follows the following procedures in declearing a loan bad.

(Apart from the prudential guidelines).

3	months	Without	Operation	25%	bad
6	"	"	"	50%	"
9	"	"	"	75%	"
1	year	"	"	100%	"

This means that after a year of a loan being dormant, it is completely written off as bad debt. This is usually charged out as expenses. When interviewed, an Afribank official stated that after the loan has been written off, if it is collected, it is then regarded as profit. The other two banks seem to follow the prudential guidelines strictly since that is the only thing they filled in.

4.4.1 (d) Strategic differences between the banks in loans management

The fourth question (4) under the problem statement is in relation to the strategic differences between these banks.

Having presented and analysed the datas in relation to credit and loans management, it will be pertinent now to test if there is any difference in their strategic approaches in credit management. Information on method of credit evaluation is used because it is the major issue on loans management.

In order to do this the researcher used the chi-square as stated in the methodology. With a 5% significant level.

4.4.1 (e) Hypotheses on strategic approach to credit management

The following hypotheses are advanced:

(1) HO_1 There is no difference in the credit evaluation policy of the three banks.

Ha_1 There is a difference in credit evaluation policy between the three banks.

(2) HO_2 There is no difference in the methods of collecting overdue loans between the three banks.

Ha_2 There is a difference in the methods of collecting overdue loans between the three banks.

In order to test these hypotheses the appropriate method for the analysis is the Y by X table.

The expected frequencies have to be calculated. This is done by dividing the sum of element in the row by sum of the observed frequenc frequencies, multiply by total elements in each column.

Example: from table 4.7

$$\frac{14}{44} \times \frac{10}{1} = 3.18$$

$$\frac{4}{44} \times \frac{10}{1} = 0.9 \text{ etc.}$$

The "O", "E" and X^2 are as indicated in the methodology

Table 4.7 GENERAL USES OF CREDIT STANDARD INDICATING WEIGHT ATTRIBUTED TO EACH STANDARD

(Note: Collateral (c) excluded)

C's	Tropical		Afribank		C. Lyonnais		Total
	'O'	'E'	'O'	'E'	'O'	'E'	'O'
Character	4	3.18	6	8.27	4	2.54	14
Conditions	-	0.91	4	2.36	-	0.73	4
Connections	2	1.82	4	4.73	2	1.45	8
Capital	-	1.36	6	3.55	-	1.09	6
Capacity	4	2.73	6	7.09	2	2.18	12
Total	10		26		8		44

Source: Questionnaire administered to Banks (see appendix I)

It is assumed that the Null (HO_1) is true, X2 is calculated, then compared with the value of x2 00.05 (significant level of 5%).

$$X^2 = \sum \frac{(O - E)^2}{E}$$

$$\text{i.e.} = X_2 = \frac{(4 - 3.18)^2}{3.18} + \frac{(6 - 8.27)^2}{8.27} + \frac{(4-2.54)^2}{2.54}$$

$$+\frac{(6-0.91)^2}{0.91} + \frac{(4-2.36)^2}{2.36} + \frac{(0-0.73)^2}{0.73} +$$

$$+\frac{(2-1.82)^2}{1.82} + \frac{(4-4.73)^2}{4.73} + \frac{(2-1.45)^2}{1.45}$$

$$+\frac{(0-1.36)^2}{1.36} + \frac{(6-3.55)^2}{3.55} + \frac{(0-1.09)^2}{1.09}$$

$$+\frac{(4-2.73)^2}{2.73} + \frac{(6-7.09)^2}{7.09} + \frac{(2-2.18)^2}{2.18}$$

$$X^2 = 9.394$$

df = (Y - 1) (K - 1) (df is degree of freedom)

= (3 - 3) (5 - 1)

= 8.

The critical value X^2 0.95 for 8 degrees of freedom is 15.5

i.e. $\hat{X}2$ 0.95 = 15.5.

Using table 4.7 to test hypothesis Ho1: calculated X2 = 9.394.

df = 8.

$\hat{X}2$ 0.95 = 15.5.

Since $\hat{X}2 < \hat{X}2$ 0.95, we can not reject the NULL Hypothesis (Ho1). We can then conclude that there is no difference in the method of credit evaluation of the three banks, based on this calculated.

Testing for the second Hypothesis. The method of calculations are exactly the same with the one above.

Table 4.8 PROCEDURES FOR COLLECTING OVERDUE LOANS

Procedures	Tropical		Afribank		C. Lyonnais		Total
	'O'	'E'	'O'	'E'	'O'	'E'	O
Reminder letter	5	5.22	6	5.87	4	3.91	15
Direct contact	5	5.22	6	5.87	4	3.91	15
Demand letters	1	0.35	-	0.39	-	0.26	1
Court action	5	5.22	6	5.87	4	3.91	15
Total	16		18		12		46

Source: Questionnaire administered to Banks (see appendix I).

It is assumed that the Null (HO2) is true and $\hat{X}2$ is calculated, then compared with the value of $\hat{X}2$ 0.05.

$$\hat{X}2 = \frac{(O - E)^2}{E}$$

$$\hat{X}2 = \frac{(5-5.22)^2}{5.22} + \frac{(6-5.87)^2}{5.87} + \frac{(4-3.91)^2}{3.91}$$
$$+ \frac{(5-5.22)^2}{5.22} + \frac{(6-5.87)^2}{5.87} + \frac{(4.3.91)^2}{3.91}$$
$$+ \frac{(1-0.35)^2}{0.35} + \frac{(0-0.39)^2}{0.39} + \frac{(0 - 0.26)^2}{0.26}$$
$$+ \frac{(5 - 5.22)^2}{5.22} + \frac{(6 - 5.87)^2}{5.87} + \frac{(4 - 3.91)^2}{3.91}$$

$\hat{X}2 = 1.903.$

df = (3 - 1) (4 - 1)

= 6.

The critical value of $\hat{X}2$ 0.95 for 6 degrees of freedom is = 12.6.

i.e. $\hat{X}2$ 0.95 = 12.6

Since X2 $<$ X2 0.95, we can not reject the Null Hypothesis HO2. We can then conclude that there is no difference in their credit collection procedures.

Summarily, since there is no difference in the three bank's method of credit evaluation and there is also no difference in their credit collection policies, from the calculation, then there is no strategic difference in the credit management policies of the banks.

4.4.2 Findings and interpretation in relation to the Banks' Strategies of Deposit Management

The three banks indicated that their most active and major source of fund is the Current Accounts.

4.4.2 (a) Factors influencing interest rates

On the issue of the factors influencing interest rates, the table below summarises their responses.

Table 4.9 FACTORS INFLUENCING INTEREST RATES

Influencing factors	Tropical		Afribank		C. Lyonnais	
	Frequency	%	Frequency	%	Frequency	%
Competition	1	10	4	22.22	4	40
Availability of funds	4	40	4	22.22	2	20
Bank policy	2	20	6	33.33	2	20
Central Bank directives	3	30	4	22.22	2	20
Total	10	100	18	99.99	10	100

Source: Questionnaire administered to Banks (see appendix I).

From the table above (4.9), the major factor that influences the rate of interest of Tropical Commercial Bank is the availability of funds, which scored a weights of 40%. This is closely followed by Central Bank guidelines, in the form of directives, which attracted a weight of 30%. Other competing banks interest rates does not appear to influence Tropical Bank much. This may not be a very sound policy of the Bank. The banking industry is fiercely competitive.

Customers now have a wide variety of choice in banks and as such can easily be influenced by factors like interest rate. It should be a wise policy for a bank to be sensitive to the interest rates in the market. Along this line Compton (1983) states as follows:-

"Corporate institutions, individual and government customers are quick today to take the full advantage of the many opportunities available to them. They tend to leave deposit only where there is an attractive rate of interest or range of services or both" (pp. 87-88).

Afribank from the table (4.9) has the highest weight of consideration on the bank policy which have attracted 33.33% while the others have an equal consideration of 22.22% each.

It should be noted that a bank's policy may contain the relative weight of consideration to be given to each factor.

In other words since we do not know what the bank policy contains it may not be easy to analyse any weight attached to it. The only significant point here is that Afribank considers the bank's policy above every other factor in determining her interest rate.

Credit Lyonnais on the other hand holds competition as the highest factor of influence in fixing interest rates of the bank, as the table shows (40%). When interviewed, the credit manager said their major concern is to keep abreast of the competitive rate in the market as much as possible. He pointed out that factors like Central Bank directive is basic and does not need to be considered since every bank will have to abide by it. This is true.

A Central Bank directives is most often than not an order which all banks will have to comply with.

Credit Lyonnais have equal weight for all other factors i.e. 20%.

On the question of flexible interest rate, Tropical Commercial Bank respondents said they have flexible interest rates.

Afribank respondents said they do not have flexible interests. In other words no matter who the customer is, all deposit of the same class attract standard interest rates.

Credit Lyonnais, on the other thand, stated that they operate flexible interest rate. When interviewed, the Credit Officer said that most of their time deposit interests are negotiable. In other words, it depends on the customers negotiation.

Flexible and non flexible interest rates have their advantages and disadvantages, for instance a customer with the same class of deposit may feel cheated if he gets a smaller interest rate. On the other hand operating a flexible interest rate may enable a manager influence a hesitant customer.

4.4.2 (b) Customer Enlightenment Programmes

On the question of customer enlightenment programmes the table below provides the responses of the banks.

Table 4.10 INSTRUMENT OF PROMOTION AND ENLIGHTENMENT

Instruments	Tropical		Afribank		C. Lyonnais	
	Frequency	%	Frequency	%	Frequency	%
Lectures	-	0	1	6.67	-	0
Conferences	-	0	3	20.00	-	0
Publications	3	37.5	5	33.33	2	33.33
Advertisement	5	62.5	6	40.00	4	66.67
Total	8	100	15	100	6	100

Source: Questionnaire administered to Banks (see appendix I).

It will appear from the table that all the banks put a lot of premium on advertising as an instrument of public campaign and enlightenment. Even though advertisement was not included in the list of choice. It still attracted the highest percentage in all the three banks.

This is perhaps as it should be, especially in a fiercely competitive industry like the banks presently.

An advert manager once said that "if you do not say here I am, nobody will say there you are". Linquist (1956) is in support of educational and promotion programmes but inferred that it should be tailored towards specific groupings.

"Educational and promotion programmes may be devised even for rather narrow groupings e.g. Automobile dealers, accountants, Teachers' Association executives etc."

Lectures and conferences seem to attract very low consideration as an instrument of enlightenment for the three banks, publications take the second place after advertisement with 37.5% and 33.33% for Tropical, Afribank and Lyonnais respectively.

All the three banks cited computerisation as an instrument in reducing customers waiting queue.

On the question of architectural influence, Tropical and Afribank agreed that architectural aesthetics and "customer conveniences" influence customer volume.

Credit Lyonnais disagreed with this view by filling "No" in the

questionnaire. Credit Lyonnais' response does not agree with the researcher's expectation.

The current trend of well sculpted premises for banks is led by new banks, so based on this, the researcher expected redit Lyonnais to agree with the new trend but the contrary was the case.

4.4.2 (c) Strategic Relationship between the three banks in relation to deposit management

Once again in accordance with the questions of the study we have to test for strategic relationship between these three banks in relation to deposit management.

4.4.2 (d) Hypotheses on strategic relationship between the three banks on deposit management

In order to do this the chi-square as stated in the methodology will be used. The following hypothesis are advanced:

1) H_{o1} There is no difference in factors influencing interest rate of the three banks.

   H_{a1} There is a difference in the factors influencing interest rate of the three banks.

2) H_{o2} There is no difference in the promotion and enlightenment programmes of the three banks.

   H_{o2} There is a difference in the promotion and enlightenment strategy of the three banks.

The appropriate method to test the above hypothesis is by r by k table.

The method of calculation remains exactly the same with the last chi-square testing.

Table 4.11 FACTORS INFLUENCING INTEREST RATES

Influencing factors	Tropical		Afribank		C. Lyonnais		Total
	"O"	"E"	"O"	"E"	"O"	"E"	"O"
Competition	1	2.37	4	4.26	4	2.37	9
Availability of funds	4	2.63	4	4.74	2	2.63	10
Bank policy	2	2.63	6	4.74	2	2.63	10
Central Bank directives	3	2.37	4	4.26	2	2.37	9
Total	10		18		10		38

Source: Questionnaires administered to banks (see appendix I).

It is assumed that (HO1) Null is true and $\hat{X}2$ is calculated, then compared with the value of $\hat{X}2$ 0.05.

$$\hat{X}2 = -(O - E)^2$$

$$\hat{X}2 = \frac{(1 - 2.37)^2}{2.37} + \frac{(4 - 4.26)^2}{4.26} + \frac{(4 - 2.37)^2}{2.37}$$

$$+ \frac{(4 - 2.63)2}{2.63} + \frac{(4 - 4.74)^2}{4.74} + \frac{(2 - 2.37)^2}{2.37}$$

$$+ \frac{(2 - 2.63)2}{2.63} + \frac{(6 - 4.74)^2}{4.74} + \frac{(2 - 2.63)2}{2.63}$$

$$+ \frac{(2 - 2.63)2}{2.63} + \frac{(6 - 4.74)2}{4.74} + \frac{(2 - 2.63)2}{2.63}$$

$$+ \frac{(3 - 2.37)2}{2.37} + \frac{(4 - 4.26)2}{4.26} + \frac{(2 - 2.37)2}{2.37}$$

$$\hat{X}2 = 3.303.$$

$$df = (3 - 1)(4 - 1) - (4 - 1)(k - 1)$$

$$= 2 \times 3 = 6.$$

The critical value of $\hat{X}2$ 0.95 for 6 degrees of freedom is = 12.6, i.e. X2 0.96 = 12.6.

Using table 4.11 to test hypothesis Ho1 calculated

$X2 = 3.303$

$df = = 6$

$X2\ 0.95 = 12.6$

Since $X2 < X2\ 0.95$, we cannot reject the Null hypothesis Ho1. We can then conclude that there is no difference in the factors that influence the interest rates of the three banks.

The second hypothesis is in relation to promotion and enlightenment programmes. In order to test the hypothesis we need table 4.12 below.

Table 4.12 INSTRUMENT OF PROMOTION AND ENLIGHTENMENT

Instruments	Tropical		Afribank		C. Lyonnais		Total
	'O'	'E'	'O'	'E'	'O'	'E'	'O'
Lectures	-	0.22	1	0.55	-	0.21	1
Conferences	-	1.83	3	1.65	-	0.62	3
Publications	3	2.76	5	5.52	2	2.07	10
Advertisement	5	4.14	6	8.28	4	3.10	15
Total	8		15		6		29

Source: Questionnaire administered to Banks (see appendix I).

It is assumed that (HO2) Null is true and X2 is calculated and compared with X2 0.05 value.

$$X2 = \sum \frac{(O - E)2}{E}$$

$$X2 = \frac{(O - 0.22)2}{0.22} + \frac{(1 - 0.52)2}{0.55} + \frac{(O - 0.21)2}{0.21}$$

$$+ \frac{(0 - 0.83)2}{0.83} + \frac{(3 - 1.65)2}{1.65} + \frac{(0.062)2}{0.62}$$

$$+ \frac{(3 - 2.76)2}{2.76} + \frac{(5 - 5.52)2}{5.52} + \frac{(2 - 2.07)2}{2.07}$$

$$+ \frac{(5 - 4.14)2}{4.14} + \frac{(6 - 8.28)2}{8.28} + \frac{(4 - 3.10)2}{3.10}$$

$\hat{X}2 = 4.554$

$df = (3 - 1)(4 - 1) = 6$

$\hat{X}2\ 0.95 = 12.6$

$\hat{X}2,\ 4.554 \quad \hat{X}2\ 0.95,\ 12.6.$

Since $\hat{X}2 < \hat{X}2\ 0.95$ we cannot reject the Null hypothesis HO2. We can then conclude that there is no difference in the promotion and enlightenment strategy of the three banks.

Summarily, since there is no difference in the interest rate policies of the three banks and also there is no difference in the promotion and enlightenment programme of the three banks the researcher believes it can be safely concluded that there is no difference in the deposit management strategies of the three banks.

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CHAPTER FIVE

5. RESEARCH FINDINGS, RECOMMENDATIONS AND CONCLUSION

The problem of this study is in relation to what methods and strategies the bank uses to attract deposit and subsequently how the credit thereof is managed.

Since it is not possible to study all the banks in the banking sector, commercial banks were specifically chosen and a case study made of three selected banks.

They are Tropical Commercial Bank, Afribank and Credit Lyonnais.

The purpose of the study in essence, is aimed at contributing towards efficiency in funds management of the banks.

The response to both the questionnaire and verbal interview are grouped into selected factors that serve as indicators of deposit and credit management. This ranges from interest rate policy, marketing strategies, lending policy to collection policies.

From the research problem and the purpose of the study, several related questions and hypotheses were analysed with interesting results.

The central theme of the study is to investigate the proccesses used by these banks in their deposit and loan management and finding out if there exist a strategic difference between the three banks.

5.1 Research Findings

The findings will be divided into two, representing findings on deposit management and credit management.

5.1.1 Credit Management

(i) Length of experience of managers

The distribution of the respondents in terms of years of experience with the banks as table 4.1 shows is schewed towards 1 to 5 years. More than sixty percent of them indicated this level of experience. These groups of staff are all from the credit and deposit department of the banks. These two departments are very essential to the survival of any bank. Thus one would have expected people with more years of experience in those positions, especially as two of the banks, Tropical and Afribank are relatively older banks.

Credit Lyonnais has 100 percent of the respondent officers in the same level of experience (1 - 5 years). It is possibly because the bank as a branch in Kano has not existed up to five years.

(ii) Time taken to process application for loan

The three banks takes three months or less to process customers applications for loan. During an oral interview a manager in Tropical Commercial Bank, said that on the average it does not take more than one month. But there is an indication that the type of loan, amount requested and whom the customer is, may have influence on the time taken to process the loan.

(iii) Procedures to appraise 'loans'

In procedures taken to appraise loans, Tropical Commercial Bank uses investigation of applicant 40% of the time while it may decide to use the three procedures personal interview, investigation and application form 60% of the time.

Afribank does not use application form as a basis of appraisal but uses the other three options equally, 40% of the time.

Credit Lyonnais concentrates on personal interview backed up by investigation and application forms. It does not find the need to use all three at the same time (these facts are partly presented by the table 4.2).

It may not matter the particular procedure used so far as adequate information is provided.

(iv) Use of collateral for granting loan

The three banks use collateral for all their categories of loan. This is perhaps as it should be. The collaterals used range from credit life insurance, claims to personal and real property, stocks and bonds to monetary deposits.

Credit Lyonnais does not consider monetary deposit as a viable collateral.

(v) Credit evaluation as a strategy for credit management

The strategies of credit evaluation is the core of credit manngement. It is this factor that actually determines whether a customer gets the loan or not. The central policies of credit management, revolves around credit evaluation.

a) Use of 'character' in credit evaluation

On this issue Tropical Commercial Bank regards "character" as the major basis of credit evaluation (table 4.4), while Afribank and Credit Lyonnais regards character and capacity together as the prime factors of credit evaluation.

Character is the history (past records) and personality of the customer while capacity is based on the analysis of the customer's financial statement.

b) Use of 'connection' in credit evaluation

The three banks use connection as an evaluation standard as well, even though it is not a conventional criterion. This should not be encouraged. It is a very subjective criterion often based on sentiments. It also lacks theoretical support.

c) Collection of overdue loans

In collecting overdue loans, the three banks lay equal emphasis on reminder letters, direct contacts, and court actions.

Only Tropical Commercial Bank uses demand letters before finally going to the court.

Non operational loan are usually written off gradually by Afribank up to a year, when the total amount is then regarded as bad. The other two banks also write off a non operational credit after a year, but follow the prudential guidelines strictly.

(vii) Bad debts and credit evaluation

Bad debt is a bad dream to banks. It constitutes a very significant portion of bank expenses. Apart from this there is always a conotation that some one did not do a sound credit evaluation which resulted to the bad debt.

The fact is that bad debt can not be wished away, no matter how efficient a bank may be. The ultimate objective of any credit manager should be to minimise bad debt as much as is humanly possible and not

necessarily to eliminate it completely. Minimisation of bad debt can only be based on efficient evaluation of credit based on sufficient information on the customer and his financial statement.

Subjective judgements should be discouraged. Quantitative analysis should be given more emphasis.

(viii) Result of tested hypotheses

In order to test the strategic relationship between the three banks, in credit management, hypothesis to that effect was proposed.

It was hypothesised that there is no difference in the credit evaluation policy of the three banks, (HO1).

Conclusion:- The analysis of data used in testing the hypothesis (table 4.7) shows that the methods used by the two banks are not significantly difference in appraising an applicants' ability to repay the loan or advances given to him.

It was also concluded that there is no difference in their method of credit collection policies (HOII).

5.1.2 Deposit Management

"Demand deposit" constitutes the largest portion of the three banks deposits, specifically Current Accounts.

(i) Factors influencing interest rates

Factors that influence and determine the interest rates of the three banks range from competition, availability of funds, bank policy and Central Bank directives. From table 4.9 it appears the three banks consider all the above factors before they fix their interest on

deposit. But the factor that command the major weight in the three banks are different.

For instance, Tropical Commercial Bank has availability of funds as the major factor that influences its interest policy.

This factor attracts 40% weight followed by Central Bank directives. This means that the interest Tropical Bank decides to fix on a deposit beyond the dictates of the Central Bank would be directly influenced by whether the bank has sufficient funds or is aggressively seeking more funds.

The bank seems to ignore, to a large extent, the influence of competitors rate on the customers.

Ignoring the influence of competitors on customers is, to say the least, not in the best interest of the bank.

Afribank major factor of influence is the bank's policy which commands a weight of 33.3%. This is not very easy to analyse and interprete because the bank's policy may also contain guidelines on the other factors.

On the other hand, Credit Lyonnais has a major policy of going along with competition, this appears to be a sound policy, but the bank should make sure it also takes the consideration of other factors into account as they help to keep the bank's feet on solid ground of practical reality. It has 40% weight for competition and 22.22% for other factors each.

Tropical Commercial Bank and Credit Lyonnais operate flexible interest rate while Afribank does not change her interest rates outside

stated guidelines. In other words for Afribank all deposits, within the same class attract equal interest rates.

The position of Tropical Commercial Bank and Lyonnais means they can change their interest rates at will in relation to circumstances.

The three banks see advertising as their major source of promotion and public enlightenment, followed by publications.

Credit Lyonnais and Tropical Commercial Bank do not appear to have much interest in the use of lectures and conferences in promotions.

(ii) Reducing customer "Queue"

On the issue of reducing customer queue the three banks saw computerisation as their solution to it. Afribank further uses officers of "signatory" level as Cashier, so that the time wasted in passing documents around for an officer's signature would have been saved. This appears to be a good innovation which the other two banks are not using.

(iii) Customer volume and 'convenience appeal

Afribank and Tropical Commercial Banks see a relationship between customer and volume and the bank's aesthetics and conveniences appeal. This view is in line with the recent development of banks erecting well sculptured buildings as the bank premises.

In order to test the strategic relationship between the banks in deposit management, 2 (two) hypothesis were raised.

Once again the chi-square was used to test the relationship

(1) It was hypothesised that there is no difference in the method of fixing interest rates by the three banks (Ho1).

Conclusion: The analysis of the data used in testing the hypothesis (table 4.11) shows that there is no difference in the methods used by the three banks in fixing their interest rate.

(2) It was also hypothesised that there is no difference in the promotion and enlightenment programmes of the three banks (HoII).

Conclusion: The analysis of the data used in testing the hypothesis (table 4.12) indicated that there is no significant differences in the promotion and enlightenment programmes of the three banks.

Summarily, since these two factors (interest rates and promotion programmes) are the main indicators of deposit management according to the information onbtained, it therefore means there is no significant difference in the three bank's deposit management strategies.

Generally, there are some functional differences as has been presented earlier, but they are not necessarily significant according to the tested hypothesis.

5.2 Recommendations

The following recommendations are based on the findings to which the researcher was exposed to during the course of this work. It is hoped that these recommendations if implemented will be of considerable help towards improving the efficiency of commercial banks in the area of deposit and credit management to the benefit of the banks and the society in general.

5.2.1 Credit Management

(1) Banks should develop a standard process of establishing "sound" loans, i.e. loans should not be given simply because it is viable or safe. The impact of the loan to the community as a whole must be considered also.

(2) Many a bad loan are given because of inadequate information. Information is the bedrock upon which any loan can be evaluated. Therefore banks should emphasize avenues of obtaining more information about a customer, both before and after the loan has been granted to him.

The information before will enable the Credit Manager to execute a sound judgement based on knowledge, while the information after will enable the bank to keep track of the loan and influence its safety as far as possible, or otherwise take appropriate action as soon as possible.

Actually an advice in time may just be what the customer needs to turn a non-performing loan around.

(3) Banks should establish computerised information department. The duties of this department should be that of gathering, processing and storing information, pending when they are needed.

This department will be responsible for keeping track of customers and reporting any unusual development for management action. This department should be independent and have an advisory relationship to all other departments, for instance, when a customer applies for a loan his application should be sent to this department for necessary

information. Then the application is sent back to the manager who now makes a decision based on those information.

Neither of the three banks used in this study has this department for now.

An alternative way of doing this is for banks to collectively float an information (financial) marketing limited liability company. This type of company operates in developed countries.

(4) Branch managers should be given more powers to grant loans.

The present practice of the banks studied is that the branch managers have a very limited amount which they can approve.

Anything above that will have to be approved from the headquarters. This rather lengthens the processing period. The reason for this could be that the branch manager is not qualified enough to give out such loans. If this is the case then the banks should either improve the qualification of their branch managers or deploy adequately qualified ones.

(5) Credit evaluation should be more quantitative. The use of methods like multiple discriminant analysis (MDA), sequential decision process (SDP) etc. should be encouraged. This will help the bank manager to be less subjective in their credit evaluations. When used against theoretical evaluations, the researcher believes a better result can be obtained. This may involve having to train the manager on how to use these methods. None of the three banks studied uses this for now.

(6) Personal connection as a method of credit evaluation should be discouraged as much as possible. The method has no

theoretical foundation and is mostly subjective and based on sentiment.

(7) "Grace period" given to a defaulter should not be too long, and banks should do a constant review of loans and outstanding accounts. According to Sebba (1961). "It is only when that person in charge, conducts review regularly over a period of months does he begin to detect patterns that spell potential trouble." Along this line Kirkman (1977) suggests that debtors be categorised into three main groups, namely:

a) Those who cannot pay any of their debts

b) Those who can pay part of it

c) Those who can pay but for one reason or the other are delaying payment.

He holds that for an effective collection policy different strategies have to be applied to the three categories. The researcher supports this view.

(8) The level of the cashier should be upgraded to a "Signatory Officer" level so that he does not need to refer to another Officer for signature before paying a valid cheque. Of the banks in this study only Afribank presently uses this method. This method will certainly help to reduce customers queue in banks.

(9) Finally, banks at all times must try to minimise idle funds as it does not serve any purpose, least of all the society in general.

5.2.2. Deposit Management

1) Flexible interest rates should be encouraged but managers

should be very careful because even though it may influence hesitant customers, others may feel that they have been unfairly treated if they find some other customer earning a higher interest in the same category of deposits.

2) New branches in newly developed shopping centres and residential areas should be established.

3) Well designed buildings with enough space for parking conveniences should be encouraged as it seems to have influence on customer volume.

4) Interest rates should be made as attractive as possible while not losing sight of the basic factors of interest valuation.

5) Research and marketing departments should be established to help towards packaging new services, and promoting the banks business as a whole.

6) Customer analysis should be encouraged as this would help the bank in developing streamlined promotion and enlightenment programmes to specific groups of customers.

5.3 CONCLUSION

Having come so far through the length of this work, one thing that must have registered as obvious is the fact that credit and deposit management is a complex task.

But this may not be such a problem to a well trained and experienced manager. All he needs is clear-headedness, dedication and a commitment to efficiency.

The findings of this work have been presented and analysed.

The banks used in this study appear to have no strategic differences in their approaches to credit and loans management.

The banks appear to be doing quite fine as most of their practices are well grounded in theories except one or two places where some shortcomings have been pointed out and new ideas suggested.

It is hoped that the recommendations made in this work, if implemented would be of help towards improving the efficiency of commercial banks in particular and the financial institutions in general to the benefit of the society.

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APENDIX 1.

SURVEY QUESTIONNAIRE FOR BANK OFFICIALS

DEPOSIT AND LOANS MANAGEMENT IN COMMERCIAL BANKS
(A STUDY OF SELECTED BANKS IN NIGERIA.)

INTRODUCTION

This is an MBA research project on the above topic. Your Organisation based on "random selection" has been selected among the banks for this study. I shall remain gratefull if you would kindly help in answering the questions provided bellow.
Any information rendered will be considered as confidential and used solely for this academic purpose.

Instruction

Please tick accordingly in the boxes provided
Tick only one response or more than one if applicable.

SECTION A

PERSONAL IDENTITY

(1) Name of your bank .....

(2) Present Possition or Rank .....

(3) How long have you been with your present employer?

(a) 1-5 years ☐ (b) 6-10 years ☐

(c) 11-15 years ☐ (d) 16 years and above ☐

SECTION B

LOANS MANAGEMENT

(1) Does your Bank operate any loan scheme?

(a) ☐ Yes (b) ☐ No

(2) If the answer in (1) is yes, which of these categories of loan does your bank operate?

(a) Agricultural Loan only ☐

(b) Agricultural and Personnel Loan only ☐

(c) Housing Loan, Agricultural, Personnel Loan. ☐

(d) Others (Please specify) .....

(3) How long does it take to evaluate an application for a loan from the date of submission?

(a) ☐ Less than 3 months (b) ☐ 3-6 months

(c) ☐ 6 - 9 months (d) ☐ Above 9 months

(4) When assessing an applicants ability to repay, which of these sources of information do you usually use?

(a) ☐ Personnal interview

(b) ☐ Investigating the applicant

(c) ☐ Application forms

(d) ☐ Others (Please specify) .....

5) Does your bank always require some collateral security for any amount and category of loan?

(a) ☐ Yes (b) ☐ No

(6) If the answer above is yes what are the acceptable collateral)

(a) ☐ Credit life insurance

(b) ☐ Claims to Personnel and real property.

(c) ☐ Stocks and bonds

(d) ☐ Monetary deposite

(e) ☐ Others (Please specify) .....

(7) Apart from collateral, which of these is used along with it to judge the credit worthiness of a customer?

(a) ☐ Character (b) ☐ Condition

(c) ☐ Personal connection (d) ☐ Capital

(e) ☐ Capacity

8. Which among the 6 C's does your Bank consider to be the most important?

.....

9. Does your Bank have any standard procedure(s) for collecting loans?

(a) Yes ☐ (b) No ☐

(10) If answer in (9) is Yes. State the procedure(s)

(a) .....

(b) .....

(c) .....

(d) .....

(11) In default cases what step(s) does your bank normally take to recover the outstanding amount.

(a) Send a reminder letter

(b) Send some staff to find out from the customer Why he could not pay.

(c) Sue the customer to court

(d) All of the above.

(12) What grace period is normally given to the defaulter before taking any legal action?

(a) 3-6 months (b) 6-9 months (c) 9-12 months

(d) 1 year and above (e) Specify .....

(13) Which level handles default cases;

(a) ☐ Branch level (b) ☐ Area Office

(b) ☐ Head Office

(14) Does your bank have a credit department?

(a) ☐ Yes (b) ☐ No

(15) If (14) above is yes, is the department in all:-

(a) ☐ Branch level (b) ☐ Area Office

(c) ☐ H/Q level (d) ☐ All of the above

(16) Is the individual branch responsible for approving loans and collecting over due accounts?

(a) ☐ Yes (b) ☐ No

(17) Does your bank also have legal department separately from the credit department?

(a) ☐ Yes (b) ☐ No

(18) What functions are performed by the legal department?

(a) .....

(b) .....

(c) .....

(19) What happens where a fore closure is not worth as much as the outstanding loan principal? Who bears the lost?

.....

.....

(20) Does the bank usually penalise defaulters

(a) ☐ Yes (b) ☐ No

(21) If (20) is Yes, what penalties, and at what stage of default?

.....

(22) Does your bank provide any incentive for early payment?

☐ Yes ☐ No

If Yes state the nature of the incentive(s) .....

.....

(23) How will you rate loan recovery in your bank?

(a) ☐ Good (b) ☐ Poor (c) ☐ Satisfactory

(d) ☐ Very Poor

(24) For the period 1985 - 1990. How much did your bank spent (Expenses) in collecting arrears. Please give a break down if possible into year, items, loan and category.

.....

.....

.....

.....

(25) Does the bank have any insurance arrangement against arrea ages?

(a) ☐ Yes (b) ☐ No

(26) If (25) is Yes. How much has been recovered through this for the period 1985 - 1990?

.....

(27) What condition(s) is/are attached to accounts that is/are reviewed, iff applicable

.....

.....

.....

(28) How often is the lending policy and collection policy reviewed in your bank.

(a) ☐ 3 - 6 months (b) 6 -12 months ☐

(c) ☐ 1 year - 5 years (d) ☐ When need arises

(29) Does your Bank always let customers know the risk associated with default payment?

(a) ☐ Yes (b) ☐ No

(30) When do your bank stop recording interest on over due loans?

(a) 2 - 5 months ☐ (b) 6 - 9 months ☐

(c) 9 - 12 months ☐ (d) 1 year and above ☐

(31) After what period of default is a debt considered bad.

(a) 3 months ☐ (b) 6 months ☐ (c) 1 year ☐

(d) 2 years ☐ (e) Specify .....

SECTION C

DEPOSIT MANAGEMENT

(1) Which of the following is your banks major source of funds?

a) Time Deposits. (b) Demand Deposits (c) Savings deposit (d) Current Account Deposits.

(2) What influences the banks rate of interest on deposits.

(Please rank them in order of importance by writing 1 to 4 in the space provided)

(a) Competition ☐ (b) Availability of funds ☐

(c) Bank Policy ☐ (d) Central bank directive ☐

(e) Any other factor: Specify .....

.....

(3) Does, your bank pay flexible interest rates on deposits

(a) Yes ☐ (b) No ☐

(4) Does your bank do Customer analysis

(a) Yes ☐ (b) No ☐

(5) If (36) is Yes, to what extent does small account feature in the banks business.

(a) 10 % and bellow ☐ (b) 11% to 20% ☐

(c) 21% to 30% ☐ (d) 31% to 50% ☐

(e) 51% and above ☐.

(6) What is the Majority of the bank's Customers occupation.

(a) Civl Service ☐ (b) farming ☐

(c) Private Sector Workers ☐ (d) Business ☐

(e) Any other Category .....

(7) Does your bank have any promotional complain / towards any of its customers segment.

(a) Yes ☐ (b) No ☐

(8) Direct Customer solicitation is a policy of the bank

(a) Yes ☐ (b) No ☐

(9) Does the bank have any customer enlightment programme? If yes which of these do they use

(a) Lectures ☐ (b) Conferences ☐

(c) Publications ☐ (d) Any other Method .....

(e) Non of the above.

(10) Have your bank any programme towards reducing Customers waiting queue? If yes through what means.

(a) Compaterisation ☐ (b) Increased number of cashiers (c) Increased Branches ☐ (d) Any Other..

..... (e) Non of the above.

(11) Does the bank have a Marketing and research department.

(Yes ☐ (b) No ☐

(12) Well designed Modern architecture is becoming a common characteristics of banks. Does your bank believe that beautifull premises influence customer volume.

(a) Yes ☐ (b) No ☐ (c) Indiference ☐.

(13) What other Methods does your bank use in influencing Customer volume.

(a) .....

(b) .....

(c) .....

APENDIX 2.

CUSTOMERS' QUESTIONAIRE

Any information collected will be used purely for academic purposes. Tick only one response.

(1) What is your occupation?

(a) ☐ Civil Servant

(b) ☐ Business man

(c) ☐ Farmer

(d) ☐ Any other (please specify) .....

(2) Which is your Bank .....

(3) How long have you been banking with the bank?

(a) 1 - 6 months ☐ (b) 7 months - 1 year ☐

(c) 1 - 4 years ☐ (d) 5 years and above ☐

(4) What type of accounts do you operate with the bank.

(a) Savings account ☐ (b) Current account ☐

(c) Demand deposits. ☐ (d) Any Other , Specify .....

(5) Have you ever enjoyed any loan or overdraft from the bank?

(a) ☐ Yes (b) ☐ No

(6) How long does it take you to get the loan from date of submission of application?

(a) ☐ 1 - 3 months (b) ☐ 3 - 6 months

(c) ☐ 6 - 1 year (d) ☐ 1 year and above

(7) What were the requirements before you got the loan?

(a) ☐ Collateral (b) ☐ Introductory letter from employer

(c) ☐ Stocks and bond (d) ☐ Others (Please specify)

.....

(8) What was the mode of payment?

(a) Monthly (b) Half yearly (c) Yearly.

(9) Are you happy with the method your Bank uses in giving loans to customers?

(a) ☐ Yes (b) ☐ No

(10) If yes or No can you please give reason(s) briefly?

(a) .....

(b) .....

(c) .....

(11) Do you also like their collection policy?

(a) ☐ Yes (b) ☐ No

(12) a) If No, can you briefly suggest the policy that you feel will help both the bank and the customers

.....

.....

(13) Have you ever defaulted in your payments?

(a) ☐ Yes (b) ☐ No

(14) What step(s) did the bank take to recover the money from you. Please state.

.....

.....

(15) Where you happy with the step(s) taken by the bank?

(a) ☐ Yes (b) ☐ No

(16) If not. Please can you suggest a better method which the bank can adopt in collecting this over due accounts from the defaulter, that will be of benefit to both parties?

.....

.....

(17) Does the bank inform you of the risk associated with default payment?

(a) ☐ Yes (b) ☐ No

(18) What is your major reason for banking with this bank?

(a) Nearness to your residence. ☐

(b) Efficiency of the bank ☐

(c) Interest paid by the bank ☐

(d) Image of the bank ☐

(e) Any other specify .....

(19) Have you ever seen the banks advertisings.

(a) Yes ☐ (b) No ☐

(20) If (3) above is yes, through what media.

(a) Television ☐ (b) Radio ☐

(c) Bill board ☐ (d) Magazine and News Paper ☐

(e) Any other, Specify .....

(21) Have you ever been tempted to leave the bank, if yes, What was your reason?

(a) Customer Staff relationship ☐

(b) Long Queues ☐

(c) Low Interest rates ☐ (d) Specify.....

(22) Do you think that banks should have well designed mordern achitecture for premises.

(a) Yes ☐ (b) No ☐ (c) Makes no difference ☐

(23) Have you ever attended or heard of lectures or conferences Organised by the bank.

(a) Yes ☐ (b) No ☐

(24) What is your Opinion about the banks interest rates.

(a) Satisfactory ☐ (b) Flexible ☐

(c) Competative ☐

(25) Is there anything or service you feel the bank should do/offer in order to retain their customers and attract new one , Specify.

(a) .....

(b) .....

(c) .....