



The Effect Of Credit Risk Management On The Performance Of Islamic Banks IN In Mogadishu –Somalia

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Abstract

This study was carried out to investigate the effect of credit risk management on the performance of Islamic banks in Mogadishu. The study employed an explanatory research design to establish how each of the elements of credit risk management (credit criteria, credit risk control, and credit collection policy) affects the performance of Islamic banks in Mogadishu. The study was conducted using a questionnaire as an instrument of the research to collect data from 40 respondents selected from the accessible target population of 50 respondents at five Islamic banks in Mogadishu. The study's findings indicated, most of the participants believe a significant relationship between credit risk management practices and Islamic bank performance. This result showed that the employees of five Islamic banks in Mogadishu think that a credit risk management practice improves the performance of Islamic banks in Mogadishu.

Keywords: credit criteria, credit risk control, and credit collection policy.

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1.0 Introduction

The concept of credit risk, back 4,000 years ago in Mesopotamia, did not outline the basic borrowing rules and did not address interest, collateral, and default (Aaron, 2020). In the mid-19th century in the United States, Braddock Hickman attempted quantification of corporate bonds published a three-volume study of the US between 1953 and 1960 (Aaron, 2020). Hickman tabulated default rates and investor returns from bonds of different credit ratings and other characteristics (Aaron, 2020). In 1983, the Industrial and Commercial Bank of China took over the services of credit and savings from the People's Bank of China and formed a banking system consisting of the Central Bank as the leader and four major national specialized banks as the backbone, which focuses on credit risk management?

In credit risk management, Different theoretical perspectives are available, including the

popular theory of credit policy (Youngman, 1967), the asymmetric information theory (Gatuhu, 2005), modern portfolio theory (Harry Markowitz, 1952), and among others but this study is based on the modern portfolio theory since it demonstrates the theoretical relationship between credit risk management and banks performance. This theory attempts to discover how banks can form portfolio loans that maximize portfolio expected return while minimizing the risk related to the return.

The essential resources held by Islamic banks are from Loans provided to their customers in different modes; lending activities require Islamic banks to make decisions related to the credit worth credit worth in essowers (Nar, 2014). Though the judgments do not always prove accurate, a borrower's credit worth credit worth in essdue to various factors. Consequently, banks face credit risks (ken, 2014). Credit risk is that obligations will not be

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repaid on time and fully as expected, resulting in a financial loss or non-performing loans (Tesfaye, 2018).

The departments concerning credit risk management attempt to do policies and procedures suitable for Islamic banks to benefit from the mass customer deposits and contemplate credit risks that may arise when the borrowers fail to pay it back at the due date (Nazarius, 2011). Moreover, one of the significant problems confronting Islamic banks today is the increasing incidence of loan defaults and consequent loan losses that manifested on the performance of Islamic banks. However, the focus of this research is to evaluate the “The effect of credit risk management on Mogadishu Islamic banks’ performance” in addition, the study looks to understand the importance of credit risk management on Islamic bank performance.

This research aims to discover the effect of credit risk management on the performance of Islamic banks in Mogadishu. It would serve as an excellent example of knowledge to individuals, management, and practitioners in the banking industry. The research findings would also be of scholarly importance in the academic arena.

2.0 Literature Review

The theoretical and empirical analysis found Credit Risk Management as vital in the Management of Banks. All studies that attempted to analyze Credit Risk Management and Bank Performance from the empirical review are biased towards various methods and techniques of Credit Risk Management used by various Institutions. The studies described that Credit Risk management could contribute to the financial performance of Banks but did not establish an apparent effect between Credit Risk Management and Financial Performance. It only stated credit as a factor influencing Financial Performance.

2.1.0 Credit risk management

Credit risk management is forecasted on risk and uncertainty to leverage the earnings from lending to a borrower. Credit risk arises whenever a lender is exposed to loss from a borrower, counterparty, or an obligor who fails to honor or debt obligation as agreed and

contracted (Colquitt, 2007). Credit risk management practices are the measures used by banks to minimize the adverse effect of credit risk and maximize a bank’s risk-adjusted rate of return by maintaining credit risk exposure within acceptable limits to provide a framework for understanding the impact of credit risk management on banks’ profitability. (Wehelie, 2018)

According to Chen and Pan (2012), credit risk is the degree of value fluctuations in debt instruments and derivatives due to changes in the underlying credit quality of borrowers and counterparties. It is the risk that a borrower defaults and does not honor homologation to service debt. It can occur when the counterpart cannot pay or cannot pay on time. Credit risk arises whenever a lender is exposed to loss from a borrower, counterparty, or an obligatory who fails to honor thonorebt obligation as they have contracted. (Luy, 2010) The primary sources of credit risk include limited institutional capacity, inappropriate credit policies, poor management, inappropriate laws, low capital and liquidity levels, direct lending, massive licensing of banks, poor loan underwriting, laxity in credit criteria, poor lending practices, government interference and inadequate supervision by the central bank. (Kithinji, 2010).

2.1.1 Credit criteria and Islamic bank performance

Credit criteria are factors employed to determine a borrower’s creditworthiness or ability to repay debt. These factors include income, existing personal debt, number of accounts from other credit sources, and credit history. A lender is free to use any credit-related factor in approving or denying a credit application so long as it does not violate the equal credit protections of the central banking system prohibiting credit discrimination (Mukonda, 2013). Swarens (1990) suggested that the most persistent risk area is an overly aggressive lending practice. It is an unsafe practice to extend the lending term beyond the useful life of the corresponding collateral. Besides that, giving out loans to borrowers who are already overloaded with debt or possess unfaunfavorable credit history can expose banks to unnecessary default and credit risk. To reduce



these risks, banks need to consider some familiar applicants' particulars such as debt to income ratio, business history, performance record, credit history, and individual loan applicants' time on the job or length of time at residence (Fun, 2016).

2.1.2. Credit control system

The primary function of the risk manager is to monitor, measure and control credit risk. Credit risk control involves the constant review of a bank's accounts receivable to determine if customers are paying according to the stated credit terms. If they are not paying on time, credit monitoring will alert the bank to the problem (Opoku Asare, 2015). Monitoring borrowers is significant as current, and potential exposures change with both the passage of time and the movements in the underlying variables and are very important in dealing with moral hazard problems (Prakash & Poudel, 2012). Monitoring involves, among others, frequent contact with borrowers, creating an environment that the bank can be seen as a solver of problems and trusted adviser; developing the culture of being supportive to borrowers whenever they are recognized to be in difficulties and are striving to deal with the situation; monitoring the flow of borrower's business through the bank's account; regular review of the borrower's reports as well as an on-site visit; updating borrowers credit files and periodically reviewing the borrowers rating assigned at the time the credit was granted (Wehelie, 2018).

2.1.3. Credit collection policy

Credit collection policy refers to the actions taken by a business to grant, monitor, and collect the cash for outstanding accounts receivable (Maysami, 2010). The credit policy of a typical organization contains the following variables: collection policy, cash discount, credit period, and credit standard, while Miller (2008) classified it as credit limits, credit term, deposits, customer information, and documentation. Moreover, each component of a company's credit policy is used to monitor account receivables, which is the outcome of credit sales; it covers the kind of customers that credit may be extended to when actual collections would be made. Credit policy also

refers to guidelines that spell out how to decide which customers are sold on open accounts, the exact payment terms, the limits set on outstanding balances, and how to deal with delinquent accounts. According to (analyzing07; Atkinson, Kaplan & Young, 2007 & Brigham, 1985), credit policy is defined in a manner as the combination of such terms as credit period, credit standards, collection period, cash discounts, and cash terms. Therefore, even though organizations have different credit policies, the content must touch on credit period, credit standards, collection period, and credit terms.

2.1.4. Performance of Islamic banks

A significant objective of bank management is to increase shareholders' return, optimizing bank performance. The objective often comes at the cost of increased risk. The bank faces various risks such as market risk, credit risk, off-balance risk, technology, operational risk, foreign exchange risk, country risk, liquidity risk, and insolvency risk (Nur, 2017). The bank's motivation for credit risk management comes from those risks that lead to underperformance. Issues of risk management in the banking sector have a more significant impact on the bank and the economic growth in aggregate (Tandelilin et al., 2007).

Banks that better implement the risk management policies may have some advantages: It is in line with obedience function toward the rule; it increases their reputation and opportunity to attract more wide customers in building their portfolio of fund resources; it increases their efficiency and effectiveness. Since there is tough competition among Islamic banks, they try to get new customers from competing banks by taking some attractive steps that they believe have a competitive advantage. Some banks decided to give loans with no advance payments due to differentiation and looking market share of new customers. Others attempt to give loans with the lower right than their competitors (Gatuhu, 2013).

2.3 Research Hypothesis the study developed the following hypothesis to determine association among variables.

Hypothesis 1: Credit criteria is likely to affect bank performance.

Hypothesis 2: Credit risk control is likely to affect bank performance.

Hypothesis 3: Credit control policy is likely to affect bank performance.

3.0 Research Methodology

A quantitative approach was used in this study. A purposive sampling method was used to select participants who qualified for the inclusion criteria based on their availability. Hence, the study selected 40 participants to form the target population as the study's sample size, including branch managers, departmental heads, and lower-level employees. Data collection tools to be used is a questionnaire instrument from the sample size of 40 respondents who work in the five selected Islamic banks in Mogadishu.

4.0 Result and discussions

4.1.0 Descriptive analysis

4.1.2 Demographic analysis

This part presents the respondents' background information who participated in the study. The purpose of this background information was to find out the characteristics of the respondents and show the distribution of respondents in the study

Table 4.1 Gender of the respondents

Gender	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Male	36	90.0	90.0	90.0
Female	4	10.0	10.0	100.0
Total	40	100.0	100.0	

Table 4.1 above shows that 36 (90%) of the respondents were of the male gender while 4(10%) of the respondents were of the female gender. This indicates that male and female respondents were adequately represented in this study. This implied that all the banks were captured in the study and therefore the findings could be generalized across all banks.

Table 4.2 Number of years served

Experience	Frequency	Percent	Valid Percent	Cumulative Percent
0-3 years	14	35.0	35.0	35.0
4 - 6 years	15	37.5	37.5	72.5
Valid 7 – 9 years	7	17.5	17.5	90.0
More than 9 years	4	10.0	10	100.0
Total	40	100.0	100.0	

Table 4.2 shows that 14 (35%) of the respondents had spent between 0 – 3 years working with Islamic Banks. The respondents who had worked for 4 – 6 years were 15 (37.5%) while those who had worked for 7 – 9 years were 7, representing 17.5%, and 4-respondent showed to have the experience for more than 9- years equivalent to 10% of the overall respondents. Therefore, it can be deduced that most of the respondents had spent a considerable number of years dealing with Islamic banks in Mogadishu and hence were well familiar with the information related to the research topic.

Table 4.3 Level of education of respondents

Education	Frequency	Percent	Valid Percent	Cumulative Percent
Degree	20	50.0	50.0	50
Valid Masters	20	50.0	50.0	100.0
Total	40	100.0	100.0	

Table 4.3 above indicates that 20 (50%) of the respondents were bachelor's degree holders while

20 (50%) were masters' holders. This indicates that Mogadishu Islamic Bank employs adequately qualified persons who can easily carry out their assigned tasks. This is based on the fact that workers with high educational qualifications always occupy higher ranks and therefore have more responsibilities which invariably require more commitment towards their assigned tasks in the organization (Salami, 2008)

Table 4.4 There is an autonomous credit risk department that deals with the evaluation of credit applicants

Description	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Disagree	3	7.5	7.5	7.5
Neutral	7	17.5	17.5	25.0
Agree	22	55.0	55.0	80.0
Strongly	8	20.0	20.0	100.0
Agree	40	100.0	100.0	
Total				

Table 4.4 above shows that 8 (20%) of the respondents strongly agreed, 22 (55%) agreed, 7 (17.5%) not sure, while 3(7.5%) disagreed when the study sought their views on whether there is an autonomous credit risk department which deals with the evaluation of credit applicants. Since most of the respondents



agreed to this statement, it indicates that most Islamic banks have independent departments that carry out regular evaluations of their clients' creditworthiness before extending loans to them.

Table 4.5 Assessment of clients' creditworthiness puts into consideration the clients' payment history

Description	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	3	7.5	7.5	7.5
Disagree	1	2.5	2.5	10.0
Valid Neutral	7	17.5	17.5	27.5
Agree	18	45.0	45.0	72.5
Strongly Agree	11	27.5	27.5	100.0
Total	40	100.0	100.0	

Table 4.5 above shows that 11 (27.5%) of the respondents strongly agreed, 18 (45%) were agreed, 7 (17.5%) neutral, 1 (2.5%) disagreed, and 3(7.5%) strongly disagreed when the study sought their views on whether the assessment of clients' creditworthiness in Islamic Banks put into consideration the clients' payment history. Since most of the respondents agreed to this statement, it indicates that assessment of clients' creditworthiness in Islamic Banks indeed considers the clients' payment history. These findings agree with Gatuhu (2013), who noted that companies must have greater insight into customer financial strength, credit score history, and changing payment pate minimize in exposure secure to bad debt, over-reserving, and bankruptcies Moreover, a bank customer must meet specific minimum standards, including financial stability, before credit is given to him or her (Kibor et al., 2015).

Table 4.6 Islamic banks review supporting documentation before accepting or rejecting credit to clients

Description	Frequency	Percent	Valid Percent	Cumulative Percent
Disagree	1	2.5	2.5	2.5
Neutral	6	15.0	15.0	17.5
Agree	13	32.5	32.5	50.0
Valid Strongly Agree	20	50.0	50.0	100.0
Total	40	100.0	100.0	

Table 4.6 above shows that 20(50%) of the respondents strongly agreed, 13 (32.5%) agreed, 6 (15.0%) neutral and 1 (2.5%) disagreed. when the study sought their views on whether Islamic banks review supporting

documentation before sanctioning credit to clients. Since most of the respondents agreed to this statement, it indicates that Islamic banks indeed review supporting documentation before sanctioning credit to clients.

Table 4.7 Clients are required to offer collateral security before being given loans

Description	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1	2.5	2.5	2.5
Disagree	3	7.5	7.5	10.0
Valid Neutral	3	7.5	7.5	17.5
Agree	22	55.0	55.0	72.5
Strongly Agree	11	27.5	27.5	100.0
Total	40	100.0	100.0	

Table 4.7 above shows that 11 (27.5%) of the respondents strongly agreed, 22 (55%) agreed, 3 (7.5%) were not sure and disagreed when the study sought their views on whether Islamic Bank loan clients are required to offer collateral security before given loans. Since most of the respondents agreed to this statement, Islamic bank loan clients are indeed required to offer collateral security before giving loans. These findings agree with Gatuhu (2013), who noted that one way to recover debts is to take some collateral from customers.

Table 4.8 credit criteria are factors employed to determine a borrower's creditworthiness or the ability to repay debt

Description	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Valid disagree	2	5.0	5.0	5.0
Disagree	2	5.0	5.0	10.0
Neutral	6	15.0	15.0	25.0
Agree	17	42.5	42.5	67.5
Strongly Agree	13	32.5	32.5	100.0
Total	40	100.0	100.0	

Table 4.8 above shows that 13 (32%) of the respondents strongly agreed, 17 (42.5%) agreed, 6 (15%) were neutral, 2 (5%) disagreed, and 2(5%) strongly disagreed when the study sought their views on whether credit criteria are factors employed to determine a borrower's creditworthiness or the ability to repay debt. Since most of the respondents agreed to this statement, it indicates that credit criteria in Islamic Banks indeed consider whether the borrower can repay the debt in specified terms.



These findings agree with Weston and Coperland (2005), who noted that to evaluate the creditworthiness of their clients, credit managers in any organization should consider the Five C’s of credit: character, capacity, capital, collateral, and conditions (Weston and Coperland, 2005).

Table 4.9 credit risk control system has affected profitability for the last five years

Description	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	2	5.0	5.0	5.0
Disagree	12	30.0	30.0	40.0
Valid	16	40.0	40.0	80.0
Neutral	8	20.0	20.0	100.0
Agree				
Strongly Agree				
Total	40	100.0	100.0	

Table 4.9 above shows that 8 (20%) of the respondents strongly agreed, 16 (40%) agreed, and 12 (30%) were neutral. The study sought their views on whether the credit risk control system has affected profitability for five years. Since most of the respondents agreed to this statement, Islamic banks employ a credit risk control system.

Table 4.10 credit control system has affected liquidity for the last five years

Description	Frequency	Percent	Valid Percent	Cumulative Percent
Disagree	5	12.5	12.5	12.5
Neutral	11	27.5	27.5	40.0
Agree	16	40.0	40.0	80.0
Valid				
Strongly Agree	8	20.0	20.0	100.0
Total	40	100.0	100.0	

Table 4.10 above shows that 8(20 %) of the respondents strongly agreed, 16 (40%) of the respondents agreed, 11 (27.5%) were neutral, and 5 (12.5%) disagreed—early payment.

Table 4. 11 Credit control system had affected ROA for the last five years

Description	Frequency	Percent	Valid Percent	Cumulative Percent
Disagree	7	17.5	17.5	17.5
Neutral	13	32.5	32.5	50.0
Agree	14	35.0	35.0	85.0
Valid	6	15.0	15.0	100.0

Description	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Agree	6	15.0	15.0	15.0
Agree	14	35.0	35.0	50.0
Neutral	13	32.5	32.5	82.5
Disagree	7	17.5	17.5	100.0
Total	40	100.0	100.0	

Table 4.11 above shows that 6 (15%) of the respondents strongly agreed, 14 (35%) agreed, 13 (32.5%) were neutral and 7(17.5%) disagreed.

Table 4.12 the banks have a secure loan banking system.

Description	Frequency	Percent	Valid Percent	Cumulative Percent
Disagree	1	2.5	2.5	2.5
Neutral	4	10.0	10.0	12.5
Agree	22	55.0	55.0	67.5
Valid				
Strongly Agree	13	32.5	32.5	100.0
Total	40	100.0	100.0	

Table 4.12 above shows that 13 (32.5%) of the respondents strongly agreed, 22(55%) agreed, 4(10%) were neutral and 1 (2.5%) disagreed.

Table 4.13 the banks ensure the loan is used for the intended purpose

Description	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1	2.5	2.5	2.5
Disagree	3	7.5	7.5	10.0
Valid	5	12.5	12.5	22.5
Neutral	19	47.5	47.5	70.0
Agree	12	30.0	30.0	100.0
Strongly Agree	40	100.0	100.0	
Total				

Table 4.13 above shows that 12 (30%) of the respondents strongly agreed, 19(47.5%) agreed, 5 (12.5%) were neutral, 3(7.5%) disagreed and 1 (2.5%) strongly disagreed

Table 4.14 the bank sets and follow the credit policies

Description	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1	2.5	2.5	2.5
Disagree	3	7.5	7.5	10.0
Valid	4	10.0	10.0	20.0
Neutral	18	45.0	45.0	65.0
Agree	14	35.0	35.0	100.0
Strongly Agree	40	100.0	100.0	
Total				

Table 4.14 above shows that 14 (35%) of the respondents strongly agreed, 18(45.5%) agreed, 4 (10.5%) were neutral,3(7.5%) disagreed, and 1 (2.5%) strongly disagreed



Table 4.15 The bank implements these terms and policies in case of failure to pay back the loan

Description	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	3	7.5	7.5	7.5
Disagree	2	5.0	5.0	12.5
Valid	5	12.5	12.5	25.0
Neutral	16	40.0	40.0	65.0
Agree	14	35.0	35.0	100.0
Strongly Agree	40	100.0	100.0	
Total				

Table 4.15 above shows that 14 (35.0%) of the respondents strongly agreed, 16(40.0%) agreed, 5(12.5%) were neutral, 2 (5.0%) disagreed, and 3 (7.5%) strongly disagreed when the study sought their views on whether Islamic implements these terms and policies in case of failure to pay back the loan. Since most of the respondents agreed to this statement, it indicates that Islamic banks indeed follow a certain well-established and fully recognized credit collection policy.

Table 4.16 The bank credit policies are effective in answering the customer queries

Description	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1	2.5	2.5	2.5
Disagree	6	15.0	15.0	17.5
Valid	5	12.5	12.5	30.0
Neutral	20	50.0	50.0	80.0
Agree	8	20.0	20.0	100.0
Strongly Agree	40	100.0	100.0	
Total				

Table 4.16 above shows that 8 (20.0%) of the respondents strongly agreed, 20(50.0%) agreed, 5(12.5%) neutral, 6 (16.0%) disagreed, and 1 (2.5.0%) strongly disagreed when the study sought their views on whether Islamic Bank credit collection policy is known to all managers and employees.

Table 4.17 Collateral securities are required before the loan is granted.

Description	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	1	2.5	2.5	2.5
Valid	4	10.0	10.0	12.5
Disagree	8	20.0	20.0	32.5
Neutral	18	45.0	45.0	77.5
Strongly Agree	9	22.5	22.5	100.0

Total	40	100.0	100.0
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Table 4.17 above shows that 9(22.5%) of the respondents strongly agreed, 18 (45.0%) agreed, 8 (20.0%) were neutral, 4(10.0%) disagreed and 1(2.5%) strongly disagreed.

Table 4. 18 Employees tell customers exactly when services will be performed

Description	Frequency	Percent	Valid Percent	Cumulative Percent
Disagree	3	7.5	7.5	7.5
Neutral	5	12.5	12.5	20.0
Agree Valid	21	52.5	52.5	72.5
Strongly Agree	11	27.5	27.5	100.0
Total	40	100.0	100.0	

Table 4.18 above shows that 11 (27.5%) of the respondents strongly agreed, 21 (52.5%) agreed, 5 (12.5%) were neutral, and 3 (7.5%) disagreed.

Table 4.19 Employees always are willing to help customers

Description	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Valid disagree	1	2.5	2.5	2.5
Disagree	3	7.5	7.5	10.0
Neutral	9	22.5	22.5	32.5
Agree	12	30.0	30.0	62.5
Strongly Agree	15	37.5	37.5	100.0
Total	40	100.0	100.0	

Table 4.19 above shows that 15 (37.5%) of the respondents strongly agreed, 12(30.0.7%) agreed, 9 (22.5%) were neutral,3(7.5%) disagreed and 1(2.5%) strongly disagreed.

Table 4.20 Knowledge of bank's products & Services

Description	Frequency	Percent	Valid Percent	Cumulative Percent
Disagree	3	7.5	7.5	7.5
Neutral	7	17.5	17.5	25.0
Agree Valid	18	45.0	45.0	70.0
Strongly Agree	12	30.0	30.0	100.0
Total	40	100.0	100.0	

Table 4.20 above shows that 12 (30.0%) of the respondents strongly agreed, 18(45.0.7%) agreed, 7(17.5%) were neutral,3(7.5%) disagreed.

Table 4.21 Making customers feel safe & secure in their transaction

Description	Frequency	Percent	Valid Percent	Cumulative Percent
Disagree	2	5.0	5.0	5.0
Neutral	7	17.5	17.5	22.5



Agree Valid	21	52.5	52.5	75.0
Strongly Agree	10	25.0	25.0	100.0
Total	40	100.0	100.0	

Table 4.21 above shows that 10 (25.0%) of the respondents strongly agreed, 21(52.5%) agreed, 7(17.5%) were neutral,2(5.0%) disagreed.

Table 4.22 The physical facilities at banks visually appealing is adequate (parking facility, Pleasant & attractive décor)

Description	Frequency	Percent	Valid Percent	Cumulative Percent
Disagree	4	10.0	10.0	10.0
Neutral	13	32.5	32.5	42.5
Agree Valid	19	47.5	47.5	90.0
Strongly Agree	4	10.0	10.0	100.0
Total	40	100.0	100.0	

Table 4.22 above shows that 4 (10.0%) of the respondents strongly agreed, 19(47.5%) agreed, 13(32.5%) were neutral,4(10.0%) disagreed

5.0 Conclusion

Based on the study findings, the following conclusions can be drawn. These conclusions are also presented following the specific objectives of the study. The primary purpose of this research was to bring to light the effect of credit risk management on the performance of Islamic banks in Mogadishu. From the findings, credit criteria positively influenced bank performance because it served customers' satisfaction with the banks and obtained mass deposits. This means credit criteria act as a shield that protects the bank's investment from any unexpected credit default. Credit risk control also had a positive impact on Islamic bank performance measured by liquidity because of the high returns from loans given to debtors and paying customer deposits on demand. This meant that banks could give out more loans without fear because they knew that income earned on paid loans would be enough to cancel that which went wrong. Lastly, credit collection policy had a positive effect on bank performance measured on customer satisfaction because when Islamic banks set up straight policies to re-collect loans extended to customers, they will be able to satisfy their customers by giving back their liabilities and hence the customers those availed loans taken from banks will be satisfied. The research

established and revealed that most participants believe that there is a significant relationship between credit risk management practices and Islamic bank performance. This result showed that the employees of five Islamic banks in Mogadishu think that a credit risk management practice improves the performance of Islamic banks in Mogadishu.

6.0 Recommendation

6.0 Recommendation

The study recommends Islamic banks to do effective credit risk appraisal, the Islamic banks to have to establish the following principles:

- Islamic banks should be carrying out a periodic independent assessment of the bank credit-granting decisions and at the same time involve several persons in the evaluation of the loan clients.
- Additionally, the appraising persons should be provided with continuous training opportunities in different up-to-date methods of credit appraisal and credit risk management. Such training opportunities would improve their expertise and knowledge, which is crucial in effective credit risk appraisal.
- Management of Islamic banks is recommended to ensure adequate credit risk control by keeping in touch with borrowers through regular on-site visits and developing a culture of supporting them, especially when they find difficulty in clearing their loan obligations.
- The management of Islamic banks, especially credit officers, must do so by adhering to proper guidelines when given out credit facilities. Banks must establish a sound credit-granting process, strictly hold fast to know your customer (KYC) system, apply effective measures in monitoring credit, and ensure adequate controls over credit risk.
- Additionally, all employees and managers, regardless of their departments, should be informed about the existing credit policy and its contents to enhance its acceptance and compliance.
- The credit policy should also be flexible to accommodate the ever-changing state of affairs in the banking sector.
- Moreover, the study suggests to the managers of Islamic banks to employ



qualified staff those who can fulfill the strict strategies to face loans paid to customers by giving special training that is appropriate for getting prestige from the community and satisfaction because the evaluation of loan applicants require expert committee that has in-depth information about the issue at hand.

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