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THE COMPARATIVE ANALYSIS OF CREDIT RISK MANAGEMENT PRACTICES OF FOREIGN BANKS AND DOMESTIC BANKS IN MYANMAR

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THE COMPARATIVE ANALYSIS OF CREDIT RISK MANAGEMENT PRACTICES OF FOREIGN BANKS AND DOMESTIC BANKS IN MYANMAR

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ABSTRACT

This purpose of the study was to investigate the current practices of credit risk management by foreign banks and domestic banks in Myanmar. There are two specific objectives in this study; to identify the credit risk management practices adopted by foreign banks and domestic banks and Myanmar and to compare and contrast the credit risk management practices between them. Descriptive research method is used in this study both primary and secondary data are gathered. The study discloses the foreign banks and domestic banks in Myanmar make use of credit management practices that include; loan appraisal, lending process and additionally monitoring and checking processes as risk management defensives. The factors that influences the effectiveness of credit risk management systems used by the foreign banks and domestic banks in Myanmar include establishment of a credit policy that clearly outline the scope and allocation of the bank's credit facilities, maintenance of credit administration system with adequate controls over credit, top management support and communication of credit guidelines to every officer in the credit department. Moreover, this study shows that credit risk management is the most important contribute to the success and the financial stability of the bank and an understanding of credit risk management help to reduce cost and losses.

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LIST OF ABBREVIATIONS

CBM	- Central Bank of Myanmar
CR	- Credit Risk
CRM	- Credit Risk Management
FBLC	- Foreign Bank Licensing Committee
FEMA	- Foreign Exchange Management Act
FIL	- Myanmar Foreign Investment Law
MBSC	- Microfinance Business Supervisory Committee
MIC	- Myanmar Investment Committee
MCPA	- Myanmar Companies Act
MOPF	- Ministry of Planning and Finance
ORD	-Office of the Registration of Deeds
TPA	- Transfer of Property Act
USD	- United State of Dollar

CHAPTER 1
INTRODUCTION

Financial institutions are established for the provision of financial services to their customer with the aim of making profit. Profit making is the main objectives of all business. To realize this profit making objective, it is important that these institutions conduct their business efficiently. Banks are primarily involved in the business of lending, which carries along with it, considerable risk. In other to operate profitably or at least break even, banks need to be able to lend profitably. This implies keeping associated cost at the barest minimum. So for a bank to lend profitably, it must be able to manage cost of risk efficiently.

Credit risk is defined by Braudal (1981) as the risk of loss arising from any failure by a borrower or a counterparty to fulfill its financial obligations and commitments and when they fall due. Credit risk is the single largest risk faced by the bank. It is inherent in the activities of the Bank such as loans and lending-related commitments, treasury and capital market operations, and investments. Credit risk is usually grouped under three main categories: personal (consumer) risk, company (corporate risk) and country (sovereign) risk.

According to the company law, a company is a legal entity like a natural person and both can be declared insolvent. Under such circumstances the Borrower and Lender may arrange new terms such as lower interest rate or a rescheduling of the debt in order to avoid insolvency. The Lender is never the less faint with additional costs. Only when the Borrower is unable to settle his obligations indefinitely, thus the credit risk and insolvency risk are often used synonymously.

Sanction lifted in 2008 and many foreign corporations flow in for investment. At the same time, local SME and corporate businesses found opportunities to expand with the help of financial institutions. Bank financing has become vital for those businesses to develop. Therefore, credit risk management has become both solution and necessity in the banking setting. It is critical for the banks to engage in better credit risk management practices.

It is essential that each bank develops its own credit risk management strategy or enunciates a plan that defines the objectives for the credit-granting functions. This strategy should spell out clearly the organization's credit appetite and the acceptable level of risk. The strategy should include a statement of the bank's willingness to grant loans based on the types of economic activity, geographical location, currency, market, maturity and anticipated profitability. This study will focus on the strategy and process of credit risk management of foreign banks and domestic banks in Myanmar which provide the independent oversight of credit risks and the responsibility for the independent reporting and analysis of all elements of credit risk.

1.1 Rationale of the Study

Prior to the grant of foreign bank licenses in Myanmar, the banking sector was composed of four state-owned banks and 20 private local banks. They did not have sufficient resources to provide efficient banking services. Foreign banks could only establish a representative office in Myanmar and were prohibited from engaging in any substantial financial services activities. Start from April 2015, the Foreign Bank Licensing Committee ("FBLC") under the Central Bank of Myanmar ("CBM") granted the foreign bank licenses to international banks .Currently there are 13 international banks from China, Japan, Singapore, India, Malaysia and Viet Nam with branches in the country listed with the CBM and 27 domestics banks in Myanmar . The scope of the foreign bank license was restrictive. Previously the branch office or each foreign bank is restricted to provide loans in foreign currencies to foreign companies and the joint venture companies registered in Myanmar in which a non-Myanmar shareholder holds at least one share and was also prohibited from engaging in retail banking in the local market or lending to local companies.

After several years of rapid expansion and double-digit credit growth, Myanmar's banking sector underwent several necessary reforms in 2017 and 2018, as the Central Bank of Myanmar (CBM) moved to introduce new prudential regulations and reduce overdraft lending. Although foreign banks remain prohibited from participating in retail activities, the CBM allowed foreign bank branches to provide import and export financing and related banking services to local corporate business in December 2017. In November 2018, CBM allowed to foreign banks to provide any financing and other banking services to local firms to grant loans in local currency at the standard lending rate of 13%. This move is expected to spur local banks to becoming more competitive and eventually help support growth in the Myanmar economy as local firms gain more access to fund.

CBM is also encouraging to local banks to depart from the old and outdated banking practices of collateral-based to risk-based system of lending (CBM directive No.7/2017). The reform involved changes to the CBM's policy on overdraft lending. With loan maturities capped at one year, and strict collateral requirements and interest rate ceilings in place, banks and borrowers frequently used overdrafts to circumvent lending restrictions. Instead of using traditional loans, borrowers have taken out overdrafts using collateral, with the overdraft rolled over yearly. According to FMR Research & Advisory, between 75% and 80% of the sector's total loan portfolio is estimated to be overdrafts, raising concerns that these systems have been used to offer loans without a maturity date, allowing borrowers to avoid interest but obscuring visibility of loan delinquencies. In July 2017, the CBM announced that as of January 2018 banks would be required to clear overdraft facilities for at least two full weeks of every year, and that any facilities that cannot be cleared be classified as an NPL. A follow-up directive issued in November 2017 delivered the reforms in phases. Banks are now able to convert their overdraft facilities into three-year loans, with a mandate to reduce overdrafts to 50% of their loan portfolio by July 2018, 30% by July 2019 and 20% by July 2020.

According to the rapid changes on CBM regulations on lending, credit risk management becomes more popular among banks and other financial institutions. The main purpose of the credit risk management is to lessen the effects of the non-performing loans. To manage the credit risk effectively, the banks and other financial institutions should access the creditability of the borrowers. Understanding credit risk has become a complex subject and how to mitigate it to acceptable levels is a major concern for all financial institutions.

Abdul Qayyum Khan (July,2012) concentrated on the foreign banks and domestic banks in Pakistan with the sample of 10 banks. Data was collected from the banks' annual reports over the period 2001-2010. He focused on the variables that effect credit risks of targeted banks and investigated that credit risk may be minimized by controlling size of the banks and by increasing liquidity of the banks.

Al-Tamimi (2002) studied the level of risk management techniques used by UAE commercial banks in dealing with different types of risk. The study found that UAE commercial banks were primarily faced with credit risk and that the key approaches used in risk detection were inspection by branch managers and review of financial statements. According to this report, the key methods used in risk management were setting standards, credit score, assessing credit worth, risk ranking, and collateral.

Richard et al (2008) conducted another study in Tanzania to clarify commercial banks ' credit risk management system for the economy of less developed countries. The paper's main finding was the credit risk management aspect that differs from the developed economy in commercial banks operating in a less developed economy. This implies that an important consideration for a credit risk management system to be successful is the environment in which the bank operates.

The above-mentioned past studies described the risk management strategies followed in different types of banks by financial institutions from all over the world. Different types of banks face different types of risks. This research will examine the risk management strategies adopted in Myanmar by foreign banks and domestic banks and seek to determine the difference in practices such as risk awareness, risk recognition, risk assessment and analysis, risk control, risk management, credit risk analysis.

1.2. Objectives of the Study

The objectives of the study are as follows;

1) To identify the credit risk management practices adopted by foreign banks and domestic banks in Myanmar
2) To compare and contrast the credit risk management practices of foreign banks and domestic banks in Myanmar

1.3. Scope and Method of the Study

This study will focus on the practices used in credit risk management for credit facilities of both of foreign banks and domestic banks in Myanmar by identifying and examining their credit policies, procedures, credit rating system, credit operations, risk management and compliance to evaluate how they are practicing their system.

The descriptive survey method will be used in this study by using primary data. Using structured and semi-structured questionnaires, primary data will be obtained through interviews and surveys. The questionnaire will be distributed to the respondents who are from credit related departments of selected three foreign banks and three domestic banks in Myanmar. The use of questionnaire is justified because it provided the effective way of collecting information. Secondary data will be gathered by desk research using text books, reports, journals and bulletins of the target bank and CBM website.

1.4. Organization of the Study

This study will include five chapters. Chapter 1 provide the overall concept of this study which includes introduction, the rationale of the study, objectives of the study, scope and method of the study and organization of the study. Subsequently, Chapter 2 discusses the theoretical review of the related literatures. Meanwhile, Chapter 3 describes the policies and procedures related with the credit products of the target banks. Chapter 4 would be the presentation of the analysis, results and discussions and finally, the Chapter 5 will present the conclusion and recommendations drawn from the findings of the data in addition with implications for further research.

CHAPTER 2
THEORETICAL BACKGROUND OF THE STUDY

In this chapter includes defining risks and risk management, types of risk in banking sector, risk management process of the banking sector.

2.1. Defining Risks

Risk is a concept that denotes a potential negative influence on some of the val ue characteristics that may result from a future event, or we can suggest that ' risks are incidents or situations that may occur and have a detrimental or negative effect if the y occur. Therefore, something that may cause harm or failure to one or more expected goals is called risk. Risk can have an adverse (exposure downside) or positive (exposure upside) impact on the goals of the organization. There should not be a preoccupation with downside risk. Depending on the intent and context of a discussion, the term risk can be interpreted and described in many different ways. Kaplan & Garrick, 1981 stated that a risk is an uncertainty combined with damage or a loss. They mean something unpredictable does not have to incur a risk; however, if an occurrence is deemed to be both uncertain and involves a loss, it can be described as a risk.The Society for Risk Analysis (SRA), 2012, defines a risk in the following way: "The potential for realization of unwanted, adverse consequences to human life, health, property, or the environment…" As understood from this definition risk is an unwanted state with which other authors disagree .Risk can be viewed as astute where there is a possibility of a loss but also a hope of gain (Kahn &Zsidisin,2012), since one would never jeopardize the loss if there were no chance of a win. In order to realize the nature of a risk, one must be conscious of the gains and losses incurred and can therefore be treated as individual and relative to the observer (Kaplan & Garrick, 1981).

Risk can be seen as a condition where there is a risk of failure, but also a hope of gain. Increased number of natural disasters and businesses with higher global supply chains are both factors that have increased the number of risks that can negatively affect the supply chain of an enterprise. This fact has made it even more important to focus on risk prevention. It has become increasingly important in organizations to create awareness and gain information of potential risks.

2.2. Risk Management

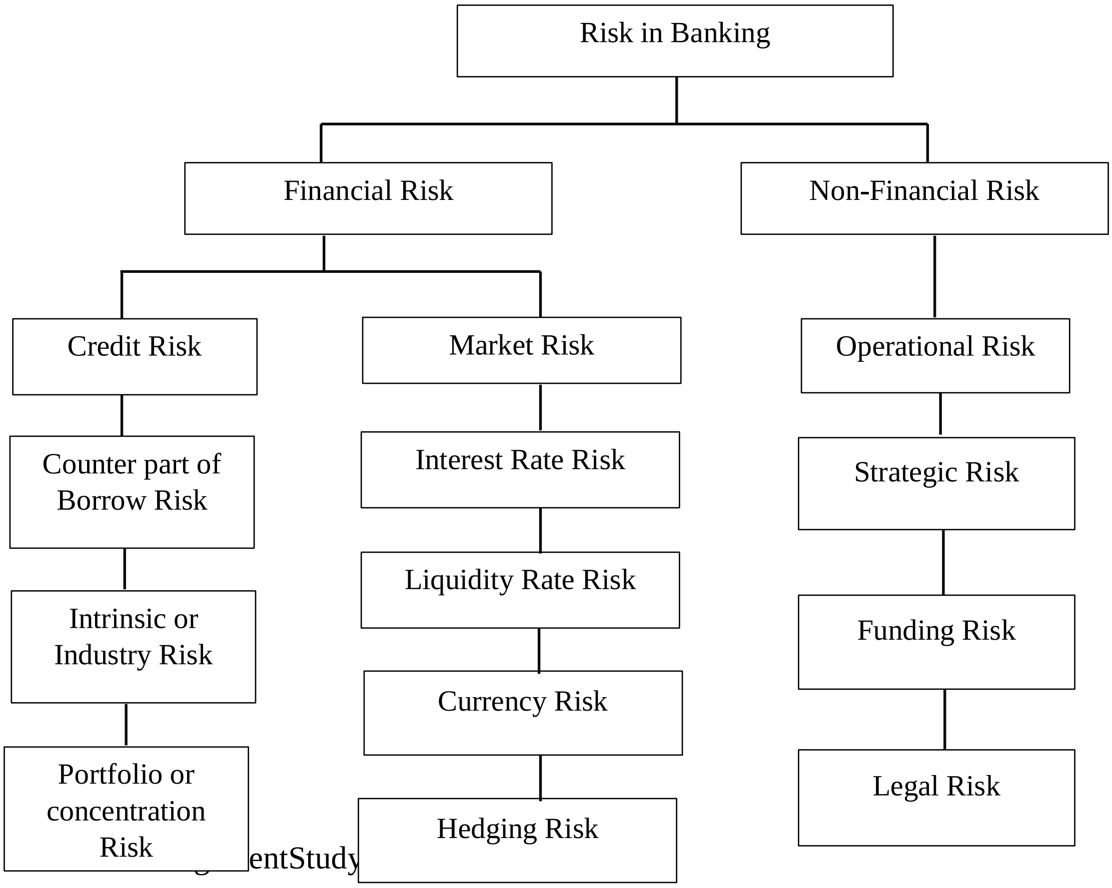
Risk management is coordinated risk management practices aimed at steering and managing an entity. A risk management processes aims at mitigating negative impact of external and internal disturbances in order to avoid interruptions in production, product quality issues and financial losses. Risk management consists of three major phases; Risk Identification, Risk Avoidance Mapping and Implementation of a Risk Management Process. Risk management of both upside risks (opportunities) and downside risk (threats) is at the heart of business growth and wealth creation. The word risk is often used interchangeably with words such as threat, hazard, hazard, and therefore the need to make the difference between these terms properly. The term peril is used to define the potential for loss. It is generally used as a consequence of a natural phenomenon in cases of potential losses. Risk management is a prepared way to deal with possible loss or damage. It is an ongoing risk assessment process that continues through various methods and resources.

Risk management is the wide range of applications, including investments, asset management and resource planning, business interruption, environmental issues, information system/ computer network, security, project management, and occupational safety and health. Evaluate what might go wrong, identify which risks are important to address and implement strategies to address those risks to ensure that they work in practice. Risk assessment is organized by a team in which the participants are the persons with operation experience such as operators, supervisors, persons with Safety, Health, and Environment (SHE) competency. Safety, Health, and Environment (SHE) professionals, persons with expertise in equipment / process, engineering technicians, process engineers, persons with expertise in maintenance, maintenance technicians, supervisors, and persons with expertise in science / technology, and engineers. The basic element in banking business is risk evaluation. he globalization of financial markets and negative financial crisis sequences resulted in negative connotations in the operation of many financial institutions, businesses and citizens and imposed the need for appropriate risk management measures in the banking sector. Financial sector evolution is producing a lot of news in the area of risk management and in particular modelling of market, credit and operational risk.

2.2.1. Types of Risks in Banking Sector

When people use the term Risk, they all mean financial risk or unexpected financial loss. They measure risk on a scale, with certainty of occurrence at one end and certainty of non-occurrence at the other end if people consider risk in terms of probability or occur frequently. Risk is the greatest factor in which the probability of accident or failure is equal.

Figure 2.1. Types of Risks in Banking Sector



2.2.2. Financial Risk

Financial risk in banking sector includes credit risk and market risk. Credit risk includes intrinsic or industry risk, counter party or borrower risk and portfolio or concentration risk. Market risk includes interest rate risk, liquidity rate risk, currency foreign exchange risk and settlement risk as follows.

Credit risk

Credit risk is characterized as the potential for a bank borrower or counterparty to fail to fulfill its obligations under agreed terms and conditions. A credit risk is the possibility of a debt default that could result from the inability of a borrower to make the required payments. The risk in the first resort is that of the lender which includes lost principal and interest, cash flow interruption, and increased cost of collection. The loss may be complete or partial. Higher credit risk levels will be associated with higher borrowing costs in an efficient market. As a result, borrowing cost metrics such as yield spreads can be used to infer credit risk rates based on assessments by market participant.

Market risk

Market risk is the possibility of losses in positions due to market price movements. There is no specific classification as each classification can apply to various aspects of market risk. Market risk includes interest rate risk, liquidity risk, foreign exchange risk and hedge risk.

Interest rate risk

Interest rate risk is the risk of fluctuating interest rates for bond owners. How much interest rate risk a bond has depends on how sensitive its price is to market fluctuations in interest rates. The sensitivity depends on two things, the coupon rate of the bond and the bond's time to maturity.(Ross, Westfield, Jordan, 2010)

Liquidity risk

Liquidity risk is a financial risk that the financial asset, security or commodity cannot be traded on the market as quickly as possible without affecting the market price for a certain period of time. Liquidity risk emerges from circumstances where it is not feasible for a party involved in selling an asset because no one on the market wants to trade for that asset. Liquidity risk is essential for those parties that are about to possess or currently hold an asset; it affects their trading capacity.

Foreign Exchange Risk

Foreign exchange risk (also known as FX risk, currency risk or exchange rate risk) is a financial risk that occurs when a financial transaction is denominated in a currency other than the company's base currency. There is also foreign exchange risk when a company's international subsidiary issues financial statements in a currency other than the consolidated entity's reporting currency. The risk is that there may be an adverse movement in the exchange rate of the denomination currency in relation to the base currency before the date when the transaction is completed. (Homaifar,Ghassem A., 2004).

Hedging risk

The risk of settlement is that a counterparty (or intermediary) fails to deliver a security or its value in cash as per the agreement when the security has been traded after the other counterparty or counterparty has already provided security or cash value under the trade agreement. The term covers factors incidental to the settlement process which, although the parties themselves agree, may suspend or prevent a trade from completing it, act in good faith and otherwise are competent to perform it.

2.2.3. Non-Financial Risk

In addition to financial risks, non-financial risks including operational, legal, asset valuation, reputational and systemic risk also affect the organization as follows.

Operational risk

Operational risk is the risk of a value change due to the fact that actual losses, sustained due to insufficient or defective internal processes, individuals and structures, or external events (including legal risk), vary from the expected losses. Operational risk is a broad discipline, similar to good management and control of quality. Operational risks impact customer satisfaction, credibility and profitability of the shareholder, while increasing the uncertainty of company. And then, systems and processes remain imperfect, operational risk cannot be fully eliminated. Nonetheless, operating risk is manageable in holding losses within a certain level of risk tolerance, calculated by comparing the cost of change against the anticipated advantages.

Strategic risk

Strategic risk affects the overall mission of the company. Risks arising from the possible consequences of strategic decisions taken by the organization and also arise from the way that an organization is strategically positioned within environment.

Funding risk

The risk of not having access to sufficient funds to make a payment on time.

Political risk

Political risk is a form of risk faced by investors, corporations and governments that will significantly affect the performance of a business entity or the anticipated benefit of a given economic action by political decisions, events or circumstances. Political risk can be understood and managed with reasoned foresight and investment.

Legal risk

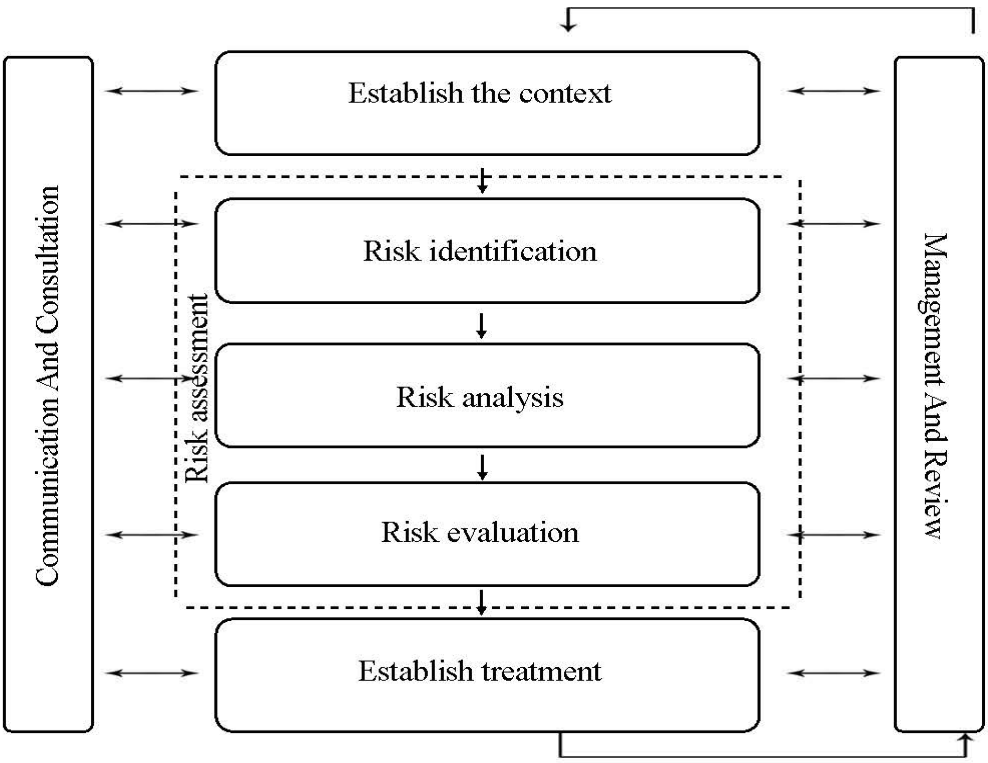
Legal risk is the risk of loss to an institution that is primarily caused by: a defective transaction; oral accusation or any other incident that results in an institution's liability or other loss or; failure to take reasonable measures to protect the institution's property; or change of law.(McCormick, R. 2004)

2.3. Risk Management Process

In simple terms a policy should address why risk management will be undertaken, who within and outside the organization will undertake it, how it will be undertaken by reference to the framework and process and internal functions and what those who are responsible will be required to undertake. This will include describing the specific responsibilities of the board and (depending on the size of the organization) internal audit, external audit, the risk committee, the corporate governance committee, the central risk function, employee and third party contractors-in implementing risk management. Risk management process is broken down into seven stages communication. While activities follow a largely sequential paten, it may be a highly interactive process over time. For instance, as new risks are identified, the earlier processes of identification and analysis are revisited and the subsequent processes are repeated through to the implementation of risk response actions.

With the incremental emergence of new risk strategies, the risk management framework develops and requires the combination of some basic steps. Risk analysis begins with the risk identification, an evaluation of the insurance’s exposure to uncertainty. This includes a detailed view of the strategy and function of the bank as well as the industry and the general environment in which it works and functions. The steps in risk management must be carried out one step at a time, beginning with risk identification. A wrongly identified risk may cause the entire risk management process to be wrong, be of no value or even haven an adverse effect.

Figure 2.2. The Model of Risk Management Process



Source: Research Gate, Risk Management Process Model

Communication and Consultation

The aim of communication and consultation is to determine who should be involved in risk assessment, including risk identification, analysis, management and reporting, and who will be involved in risk management, monitoring and review. Those people should understand the rationale for decision-making and why specific actions are needed.

Establish the Content

Establishing the context includes planning the remainder of the process and mapping out the scope of the exercise, the identity and objectives of stakeholders, the basis on which the risks will be evaluated and the process structure and the identification and analysis agenda will be identified.

Risk Identification

The first step in risk management is risk identification. This step looks at all pure risks to identify: any physically damage to property, business interruption losses, possibility of liability lawsuits and losses arising from fraud, criminal acts of key employees. Loss exposures can be identified using various sources including questionnaires, financial statement, flow charts and personal inspection of facilities.

Risk Evaluation

Once the potential risk exposures are identified, the next step is to evaluate possible losses firstly using a Quantitative Analysis where numbers such as severity and frequency of risk exposure are used. This is further supported by a Qualitative Analysis which uses workflow, open-ended questionnaires or verbal structure interviews to establish information.

Selection

The Selection Process includes Risk Avoidance – For example, selling off the property, Loss Control – Risk Managing methods to control losses, Risk Transfer – To transfer the risk to an insurer and Risk Retention – To set aside some funds to manage losses internally. The selection process will be based on the financial impact on the organization's profitability as well as any humanitarian and legal requirements.

Implementation

Once the selection process has been determined by the company, implementation must proceed automatically. The process of selection may include the most suitable technique or a combination of techniques.

Risk Control

Upon the implementation of a risk management programmer, the outcome must be monitored consistently to ensure its effectiveness. Risk management is a dynamic programmer. Changes are made to the implemented software if necessary to ensure consistency of positive results in an implemented programmer and to prevent duplication or inefficiency. This guideline establishes a set of principles for identifying, assessing and mitigating risks involved in the insurance business processes.

2.4. Credit Risk Policy

Applicable and effective security controls should be proposed for risk management by the credit risk management plan. Good risk management plan should include a timeline for implementing controls and individuals responsible for those actions. Specific risk management measures include four kinds of policies. There is risk avoiding, risk classification, risk retention and risk transfer. Loans classification is key risk management tool in the banking industry. Loans classification recognizes the following classes; normal, standard or passes, specially mentioned or watch, substandard, doubtful and loss or bed. In general, the correct classification for an individual account will be decided on a case-by-case basis, taking into account all relevant information currently available, based on the principles mentioned below. Nonetheless, all loans and credit facilities should be classified as follows in order to speed up the process of evaluating the quality of loans and providing for possible loan losses. Various types of loans are as follows:

Standard loans: When loan is repaid in due time as determined in the agreement (at the maturity date) and the financial position of the borrower is satisfactory and payment is made in accordance with the term of the loans. The Bank is to classify those loans as standard loans.

Irregular Loans (Watch Loan): The borrower's financial position is currently adequate, but there are potential weaknesses and if not corrected, the borrower's financial position will deteriorate in the future and the principal or interest will be delinquent for a period of 31 days to 60 days from the due date, these loans will be defined as irregular loans or watch loans.

Sub-standard Loans: When loans not adequately secured, the borrower's financial position is not satisfactory, the principal or interest has not been repaid for a period of 61 to 90 days from the due date, such loans are defined as Sub-standard Loans.

Doubtful Loans: A loan labeled as doubtful has all the characteristics of a substandard loan and credit deficiency making full repayment uncertain and the principal or interest was not repaid for a period of 91 to 180 days from the due date, these loans are known as Doubtful Loans.

Loss Loan: Certain assets are considered uncollectible and of such little value that the continued definition as bankable assets is not warranted. This classification does not mean that an asset has absolutely no recovery or salvage value, but that it is neither practical nor desirable to defer the write-off process, even though it may be possible to recover in the future. Non-performing assets that are at least 181 days past due are also classified as losses, unless such assets very well secured.

The ratio of total NPLs to total loans that the bank has disbursed is commonly known as the asset quality ratio that is the best indicator for situation of NPLs. Regards to the formula for the non-performing ratio, it is exactly as its name implies, the total non-performing loans divided by total loan.

2.5. Classification of Loans and Advances

A bank shall make adequate provisions on and off balance sheets for the impairment of loans, advances and other assets whenever the impairment occurs. The specific provisions for the impairment is to be made against all outstanding balance (principle and interest) of the loans and advances, not just the past due portion. A bank shall classify and make specific provisions in the following manner:

Table 2.1. Classification of Loans and Advances

No	Classification of Loans/ advances	Days past due	Provisions of shortfall in security value
(a)	Standard	30 days past due	0
(b)	Watch	31 to 60 days past due	5
(c)	Substandard	61 to 90 days past due	25
(d)	Doubtful	91 to 180 days past due	50
(e)	Loss	Over 180 days past due	100

Source: Central Bank of Myanmar

Specific Provisions: the specific shall be recorded in the bank's accounts and paid to the profit and loss account in the month in which it occurs and shall not be applied in the future except as allowed.

General Provisions: banks are required to maintain general loan loss reserve by making general provisions up to 2% of total outstanding loans and advances.

CHAPTER 3
THE BACKGROUND INFORMATION OF FOREIGN BANKS AND DOMESTIC BANKS IN MYANMAR

This chapter consists of the structure of the domestic banking sector, profile of foreign banks, banking sector regulators under the CBM law and overview on foreign lending and security in Myanmar.

3.1. Structure of Domestic Banking Sector in Myanmar

There are 28 domestic banks operating in Myanmar, including four state-owned banks, three local government-owned banks, ten private semi-private banks that operate privately but are partly owned or closely associated with government agencies, and 14 private banks. Table (3.1) lists the country's banks by category.

Among the privately owned banks, the so-called "Big Three" dominate the marketCombined, Kanbawza Bank (KBZ), Ayeyarwady Bank (AYA), and Co-operative Bank (CB) control around two-thirds of all loans, two-thirds of all deposits, and more than 50% of all branches of banks in the country. The Big Three are also expanding faster than smaller banks, adding 60 new branches as a group from August 2014 to May 2016, compared to only seven new branches combined for the rest of the banking industry. Although concentration in the banking sector is typical of ASEAN, the limited absolute size of the overall banking industry in Myanmar makes it difficult for smaller banks in the country to compete.

The four state-owned banks are Myanmar Economic Bank, Myanmar Foreign Trade Bank, Myanmar Investment and Commercial Bank, and Myanmar Agricultural Development Bank. While these banks have several common challenges in their organizational reach and policy requirements, they have several common challenges. First, transparency is lacking and financial performance data is often not reported. Second, they tend to be obsolete or vague on their legislative requirements. In addition, as is the case with their private counterparts, state-owned banks require major investments in IT and human capital.

Table 3.1. Domestic Banks in Myanmar

Government Banks (State-Owned)	Government Banks (Municipality-Owned)	Semi-Private Banks	Privately Owned Banks
Myanmar Agricultural Development Bank	Naypyitaw Sibin Bank Ltd.	Global Treasure Bank Ltd.	Asia Green Development BankLtd.
Myanmar Economic Bank	Yadanabon Bank Ltd.	Innwa Bank Ltd.*	Asia Yangon Bank Ltd.
Myanmar Foreign Trade Bank	Yangon City Bank Ltd.	Myanmar Citizens Bank Ltd.	Ayeyarwaddy Bank Ltd.
Myanmar Investment and Commercial Bank		Myanmar Microfinance Bank Limited	Ayeyarwaddy Farmers Development Bank Limited
		Myawaddy Bank Ltd.*	Co-operative Bank Ltd.
		Rural Development BankLtd.	Construction and Housing Development Bank Limited
		Small and Medium Industrial Development Bank Ltd.	First Private Bank Ltd.
			Kanbawza Bank Ltd.
			Myanma Apex Bank Ltd.
			Myanmar Oriental Bank Ltd.
			Shwe Rural and Urban Development Bank Limited
			Tun Foundation Bank Ltd.
			United Amara Bank Ltd.
			Yoma Bank Ltd.

Source : Central Bank of Myanmar Page

3.2. Profile of Foreign Banks in Myanmar

Until foreign bank licenses were issued in Myanmar, foreign banks could only set up a representative office and were forbidden to participate in any substantial financial services activities. Starting in April 2015, the Central Bank of Myanmar's ("CBM") Foreign Bank Licensing Committee ("FBLC") granted foreign bank licenses to international banks. Currently there are 13 international banks from Singapore, India, Malaysia China, Japan, and Viet Nam with branches in the country.

Table 3.2. List of Foreign Banks in Myanmar

Sr. No	Bank Name	License Date	Commencement date
1.	MUFG Bank, Ltd	2-4-2015	22-4-2015
2.	Oversea-Chinese Banking Corporation Ltd	2-4-2015	23-4-2015
3.	Sumitomo Mitsui Banking Corporation	2-4-2015	23-4-2015
4.	United Overseas Bank Limited	30-4-2015	4-5-2015
5.	Bangkok Bank Public Company Limited	26-5-2015	2-6-2015
6.	Industrial and Commercial Bank of China	26-5-2015	1-7-2015
7.	Maayan Banking Berhad (Maybank)	27-7-2015	3-8-2015
8.	Mizuho Bank Limited	27-7-2015	3-8-2015
9.	Australla and New Zeland Banking Group Limited	29-9-2015	2-10-2015
10.	The joint Stock Commercial Bank for Investment and Development of Vietnam (BIDV)	30-6-2016	1-7-2016
11.	Shinhan Bank	15-9-2016	20-9-2016
12.	E.Sun Commercial Bank Limited	27-9-2016	3-10-2016
13.	State Bank of India	27-9-2016	3-10-2016

3.3. Banking Sector Regulators

Under Myanmar Law's 2013 Central Bank and the 2016 Financial Institutions Law (FIL), Myanmar established the independence of Myanmar's Central Bank (CBM) as the regulator of the banking sector and established a system for meeting international best banking supervisory practices, including those found in the Basel Core Principles. The CBM now serves as the sole supervisory authority for semi-private and private-owned banks to authorize, control and enforce compliance in the banking sector. Nevertheless, the four state-owned banks are still under the purview of the Ministry of Planning and Finance (MOPF) in terms of mandate and policy direction.

The CBM issued new regulations to incorporate multiple Basel II requirements in July 2017, 18 months after the introduction of the FIL. The new regulations also allowed banks to maintain an 8 percent capital adequacy ratio with a minimum 4 percent Tier 1 ratio. The CBM has set a limit on the lending exposure of 20 percent of capital and reserves to any single counterparty, while state-owned banks remain excluded from this provision when lending to government entities. The extent to which Myanmar will comply with all Basel requirements and the consequences of partial implementation remains an area of discussion for the banking sector, its regulators and international observers.

Recent reforms in Myanmar have advanced the growth of the financial sector, but regulatory environment aspects are still not in line with international best practices. This is especially the case with regard to a variety of administrative checks on bank loans. This section addresses these regulatory constraints and looks at three other banking-sector growth priorities in Myanmar: improving payment infrastructure, expanding money and interbank markets, and setting the right pace for further expansion of foreign banks.

3.4. Foreign Lending and Security in Myanmar: Overview and the Latest Updates

The Central Bank of Myanmar issued a directive which goes considerable distance in further liberalizing and encouraging market access to local companies. Under this regulation, foreign bank branches are now allowed to provide local businesses with banking services, including financing and all other relevant banking services. However, while the local players appreciate more streamlined foreign financing methods, there are still major challenges with regard to securities development, perfection, and execution to secure such financing.

3.4.1. Legal Framework for Loans and Security

Myanmar clearly shares a great deal of its legal history with India, including the codification of English common law concepts in areas such as property (Transfer of Property Act), contracts (Myanmar Contract Act) and trusts (Myanmar Trust Act). Given the validity of the principles of English law, the importance of these laws must be kept in mind, which do not exist in English law as such. There may be different local custom and case law. Indian jurisprudence may also be compelling.

3.4.2. Government Approvals Needed for Foreign Loans

The Myanmar Foreign Investment Law ("FIL") and the Foreign Exchange Management Act ("FEMA") and their implementing rules clearly establish the right of foreign investors or domestic parties to use foreign loans subject to the approval of the Central Bank of Myanmar (CBM) on a case-by-case basis.

Before the money is disbursed, the CBM must accept the loan at the outset. Generally, the CBM will review the following:

• Loan arrangement

• The parties involved

• Interest rate

• Loan intent

• Disbursement and repayment schedule; and

• The borrower's capital position, among other factors.

Applications are generally approved, but in certain circumstances delays and even rejections are possible.

In the case of an offshore loan arrangement (the creditor is the Myanmar project company's foreign parent) the foreign borrower will usually turn over the funds to his Myanmar subsidiary or use the loan proceeds to capitalize the subsidiary. An internal loan must also be approved by CBM.

CBM has released the conditions for offshore loans as recently as August 2016. A borrower residing in Myanmar will require the following documents to be sent to CBM:

• An application to "Myanmar's Central Bank, Office No. (55), Nay Pyi Taw."

• Corporate records (Company Registration Certificate, Form VI, Form XXVI, Association Memorandum, Memorandum of Articles, etc.)

• Where the company has already been formed, the financial statements for the current year and the previous year are accepted by an official professional auditor, who should be a Professional Public Accountant.

• Loan agreement (proposal) including the schedule for repayment of the proposed loan and other relevant data.

• Bank Credit advice evidence of the transfer of equity to the borrower.

• Other facts of the documentary.

CBM will review the above documents to assess the following;

• Whether the value of the applicant's equity capital exceeds USD 500,000.

• Whether the applicant (borrower) has regular foreign currency income in accordance with the provisions of the Foreign Exchange Management Law and the Foreign Exchange Management Regulations;

• Whether the borrower is able to make full repayment of income in Myanmar currency and whether measures are in place to protect against possible changes in the exchange rate in the event that the borrower is not in a position to make full repayment.

The Myanmar Company also needs CBM permission to operate a bank account in an overseas bank. It is not always given this permission.

In addition, a business in Myanmar must have a foreign currency bank account to collect foreign currency remittances under the Foreign Investment Regulations.

Therefore, the approval of the Microfinance Business Supervisory Committee ("MBSC") may be required depending on whether the applicant has a MIC permit, MIC approval of the facility, and in the case of a loan issued to a microfinance institution.

3.4.3. Main Types of Borrowers Corporate Security Providers

Myanmar's corporate security providers are predominantly Myanmar companies organized under the 1914 Myanmar Companies Act ("MCPA"). Such companies may be private as well as public (but most are private) and either a company wholly owned by Myanmar citizens or a (partially) foreign-owned company incorporated in Myanmar. Remember that shares in a company that is wholly owned by Myanmar citizens cannot be passed administratively to a shareholder, e.g. in execution of a share commitment. Larger protection providers may have an investment license ("MIC Permit"), which means approval for different transactions by the investment regulator is required. Individual residents and citizens of Myanmar can also provide guarantees.

3.4.4. Frequently Used Types of Commercial Security and Contractual Comforts

Mortgage

It is noteworthy that in the case of immovable property charged to a foreign lender, an onshore security trustee is required (the services are provided by local Myanmar banks), although six forms of mortgages are possible under Myanmar law, in general practice only three forms are used–English mortgage, simple mortgage or equitable mortgage. We outline each of the three types of mortgages below briefly:

English Mortgage

Only by registered deed can an English mortgage be established, whereby the mortgaged property is transferred to the mortgagee with re-transfer upon repayment of the mortgage amount as agreed. The mortgage holder is bound to repay the balance on a certain date under an English mortgage. It is also possible to create an English mortgage with or without possession. With the simple mortgage, this possession possibility is a key difference. The right to sell the mortgaged property on default, wherever the property is located, is an important element of the English mortgage, without any court intervention. The English mortgage is, from that viewpoint, the strongest form offered under Myanmar law.

Simple Mortgage

Under a simple mortgage, there is no transition to the mortgagee of ownership or possession of the immovable property. The lender retains ownership of the property with a straightforward mortgage and is bound to pay the amount guaranteed by the mortgage. The mortgagee has the right to cause the mortgaged property to be sold and to use the proceeds to pay the debt owed after failing to pay the amount secured by the mortgage.

Equitable Mortgage

Also known as a mortgage by deposit of title deed, a reasonable mortgage is completed by the mortgage holder's deposit of the title deed (or any individual properly approved by the mortgage in this regard) with the mortgage holder with the intention of creating a mortgage. Generally speaking, the development of an equitable mortgage involves no deed or agreement. Only through court proceedings can the protection be implemented.

The key limitations of fair mortgage are that I it only applies when title-like documents are required for this land and (ii) it normally requires enforcement action by the court. The main advantage is that it can be mastered without having to depend on the time-consuming registration with the ORD.

Charge

A charge may be imposed on fixed or existing properties, intellectual property rights, receivables, bank accounts, transfer of contract rights, or any other mobile property, whether tangible or intangible. According to Myanmar law, there are two types of charge: Fixed Charge: Such a charge is against a specific property that is clearly identifiable and specified. At the time the charge is made, the property under charge will be defined. During the life of the fee, the essence and personality of the property will not change. Only after the first payment of the debt to the charge holder can the company transfer the property charged.

A floating charge covers property of a circulating or fluctuating nature, such as stock-in-trade, debtors, etc. This applies to the property paid under the varying circumstances in which they arise from time to time. Such a charge remains dormant until the undertaking charge ceases to be an ongoing concern or until steps are taken to crystallize the floating charge by the individual in whose favor the charge was generated. A floating charge becomes a fixed charge when crystallized.

Pledge

Goods are pledged where the possession of the goods is handed over to the lender to secure payment, and where the borrower defaults, the lender may take over the goods and sell them to repay the debt (similar to how a pawn shop operates). It should be noted that in addition to a debt, a pledge can be used to secure other obligations. Commitments are often made through a company's shares.

Assignment

An assignment is where one party ("assignor") transfers or agrees to transfer ownership or contractual rights to another party ("assignor"). Contractual rights are granted through a "deed of assignment" signed by the assignor and the assignor (and, if applicable, the other original party to the contract). In a legal assignment, the assignor may enforce his rights against the debtor without involving the assignor; however, in such a case, the assignment must be absolute and must comply with the conditions laid down in the Myanmar Transfer of Property Act ("TPA") for notification to the debtor, etc.

Hypothecation

Hypothecation although not clearly defined by Myanmar law, but acknowledged in case law. It is used to establish an argument against mobile asset protection. The security ownership remains, however, with the creditor himself. Therefore, in the case of the borrower's default, the lender (i.e. to whom the goods / security are hypothecated) will first have to take possession of the asset and then sell it. Hypothecates usually have the right to sue the hypothecator for the debt and, if appropriate, to proceed in execution against the hypothecated goods.

Guarantees

Commonly used in Myanmar are both corporate and individual guarantees. The Myanmar Contract Act lays out the legal rules relating to assurances. There are a number of reasons why a guarantee may not be true, such as the creditor or his agents ' misrepresentation, the creditor's overt or implicit waiver of protection or, it seems quite simply, the product of "some deviation" in the main contract.

Individuals in Myanmar can offer third parties assurances, but customary Buddhist marriage law will allow spouses to agree to commit community properties.

3.4.5. Security Per Type of Asset

The newly enacted Myanmar Companies Law allows for the creation of securities and their registration for security perfection.

Land and buildings

Myanmar has several types of properties, ranging from (rare) freeholds to land grants, land licenses, forest, garden property, etc. Nevertheless, in the absence of such prior case-by-case approval from the relevant authorities, some of the underlying documents require permission to lease, transfer or establish any kind of fee, depending on the type of property. Generally speaking, freehold land and grant land are the two types of land that are easily compensated. A lease, loan or contract is created to guarantee a rent on any immovable property. A fair mortgage is the most common form of mortgage in Myanmar, as the applicable stamp duty is lower and there is no requirement to register with the land authority ("ORD").

Movable property

In general, mobile property is protected through a promise, hypothecation, or fee. Generally speaking, Myanmar's concept of mobile property includes plant and equipment, stock-in-trade, cash or cash equivalents, book debt / accounts receivable, bank accounts, IP, etc. Any form of protection over a company's mobile property (other than a mobile property pledge) requires the CRO to be registered.

Shares

A Myanmar company's shares can also be pledged in Myanmar as security for funding. In case of default, the pledged securities will be implemented, the company's power will be passed to the pledgee. If the borrower is a company wholly owned by Myanmar people and the borrowers are non-Myanmar lenders / financial institutions, an onshore security agent would be required to enforce the Myanmar company's shareholding commitment or the company's articles would have to be updated first to allow foreign shareholders to do so. The investment regulator, the MIC, must allow the transfer of shares in a company with a MIC permit. In Myanmar telecom licenses, as well as certain other licenses and concessions, changes in control requirements are typically found.

Contractual Rights

Contractual rights, such as compromises, are often granted under Myanmar law, either through a fee or through an absolute grant, which only causes default. Nevertheless, in many contractual rights assignments, where such rights are obtained from the government, prior permission from the appropriate governmental authority is required for that effect.

Internal Approvals Required for Granting Security Rights

Under Myanmar law, in most cases, maintaining any control over a company's assets requires a specific resolution from the board of directors of the company. Nevertheless, it is always advised due diligence to look at the Myanmar Company's charter documents to assess ultra vires problems that are a real concern in Myanmar.

Registration And Perfection of Security

Broadly speaking, in Myanmar, the requirements for perfection are two-fold and differ on the basis of the security provided. Any security over immovable property, other than a mortgage by way of a share pledge, may be perfected after registration with the ORD of the underlying instrument and registration with the CRO within 21 days of the security being established.

No security over a company's mobilizations requires ORD registration. All kinds of protection, however, other than a guarantee of the shares / movable property of a company, will require registration with the CRO within 21 days of its establishment.

CHAPTER 4
COMPARATIVE ANALYSIS OF CREDIT RISK MANAGEMENT PRACTICES BETWEEN FOREIGN BANKS AND DOMESTIC BANKS IN MYANMAR

This chapter covers a description of the study design, target population, sample design, data collection methods, research procedures, data analysis, presentation and interpretation of the credit risk management practices used in foreign banks and domestic banks in Myanmar.

4.1. Research Method

A descriptive research method was used to undertake this study and based on primary and secondary data. The required data to assess were collected through survey in which the semi-structured questionnaires were used. In order to meet the two objectives of this study, semi-structured questionnaires which consisted of items pertaining to the area of study have been created delivered through the 30 respondents from targeted three foreign banks and three domestic banks in Myanmar. After the respondents completed the questionnaires and returned back, collected with confidentiality from the delivered areas.

The latter includes assessment of CRM practices of foreign banks and domestic banks the structured questionnaires. Listings of credit management practices were listed and the respondents were asked to indicate the extent to which they have adopted each of the practices by ticking as appropriate along a five-point Likert Scale. To determine the minimum and the maximum length of the 5-point Likert type scale, according to Abdelrasheed, 2018, the range is calculated (strongly disagree = 1-1.80, Disagree = 1.81-2.60, True to some extent = 2.61-3.40, Agree = 3.41-4.20 and Strongly agree = 4.21-5.00).

4.2. Credit Risk Management Practices of Foreign Banks and Domestic Banks in Myanmar

This section was examined the CRM practices of foreign banks and domestic banks in Myanmar by using the close ended questions.

4.2.1 Extent to Which the Targeted Banks Have Adopted Credit Risk Management Practices

The respondents were asked to indicate whether their respective organizations had a well-documented Credit Risk Management Policy that elaborates the products offered and all activities that have to be performed to manage the credit. All the respondents indicated that their respective organization had a Credit Risk Management Policy in place. The respondents were further asked to indicate whether their respective organizations had a credit manual that documents and elaborates the strategies for managing credit and they are formulated in compliance with the bank credit policy. The responses and summarized as shown in Table (4.1).

Table 4.2.1. Availability of Credit Manual that Documents and Elaborates the Strategies of Managing Credit

	Foreign Banks		Domestic Banks	
	Frequency	**Percent**	**Frequency**	**Percent**
Yes	15	100%	10	67%
No	0	0%	5	33%
Total	15	100%	15	100%

Source: Survey data, 2019

According to the table 4.2.1, it shows that all of the respondents from foreign banks indicated that they all had a credit manual that documents and elaborates the strategies for managing credit while only 67% respondents from the domestic banks' indicated that their respective banks have a Credit Manual.

The respondents were also asked to indicate whether their respective organizations had strategies for granting credit focus on who, how and what should be done at the branch and corporate division levels while assessing borrowers. The responses and summarized as shown in Table (4.2.2).

Table 4.2.2 Availability of Strategies for Granting Credits

	Foreign Banks		Domestic Banks	
	Frequency	**Percent**	**Frequency**	**Percent**
Yes	15	100%	15	67%
No	0	0%	0	33%
Total	15	100%	15	100%

Source: Survey data, 2019

According to the table 4.2.2, it shows that all of the respondents from foreign banks indicated that they had in place strategies for granting credit to who, how and what should be done at the branch and corporate division levels while assessing borrowers and at least 33% of respondents from domestic banks indicate that their bank still not available strategies of granting credits.

4.3. Factors Considered Important in Loan Appraisal and Subsequent Approval (the Five Cs)

The respondents were asked to indicate the factors considered important in loan appraisal and subsequent approval which shown in Table (4.3.1) as below.

Table 4.3.1 Factors Considered Important in Loan Appraisal and Subsequent Approval (the Five Cs)

No.	Particular	Mean	
		Foreign Banks	**Domestic Banks**
1	Borrower’s capacity	3.87	3.40
2	Borrower’s character	3.93	3.47
3	Borrower’s condition	3.93	3.80
4	Borrower’s credit history	4.07	3.33
5	Borrower’s collateral	3.4	4.13
	Overall Mean	**3.84**	**3.63**

Source: Survey data, 2019

According to Table (4.3.1), for analysis in foreign banks, overall mean scores of the factors considered important in loan appraisal and subsequent approval is shown as 4 and the overall score of local banks, 3.67. This result is showing that the banks considered all of the five Cs factors are important in loan appraisal and subsequent approval. This results also showing that respondents from foreign banks considered the borrower's credit history is most important in loan appraisal and subsequent approval and respondents from domestic banks emphasized on borrower's collateral condition.

4.4. Tools for Controlling Credit Losses

For analyzing the tools for controlling credit losses, five questions are prepared for the respondents in accordance to make a survey and the responses are summarized in Table (4.4.1) as below.

Table 4.4.1 Tools for Controlling Credit Losses

No.	Particular	Mean	
		Foreign Banks	**Domestic Banks**
1	Covenants	4.47	3.00
2	Collateral	3.87	3.40
3	Credit rationing	4.07	3.40
4	Loan securitization	4.07	3.53
5	Loan syndication	3.87	3.13
	Overall Mean	**4.07**	**3.29**

Source: Survey data, 2019

According to Table (4.4.1), for analysis in foreign banks, overall mean scores of the tools for controlling credit losses is shown as 4.07 and the overall mean score of domestic banks, 3.29. As the mentioned tools are critical in respect to monitoring of the borrowers and the local banks should be used in developing in controlling credit losses.

4.5. Activities Involved in Monitoring of Borrowers

The respondents were asked to indicate the extent to which the organization undertakes each of the listed activities with regards to monitoring of borrowers and the results shown in Table (4.5.1) as below.

Table 4.5.1 Activities Involved in Monitoring of Borrowers

No	Particulars	Mean	
		Foreign Bank	**Domestic Bank**
1	Frequent contact with borrowers	4.13	3.53
2	Creating an environment that the bank can be seen as a solver of problems and trusted advisor	3.87	3.27
3	Development of the culture of being supportive to borrowers wherever they are recognized to be in difficulties and are striving to deal with the situation	4.13	3.73
4	Monitoring the flow of borrower's business through the bank's account	3.80	3.80
5	Regular review of borrowers reports as well as an onsite visit	3.67	3.40
6	Updating borrowers credit files and periodically reviewing the borrowers rating assigned at the time the credit was granted	3.87	3.47
	Overall Mean	**3.91**	**3.53**

Source: Survey data, 2019

According to Table (4.5.1), for analysis in foreign banks, overall mean scores of the activities involved in the monitoring of borrowers is shown as 3.91 and the overall score of domestic banks, 3.53. The results are showing that the banks are agreed to involve the above activities in monitoring of borrowers.

4.6. Factors That Influence the Effectiveness of A Credit Risk Management System

For analysis of the factors that influence the effectiveness of a credit risk management system, eight questions are prepared in accordance to make a survey and the results are shown in Table (4.6.1) as below.

Table 4.6.1 Factors that Influence the Effectiveness of A credit Risk Management System

No	Particulars	Mean	
		Foreign Bank	Local Bank
1	Establishment of an appropriate credit environment through policy and strategies (guidelines) that clearly outline the scope and allocation of bank credit facilities	4.73	3.06
2	Maintenance of an appropriate credit administration that involves monitoring process as well as adequate control over credit	4.13	3.13
3	Top management support is required to ensure that there are proper and clear guidelines in managing credit	4.00	3.13
4	All credit risk management guidelines should be properly communicated throughout the organization and everybody involved in credit risk management should understand them	3.93	2.86
5	Collection of reliable information from prospective borrowers is critical in accomplishing effective screening.	3.87	2.67
6	High quality staff are critical to ensure that the depth of knowledge and judgment needed is always available	3.80	2.87
7	Monitoring of borrowers is very important as current and potential exposures change with	4.00	3.27

	both the passage of time and the movements in the underlying variables, and also very important in dealing with moral hazard problem		
8	Supportive technologies and equipment such as computers are useful in credit analysis, monitoring and control, as they make it easy to keep track on trend of credits within the portfolio	4.20	3.07
	Overall Mean	**4.08**	**3.00**

Source: Survey data, 2019

According to Table (4.6.1), the respondents from the foreign banks are strongly agreed to the factors that influences the effectiveness of credit risk management system as the overall mean score is 4.08 while overall score for the local banks is 3.00.

CHAPTER 5
CONCLUSION

In this chapter, findings and discussions that hand on analysis, suggestions and recommendations and need for further studies of comparative analysis of credit risk management practices between foreign banks and domestic banks in are included.

5.1. Findings and Discussions

Commercial banks consider the lending role as the most important function for the use of funds. Since banks earn their highest gross profit from loans; banks ' profitability is severely affected by the administration of loan portfolios. Active CRM involves creating a suitable CR environment; working under a sound credit granting process; maintaining a suitable credit management that includes monitoring processes as well as appropriate CR controls.

The study findings indicate that various risk management schemes have been implemented by foreign banks and domestic banks in Myanmar. The banks found the following factors significant in the evaluation of loans and subsequent approval: capacity, character, condition, credit history and collateral of the borrower. The findings also showed that foreign banks considers credit history of the borrower is most essential factor. This may be due to the shorter operation period than the domestic banks and restrictions to take collateral for foreign banks. Meanwhile domestic banks considering that collateral is the most significant factor in the evaluation of loans because of lacking adequate credit history (lack of Credit Bureau) and applying collateral-based lending approach like most of the domestic banks do.

The banks have also implemented various tools to control credit losses. These included: covenants, collateral, credit rationing, securitization of loans, and syndication of loans. The findings also showed that foreign banks have proper loan agreements with sound covenant clauses for monitoring process after loan disbursement.

With regard to borrowers' monitoring, banks have undertaken the following activities: regular interaction with borrowers as suggested by all respondents; creating an environment in which the bank can be seen as a problem solver and trusted advisor; developing a culture of supporting borrowers wherever they are known to be in trouble and trying to deal with them, monitoring the borrower's business flow through their bank accounts, regular review of borrowers reports as well as an on-site visit, updating borrower's credit file and periodically review on borrowers' rating.

There are factors that have to be addressed in order to achieve effectiveness in credit risk management systems by commercial banks. These include the establishment of an appropriate credit environment through policy and strategies (guidelines) that clearly outline the scope and allocation of bank credit facilities; maintenance of an appropriate credit administration that involves monitoring process as well as adequate controls over credit; establishing an appropriate CR environment; operating under a sound credit granting process; top management support is required to ensure that there are proper and clear guidelines in managing credit, as indicated by all the respondents; all credit risk management guidelines should be properly communicated throughout the organization and everybody involved in credit risk management should understand them; collection of reliable information collected from prospective borrowers is critical in accomplishing effective screening; highly quality staff are critical to ensure that the depth of knowledge and judgment needed is always available; monitoring of borrowers is very important as current and potential exposures change with both the passage of time and the movements in the underlying variables and also very important in dealing with moral hazard problem; and supportive technologies and equipment such as computers are useful in credit analysis, monitoring and control.

5.2. Suggestions and Recommendations

The domestic banks in Myanmar should consider using the following techniques in risk management: establishing standards, credit score, credit worthiness analysis, risk rating and collateral. By simplifying business practices and minimizing risk-inducing activities, the banks could avoid credit risks. It is necessary to properly manage or move operations with which the financial institution is committed to continuing. The bank must cover those threats that are foreseeable or transferred. These are the unavoidable threats that are too difficult to distinguish from properties. The bank recognizes the resulting risk as vital to its business; banks are specialized in dealing with this type of risk and are reaping the benefits.

In order to effectively manage credit risks, the commercial banks should follow the following eight steps in processing credits application, credit analysis, decision, document preparation, closing, recording, servicing and administration, and collection. After analyzing these lending activities, a value chain of lending activities should be identified, and the rationale for determining how values are created can be determined.

The banks should put emphasis on the internal measures before lending; character, capacity, capital, collateral, conditions and control, which are also important reference indexes for banks when making a credit analysis to decide whether or not a borrower is worthy of a loan.

Active CRM involves creating a suitable CR environment; working under a sound credit granting process; maintaining a suitable credit management that includes monitoring processes as well as appropriate CR controls. It needs top management to ensure that CR management is directed correctly and simply, that is, that all directives are properly communicated throughout the organization; and that they are understood by everyone involved in CRM.

Considerations that form the basis for sound CRM system should include: policy and strategies (guidelines) that clearly outline the scope and allocation of a bank credit facilities and the manner in which a credit portfolio is managed, that is, how loans are originated, appraised, supervised and collected Screening borrowers is highly recommended in the form of credit assessment. A collection of reliable information from prospective borrowers becomes critical in accomplishing effective screening.

Borrowers ' appraisal should be carried out using both qualitative and quantitative methods. Numbers can be allocated to borrowers’ quality measured by qualitative models with the number of values relative to a threshold.

It is very important to have a transparent procedure for approving new credits and expanding existing credits when maintaining CR. In addition, lenders monitoring is very important because current and potential exposures shift with both the passage of time and the changes in the underlying variables, as well as being very critical in resolving the moral hazard problem. High-quality CRM workers are vital to ensuring that there is always the breadth of experience and analysis needed to manage the CR in commercial banks effectively.

5.3. Need for further study

It is hoped that the findings of this study would add to the current knowledge base and form the basis for potential researchers. Therefore, the following areas are suggested to further researchers:

(i) While the current study focused on commercial bank management responses, future studies should focus on customer responses. This will shed light on customers ' perceptions of the kind of credit management systems they want to institutionalize in commercial banks and

(ii) Study results should be extended to other fields of financial services, including mortgage firms.

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APPENDIX I: QUESTIONNAIRE

This questionnaire has been designed to collect information from credit related selected staffs of foreign banks and domestic banks in Myanmar and is meant for academic purposes only. Please complete the questionnaire from Section A. All the information in this questionnaire will be treated in confidence.

SECTION A: CREDIT RISK MANAGEMENT PRACTICES

1. Does your organization have a well-documented Credit Risk Management policy that elaborates the products offered and all activities that have to be performed to manage the Credit? (Tick as appropriate)

   (a) Yes ☐ (b) No ☐

2. Does your organization have a credit manual that documents and elaborates the strategies for managing Credit and they are formulated in compliance with the bank credit policy? (Tick as appropriate)

   (a) Yes ☐ (b) No ☐

3. Does your organization have strategies for granting credits focus on who, how and what should be done at the branch and corporate division levels while assessing borrowers? (Tick as appropriate)

   (a) Yes ☐ (b) No ☐

4. Does your organization have credit rating system? (Tick as appropriate)

   (a) Yes ☐ (b) No ☐

5. Briefly explain the lending process of your organization (Steps involved, undertaken by who and how)

   ----

6. With respect to your organization, please indicate the extent to which each of the following factors are considered important in loan appraisal and subsequent approval (Tick as appropriate)

Factors considered important in loan appraisal and subsequent approval (the five Cs)	Not at all (1)	Neutral (2)	Somehow (3)	Much (4)	Very Much (5)
Borrower's capacity					
Borrower's character					
Borrower's condition					
Borrower's credit history					
Borrower's collateral					
Other (Specify)					

7. Please indicate the extent to which your organization uses each of the listed tools in controlling credit losses (Tick as appropriate)

Tools for controlling credit losses	Not at all (1)	Neutral (2)	Somehow (3)	Much (4)	Very Much (5)
Covenants					
Collateral					
Credit rationing					
Loan securitization					
Loan syndication					
Others (specify)					

8. Please indicate the extent to which your organization undertakes each of the listed activities with regards to monitoring of borrowers (Tick as appropriate)

Activities involved in monitoring of borrowers	Not at all (1)	Neutral (2)	Somehow (3)	Much (4)	Very Much (5)
Frequent contact with borrowers					
Creating an environment that the bank can be seen as a solver of problems and trusted advisor					
Development of the culture of being supportive to borrowers wherever 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 borrowers reports as well as an onsite visit					
Updating borrowers credit files and periodically reviewing the borrowers rating assigned at the time the credit was granted					

9. An effective credit risk management system that ensures repayment of loans by borrowers is critical in dealing with asymmetric information problems and in reducing the level of loan losses. Listed below are some of the factors that influence effectiveness of a credit risk management system. With respect to your organization, please indicate the extent to which you agree/disagree that indeed the factors are considered important in influencing the effectiveness of a credit risk management system (Tick as appropriate)

Factors that influence the effectiveness of a credit risk management system	Strongly disagree (1)	Disagree (2)	Somehow agree (3)	Agree (4)	Strongly agree (5)
Establishment of an appropriate credit environment through policy and strategies (guidelines) that clearly outline the scope and allocation of bank credit facilities					
Maintenance of an appropriate credit administration that involves monitoring process as well as adequate control over credit					
Top management support is required to ensure that there are proper and clear guidelines in managing credit					
All credit risk management guidelines should be properly communicated throughout the organization and everybody involved in credit risk management should understand them					

Factors that influence the effectiveness of a credit risk management system	Strongly disagree (1)	Disagree (2)	Somehow agree (3)	Agree (4)	Strongly agree (5)
Collection of reliable information from prospective borrowers is critical in accomplishing effective screening)					
High quality staff are critical to ensure that the depth of knowledge and judgment needed is always available					
Monitoring of borrowers is very important as current and potential exposures change with both the passage of time and the movements in the underlying variables, and also very important in dealing with moral hazard problem					
Supportive technologies and equipment such as computers are useful in credit analysis, monitoring and control, as they make it easy to keep track on trend of credits within the portfolio					