An investigation of credit risk mitigation strategies adopted by commercial banks in Kenya

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Abstract:

The study's overall objective was to assess how Kenyan banking institutions are prepared in mitigating impacts arising from credit defaults as a basis of enhancing their loan performance. Towards meeting this objective, this study was divided into three chapters: Introduction, Literature Review and Methodology. The introduction section constitutes the study's background, statement of the problem, research objectives, scope and assumption. In chapter two, the relevant literature was reviewed to assist the researcher understand the problem area and what had already been done. The key areas reviewed include Banks' Choice of Loan Rating, Loanable Fund Model, Portfolio Theory, Credit Risk Models, Credit Risk Management, Empirical Literature, Conceptual Framework, Operationalization and Conclusion. Under methodology section, all procedures to be adopted by the study were described in detail. A descriptive research design was adopted for the purpose of accessing the study's general intent. This involves a set of methods that describe the intended variables using statistical logic.

The study's target population constituted a total of 44 respondents tasked with credit risk management in the 44 commercial banks currently operating in Kenya. Keeping the central objective of study in mind, the study opted for both primary and secondary forms of data. The secondary data was collected from the documentations obtainable from the banks and the primary data from various respondents. The collected data was examined to make inferences through a series of operations involving editing to eliminate inconsistencies, classification on the basis of similarity and subsequent tabulation to relate variables. Subsequently, the refined data was analyzed using descriptive statistics involving percentages and mean scores. The research found out that the banks had policies and strategies that governed the loan lending. Though this existed most of the banks didn't seem to efficiently implement the same. The banks also assumed some of the economic factors which could affect their loan performance. The banks also concentrated highly on collateral as the main security for loans which at times made the banks assume other strategies of preventing risk. In reality, a bank can only adjust for risks through a variety of conventional mechanisms and strategies, but still there are no certainties. Hence, risk managers are constantly obliged to consolidate reliable risk profiles and refined mitigating processes suiting every rate of change within the environment.