YANGON UNIVERSITY OF ECONOMICS

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THE EFFECT OF CREDIT MANAGEMENT PRACTICES ON BANK PERFORMANCE

(Case Study on Myanmar Oriental Bank-MOB)

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MBF - 72

DAY 2nd BATCH

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THE EFFECT OF CREDIT MANAGEMENT PRACTICES ON BANK PERFORMANCE

(Case Study on Myanmar Oriental Bank-MOB)

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ABSTRACT

The main objectives of the study are to identify the credit management practices of MOB Bank and to examine the effect of credit management practices on performance of MOB Bank. This research used both primary data and secondary data. The primary data is collected by using structured questionnaires and used descriptive analysis. The questionnaires have been distributed to 200 employees out of 500 employees (40% of population size). The questionnaires are distributed through respondents who are chosen from the top and middle-level management of Head Office and branches using a simple random sampling method. Multiple Regression Analysis is used to know the effect of credit management practices on performance of MOB Bank. According to the result, the three credit management practices (collection policy, client appraisal and credit risk control) positively and significantly affect the performance of MOB Bank. Credit terms are not effect on performance of bank. This study recommends that MOB Bank can enhance its credit practices by creating profile assessment database of prospective and current borrowers and guarantors who can help to minimize non-performing loan and hence it can improve its bank performance. This study concludes that credit management practices have a great extent to promote the performance of MOB Bank thus it may drive to gain competitive position in the industry.

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LIST OF ABBREVIATIONS

ATM	Automatic Teller Machine
BSD	Banking Service Department
CAR	Capital Adequacy Ratio
CBM	Central Bank of Myanmar
CEO	Chief Executive Officer
DMD	Deputy Managing Director
EUR	Euro
GA	General Affairs
GTB	Global Treasure Bank
HR	Human Resources
IBD	International Banking Department
IFC	International Finance Corporation
IT	Information Technology
MEB	Myanmar Economic Bank
MOB	Myanmar Oriental Bank
MPU	Myanmar Payment Union
MSMES	Micro, Small and Medium Enterprises
NPL	Non-Performing Loan
OLCL	Oriental Leasing Company Limited
POS	Point of Sales
ROA	Return on Assets
ROE	Return on Equity
SGD	Singapore Dollar
SOBs	State-Owned Banks
TL	Total Loan

CHAPTER I
INTRODUCTION

Bank plays an important role in the economic development of all countries through its financial intermediation functions linking borrowers and lenders in bringing for the time being available resources from business and individual customers as well as providing loans for those in require of financial support. This intermediation role catalyzes economic growth. Also, banks provide capital to investors who by this can exploit desired profitable ventures. Banks are profit-making organizations performing as intermediaries linking borrowers and lenders in bringing for the time being available resources from business and individual customers as well as providing loans for those in require of financial support. The importance of banks in an economy cannot be abolished because they are an institution that provides liquidity to both the lender and the borrower. Because of this significance bank have to evaluate the risk, that it faces daily while lending (Mohammad, 2014). Banks constantly participate in corporate management for monitoring, scanning, and loan repayment for better loan performance.

Credit is one of many factors which affect product demand. Myers and Brealey (2003) define credit as the process by which title to goods or services is granted without a spot payment, based on a contractual agreement for subsequent payment. The concept of credit management was widely accepted by commercial banks in the late 1990s, but even this has not stopped loan defaults to this day (Modurch, 1999). Al Tamini (2002) found that credit problems were identified as one of the main reasons for banking difficulties. As a result of asymmetric information, banks are exposed to adverse selection and moral hazards between lenders and borrowers. This requires commercial banks to have a mechanism not only to assess default risk unknown to them to avoid negative selection but also a mechanism that can evolve after lending to avoid moral hazards. A key prerequisite for effective credit management is the ability to manage customer credit limits wisely and skillfully. Credit management is primarily concerned with managing accounts receivable and financing debt. The purpose of credit management is to secure a company's investment in accounts receivable and optimize operational cash flow. Policies and procedures must be reasonable to provide credit to customers, collect payments and limit the risk of non-payment (Kagoyire & Shukla, 2016; Wadike, Abuba, and Wokoma, 2017). Sound credit management is a prerequisite for the stability and continued profitability of financial institutions, but poor credit quality is the most common cause of poor financial performance and health. Intelligent and effective management of credit lines is a key requirement for effective credit management (Ross et al., 2008; & Moti et al. 2012). Delays in collecting cash from debtors are causing serious financial problems, increasing bad debts and impacting customer relationships. The main cause of liquidation is poor management of their finances and credit.

Turyahebya (2013) defines financial performance as the ability to operate in an efficient and profitable manner. Financial performance is the process of financially measuring the results of a company's policies and operations. Financial performance analysis involves analyzing and interpreting financial statements to fully diagnose a company's profitability and financial health. Commercial banks in Myanmar have faced challenges over the years for many reasons; the main reason serious financial problems remain directly related to borrower’s credit standards, weak portfolio risk, lack of management or attention to changes in economic conditions and the competitive environment (Central Bank Annual Supervision Report, 2000). The banking industry especially local banks are sensitized to the need to have formal and documented credit management frameworks. This study will investigate the effect of credit management on the performance of Myanmar Oriental Bank Limited.

1.1 Rationale of the Study

Banks generally obtain their earnings from interest income accruing from their loan advances. However, this source of income is also the source of their vulnerability as some borrowers tend to default in making repayments (Li and Zou, 2014). This has been witnessed in the banking sector in Myanmar in recent times. High credit risk ratio, which is reflected in the levels of non-performing loans of commercial banks, which have increased over the last 10 years; a situation that negatively affects their profitability (Central bank annual supervision report, 2015). This trend not only threatens the profitability and sustainability of Myanmar's commercial banks, but also hinders the achievement of the goal of lending to the middle and upper income groups, helping the unbanked rural population, fill the funding gap of mainstream of Myanmar's financial sector. In a more recent report on the Bank of MOB, the ratio of

Non-Performing Loan (NPL) for the current year increased round about 15% greater than that of the previous year. It reveals that credit risk among banks continues to be high with more than one-fifth of loans in the sector being non-performing and thus further highlighting the enormity of credit risk that banks face.

Hence, it is time to review the understanding of credit management practices of Myanmar Oriental Bank because most of its income is from the interest earned on loans granted to small and medium-sized enterprises. Lending or credit creation seeks to enhance the quality of loan products and maximize the bank's performance. This study will be started with a review of the literature, first to understand the concept of Credit Management Practices and bank performance. Next, the study seeks to examine the credit management system of MOB and how it impacts the performance of MOB.

1.2 Objectives of the Study

The objectives of this study are as follows:

1. To identify the credit management practices of Myanmar Oriental Bank Limited and
2. To analyze the effect of credit management practices on the performance of Myanmar Oriental Bank Limited.

1.3 Scope and Limitation of the Study

This study only focuses on the effect of credit management practices on bank performance of MOB Bank. And, it only focuses on credit management practices namely collection policy, client appraisal, credit terms and credit risk control. The study focuses on only one bank with a view of investigating the effect of credit management on bank performance; findings could not be completely generalizable to other bank settings. Respondents from the MOB Bank hesitant to give information concerning their credit management practices and general performance due to privacy codes. However, the researcher clearly outlines the motive of the study to them before embarking on data collection.

1.4 Method of the Study

Descriptive analysis methods practiced in this study. Both primary data and secondary data are also used. Primary data is collected from 200 employees out of 500 employees (40% of population size) from the top and middle-level management of Head Office and branches using a simple random sampling method. A structured questionnaire is prepared based on the Five-point Likert Scale. Secondary data collect from previous research papers, journals, articles, and survey reports from internet websites. This study used multiple regression analysis and correlation analysis by using Statistical Package for Social Science (SPSS) software.

1.5 Organization of the Study

This study contains five chapters. Chapter 1 presents the introduction, rationale, objectives, scope, methods of the study, and organization of the study. Chapter 2 includes theoretical framework of the credit management system and bank performance. Chapter 3 contains the credit management practices of Myanmar Oriental Bank Limited and Chapter 4 contains the analysis of the effect of credit management practices on the performance of Myanmar Oriental Bank Limited. Chapter 5 presents the findings, recommendations, and limitations of the study.

CHAPTER II
THEORETICAL FRAMEWORK OF STUDY

The chapter two focuses on related literature review aimed at relating studies from scholars in fields linked to study variables. These include theoretical and empirical approaches related to the current study that scholars have made academic exploration in previous periods. Precisely, the theories, empirical works, summary of all reviewed work and conceptual framework will be summarized.

2.1 Credit Management

Credit management is one of the most important activities for any company and should not be neglected by any company involved in providing credit lines, regardless of the nature of the business. It is a mechanism that ensures that the customer pays for the product provided or the service provided. Myers and Brealey (2003) describe credit management as the methods and strategies companies employ to maintain and effectively manage credit at optimal levels. The Credit Management Policy is a collection of systems, policies, and policies that provide guidance to credit department staff in underwriting and managing the entire debt collection process. It is an aspect of financial management that includes credit analysis, credit rating, credit classification, and credit reporting. Good credit management reduces capital tied up with debtors and also reduces the potential for bad debt.

Nzotta (2004) suggested that credit management has a significant impact on the success or failure of banks and other financial institutions. Ultimately, the defaults of microfinance institutions (MFIs) are highly dependent on the quality of their credit decisions, the quality of their risky investments. He also points out that credit management provides a leading indicator of the quality of his MFI loan portfolio. A key prerequisite for effective credit management is the ability to manage customer credit lines intelligently and efficiently. He continued, financial institutions need to better understand the evolution of their customers' financial strength, credit account history, and customer payment methods to mitigate undue risk of bad debt, overbooking and bankruptcy. A key requirement for effective credit management is the ability to manage customer credit lines intelligently and efficiently. To minimize the risk of bad debts, overbookings and bankruptcies, businesses need a better understanding of changes in their customers' financial situation, credit history and payment patterns.

2.2 Credit Management Practices

Effective credit management is vital to ensure that organization's credit activities are conducted in a prudent manner and the risk of potential failures reduced. The success of organization hinges on their ability to manage their credit effectively. Even though there are no strictly laid down credit Management practices, most financial institutions practice the following in order to maximize profit as well as to reduce credit risk.

2.2.1 Collection Policy

Collection policy refers to the procedures that is used to collect due accounts. This collection process can be rather expensive in terms of both product expenditure and lost good will (Brigham, 1997). Collection efforts include forced savings deposit matching, collateral foreclosure, and litigation to force payment on the guarantor (Myers, 1998). Methods used by credit unions include letters, formal notices, telephone calls, and visits by company officials.

Dickerson et al, (1995) assets that collection policy is a guide that ensures prompt payment and regular collections. The rationale is that not all clients meet their obligations, some just take it for granted, others simply forget while others just don't have a culture of paying until persuaded to do so. According to Myers (1998) many micro finance institutions may send a letter to such individuals (borrowers) when say ten days elapse or phone calls and if payment is not received with in thirty days, it may turn over the account to a collection agency. Collection procedure is required because some clients do not pay the loan in time some are slower while others never pay. Thus collection efforts aim at accelerating collections from slower payers to avoid bad debts. Prompt payments are aimed at increasing turn over while keeping low and bad debts within limits (Pandey, 2008). However, caution should be taken against stringent steps especially on permanent clients because harsh measures may cause them to shift to competitors (Van Horn 2007).

2.2.2 Client Appraisal

Credit facilities should be expanded within targeted markets and as well as the ambits of the lending strategy of the institution. Before granting credit facilities, banks must perform an assessment of the customer/transaction risk profile. Credit evaluation is the process by which a lender/bank evaluates a potential borrower's banking capabilities, including technical feasibility, economic viability, and creditworthiness. This is a very important step in determining a borrower's loan eligibility. This involves the gathering, processing and analyzing of information on the loan applicant. An important aspect of information is by way of credit references and credit rating. The provision of adequate perfected security should be paramount in taking a credit decision. The rigidity in total secured collateral before disbursement of credit facilities needs to be relaxed in order not to delay the financing, which invariably impedes the success of projects.

According to Ahmad et al (2004), there is no system that can provide a hundred percent protection against bad loans as situations can sometimes overturn the best credit strategies of borrowers. This implies that no amount of credit management measures put in place to forestall delinquencies can ensure a zero default rate. However, they can aid in ensuring that defaults are brought to the barest minimum thereby leading to a healthy loan portfolio.

2.2.3 Credit Terms

A credit is a contractual stipulation under which a firm grants credit to customers (Wamasembe, 2002); furthermore, these terms give the credit period and the credit limit. The firms need to make terms that act as incentives for clients more attractive without incurring unnecessarily high bad debts or increasing risk to the organization. Loan terms typically determine the term of the loan, the interest rate, how interest is calculated, and the frequency of loan installments. Kakuru (2001) explains the significance of discounts in credit terms. Discounts are offered to induce clients to pay up within the stipulated period or before the end of the credit period, in case of clients who would like to be offered a loan. This discount is normally expressed as a percentage of a loan. Discounts are meant to accelerate timely collection to cut back on the mount of doubtful debts and associated costs.

Ringtho (1998) states that credit terms are usually considered to be the credit terms of the discount, the credit amount, and the choice of instrument used to express the credit terms. Loan approval time period. This is the time it takes for the applicant to pay off the loan. It is evaluated by the position of the client as indicated by the ratio analysis, trends in cash flow and looking at capital position. Maturity of a loan, this is the time period it takes loan to mature with the interest there on.

2.2.4 Credit Risk Control

Credit risk control is to reduce the effects of different kinds of risks related to a preselected domain to the level accepted by society. It can refer to different kinds of threats caused by environment, technology, people, organizations and politics. It is clear that there are many risks and uncertainties in the banking industry. Specifically, a tightening regulatory framework, deregulation, increased competition, increased customer awareness, and a generally difficult economic environment. These drivers make the adoption of effective credit risk management strategies important Risk can be classified as systematic and unsystematic. Systematic risk is associated with the overall market or the economy, whereas unsystematic risk is related to a specific asset or firm. Some of the systematic risks can be reduced through the use of risk mitigation and transmission techniques.

In this regard, Santomero (1997) refer to three generic risk-mitigation strategies:

1. Eliminate or avoid risks through simple business practices;
2. Transfer risks to other participants; and
3. Actively manage risks at the bank level (acceptance of risk)

2.3 Theories for Credit Management Practices

This section on theoretical review focuses on the main theories that anchor this study's credit management and performance. This study has adopted four main theories, including credit scoring theory, asymmetric information theory, portfolio theory and transactions theory.

2.3.1 Credit Scoring Theory

The credit scoring theory was developed by Satyajit in 2004. The first step in limiting credit risk is to verify that the customers are willing and able to repay a loan. Banks use the 5Cs model of credit to evaluate a customer as a potential borrower (Abedi, 2000). These 5Cs are the principles that are used when considering creditworthiness of borrowers who can either be individuals or companies. This guide helps to determine the risk of borrower default and financial loss to lenders based on five borrower characteristics and loan terms. These 5Cs are; character, capacity, collateral, capital and condition. The character shows the creditworthiness (good or bad) of paying the interest and the principal on the loan over time. Lenders look at borrowers' financial statements and evaluate their performance in relation to loans and repayments. Capacity refers to the ability of a borrower to repay a loan. Lenders look at borrowers' financial statements to determine the strength and reliability of cash flows. Collateral refers to the right to assets that the applicant is willing to release in case of default, or a guarantee from a prominent party to repay an overdue loan. Capital refers to the assets and liabilities of a business or individual. The 4Cs mentioned in above determine the cost of a loan. The final and 5th C stands for conditions of loans and it refers a business plan that takes into account the level of competition and the market for products/services as well as the legal and economic environment. Lenders must verify the borrower's goal and ability to earn enough to the scheduled interest and principal repayments. The five Cs of credit is important in assessing the loan application because it helps lenders evaluate risk and look at a borrower's creditworthiness. A credit scoring model is a classification technique that uses new or updated credit line application data to assign credit risk classes to loan applicants (Constantinescu, 2010). This model supports variables in pre-borrowing valuation and bad debt management.

2.3.2 Asymmetric Information Theory

Asymmetric Information Theory was developed by Myers in 1984. Information asymmetry refers to situations in which entrepreneurs and managers know more about a company's prospects and risks than lenders (PWHC, 2002) cited in Eppy (2005). This leads the decision makers to make the appropriate decisions leading to irregularity credit administration. This theory describes a situation where all parties to an obligation are unaware of the relevant information. The lender on the other hand does not have sufficient information concerning the borrower (Edwards & Turnbull, 1994). Asymmetric Information Theory creates two problems for organizations; moral hazard (monitoring entrepreneurial behavior) and adverse selection (making errors in lending decisions). It is difficult for companies to solve these problems because it is not appropriate to allocate resources to the evaluation and monitoring when borrowing is for relatively small amounts. This is because the data needed to verify credit applications and monitor borrowers or lenders are not freely available. The information needed to assess the entrepreneurs' ability, commitment and business intentions are not available, are not well received or difficult to explain. The theory behind this study is to focus on the importance of prior credit information or credit knowledge of trading partners in a business environment. Therefore, it supported the variable on borrowing approval process.

2.3.3 Portfolio Theory

Banks have effectively connected current portfolio hypothesis to market hazard since the 1980s. Tragically, despite the fact that credit chance remains the biggest hazard confronting most organizations, the act of applying advanced portfolio hypothesis to credit chance has slacked (Margrabe, 2007). Companies perceive how credit fixations can contrarily affect budgetary execution. Therefore, various banks are effectively seeking after quantitative ways to deal with credit risk estimation. The banking industry is additionally gaining critical ground toward creating devices that measure credit hazard in a portfolio setting. They are additionally utilizing credit subordinates to exchange hazard proficiently while saving client connections. Portfolio quality proportions and profitability pointers have been adjusted. (Kairu, 2009).

Customarily, associations have adopted a benefit by-resource strategy to credit chance administration. While every organization's technique fluctuates, by and large this approach includes occasionally assessing the nature of credit exposures, applying a credit chance rating, and amassing the consequences of this examination to distinguish a portfolio's normal misfortunes. The establishment of the advantage by-resource approach is a sound credit survey and inward credit hazard rating framework. This framework empowers administration to recognize changes in individual credits, or portfolio drifts in an opportune way.

Subsequently, to increase more prominent knowledge into credit hazard, organizations progressively hope to supplement the advantage by-resource approach with a quantitative portfolio audit utilizing a credit demonstrate (Mason and Roger, 1998). Banks progressively endeavor to address the failure of the benefit by-resource way to deal with measure sudden misfortunes adequately by seeking after a portfolio approach. One shortcoming with the advantage by-resource approach is that it experiences issues distinguishing and measuring fixation. Fixation hazard alludes to extra portfolio chance coming about because of expanded introduction to credit expansion, or to a gathering of corresponded loan bosses (Richardson, 2002).

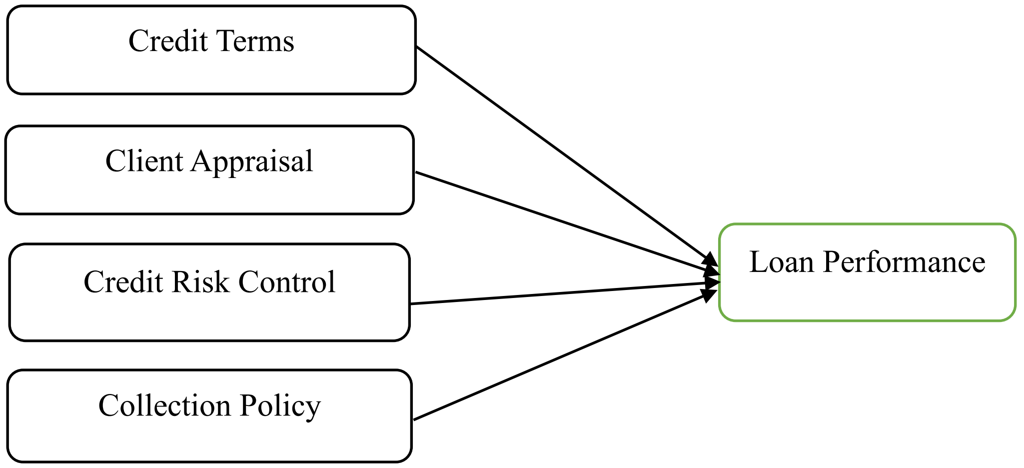
2.3.4 Transactions Cost Theory

First developed by Schwartz (1974), this theory assumes that providers have an advantage over traditional lenders in checking the actual financial situation and creditworthiness of their customers. Petersen and Rajan (1997) categorized his three factors of cost advantage as follows: Collecting information, managing buyers, and preserving the value of existing assets. The first cost benefit factor can be explained by the fact that sellers can obtain buyer information more quickly and cheaply. That is, the sum and recurrence of a purchaser's requests may give a provider a thought of the customer's circumstance; the purchaser's dismissal of rebates for early installment may serve to caution the provider of a debilitating in his credit-value, and dealers generally visit clients more regularly than budgetary organizations.

2.4 Empirical Review

Sufi Faizan, et al (2015) made a research on the relationship between credit risk management and loan performance: empirical investigation of Microfinance Banks in Pakistan. In this study, credit terms, client appraisal, credit risk control and collection policy are independent variables and loan performance as dependent variable. The conceptual framework of this study is shown in Figure (2.1).

Figure (2.1) Credit Risk Management and Loan Performance

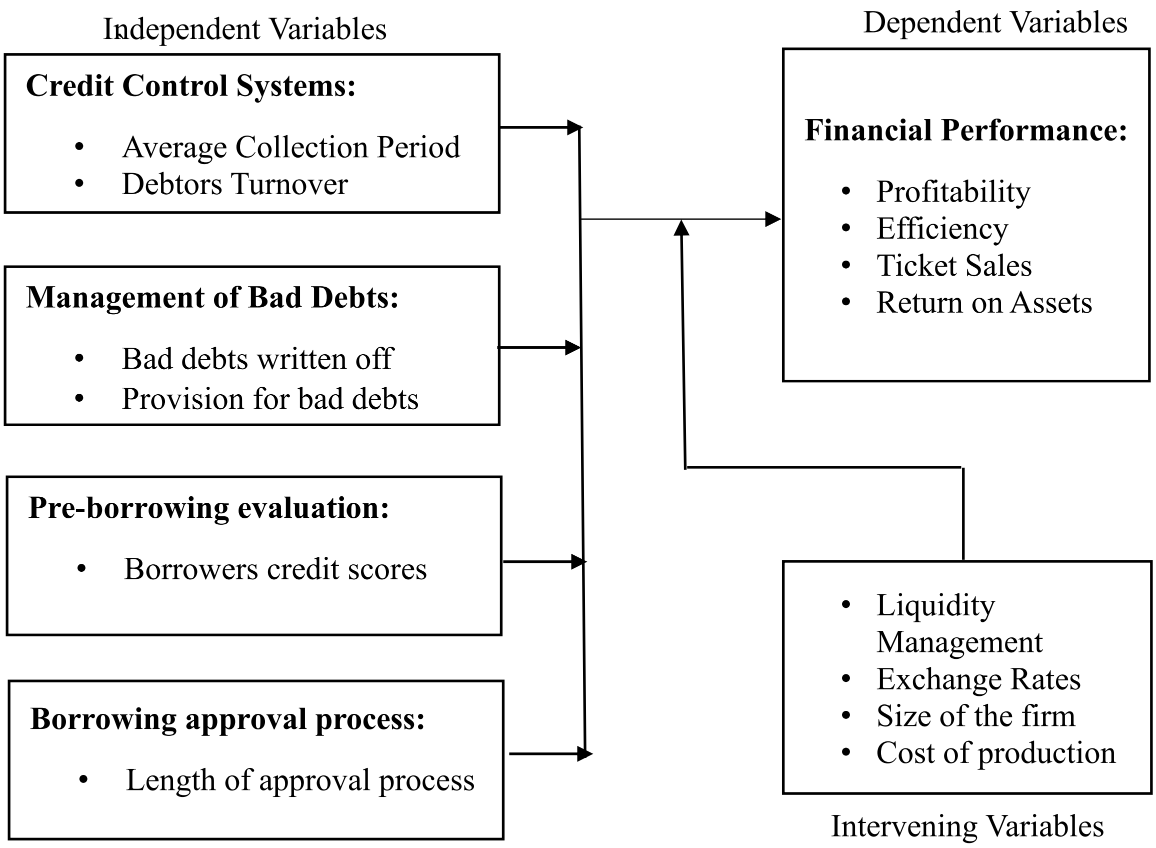


Source: Sufi Faizan Ahmed, Qaisar Ali Malik,(2015)

The result revealed that credit management practices have a significant positive influence on the Loan performance of Microfinance Banks. The results concluded that customer ratings, credit risk management, and collection policies are important predictors of bank performance. Since then, the survey has recommended that management at other banks learn from microfinance banks, improve their customer evaluation techniques and credit risk management, and adopt stricter policies to improve performance.

Daniel Kipkijo (2013) also conducted a study on the credit management and performance of some Kenyan airlines. The author describes the credit management system, bad debt management, pre-borrowing evaluation and credit approval process as independent variables, and financial performance as the dependent variable. Liquidity management, exchange rate, firm size, and production costs are explained as intervening variables in this study. The conceptual framework of this study is shown in Figure (2.2).

Figure (2.2) Credit Management and Financial Performance of Selected Airlines in Kenya

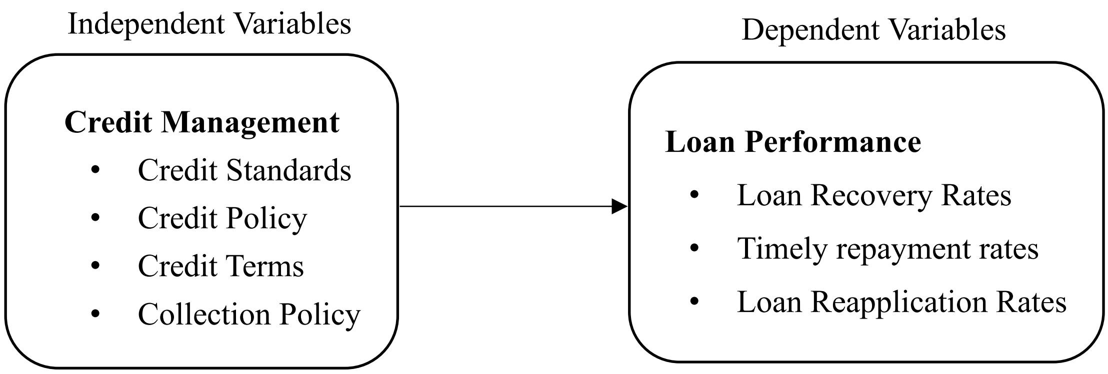


Source: Daniel Kipkijo, 2013

The research showed that borrowing approval process was the most influential variable affecting financial performance of airline companies in Kenya. Credit control system is the least influential variable affecting financial performance of selected airlines in Kenya. The study recommends the creation and strengthening of independent credit management authority to oversight and monitor best credit management practices in the airlines and even provide technical advice to the Airline companies when necessary.

Rukundo Alain Romaric, (2018) made a research on Credit Risk Management and Loan Performance in Selected Commercial Banks in Bujumbura, Burundi. This study described independent variables as credit standards, credit policy, credit terms and collection policy and dependent variables as loan recovery rates, timely repayment rates and loan reapplication rates. The conceptual framework of this study is shown in Figure (2.3).

Figure (2.3) Credit Risk Management and Loan Performance in Selected Commercial Banks in Bujumbura, Burundi



Sources: Rukundo Alain Romaric, (2018)

The results of this study are of great importance to researchers as they add to existing university resources, and to other researchers, to help them understand the role of credit management in the financial performance of commercial banks. , the results of this study will enable other researchers interested in this area to identify the performance of the contribution of credit, thus obtaining relevant literature on credit management and financial performance of commercial banks, management of BPR because it helps From running a commercial bank in Rwanda to financial performance, BPR needs to increase its net income, net worth and profit from loans and advances to its customers. Continuing growth means increasing loan portfolio quality and therefore taking advantage to reduce per unit cost thereby increasing profits.

Achou and Tenguh (2008) also conducted research on credit risk management and bank performance and found that there is a significant relationship between credit risk management and financial institutions performance. Good credit risk management results in good performance. Thus, it is important for financial institutions to practice prudent credit risk management and safeguard the assets of the institutions to protect the investor’s interests.

Mekasha (2001) examined credit risk management and its impact on commercial banks in Ethiopia. The researcher used his 10-year panel data of selected commercial banks to examine the relationship between ROA and loan originations, bad debts and total assets. The study found an important link between bank performance and credit risk management.

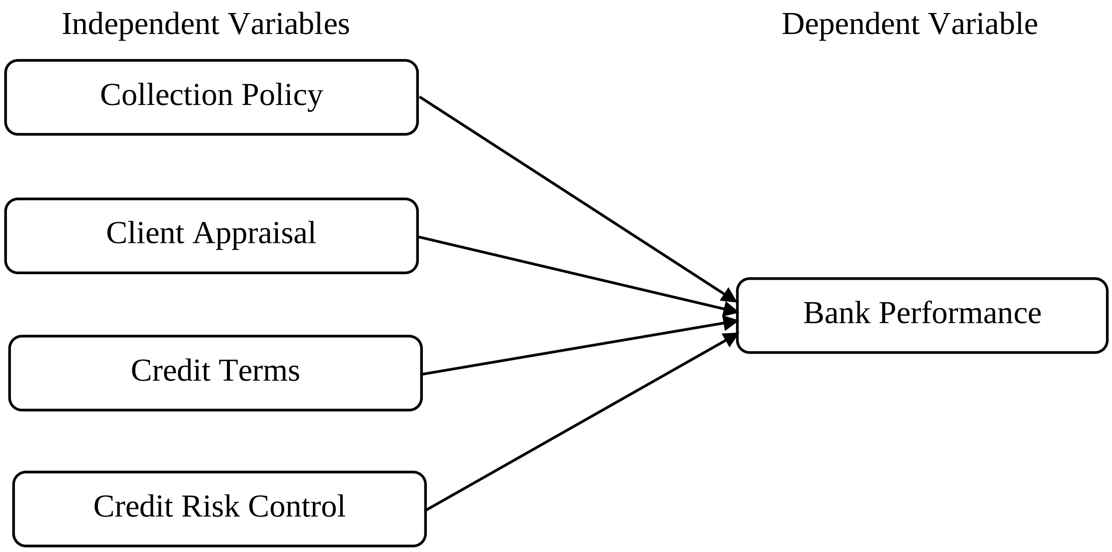
Abiola and Olausi (2014) have investigated the impact of credit risk management on the performance of commercial banks in Nigeria. Financial reports from seven commercial banks were used for the analysis for seven years (2005-2011). A panel regression model was used for model estimation. In this model, return on equity (ROE) and return on assets (ROA) were used as performance indicators, and non-performing loans (NPL) and capital adequacy ratio (CAR) were used as credit risk management indicators. The study found that credit risk management has a significant impact on the profitability of commercial banks in Nigeria.

Kodithuwakku (2015) has analyzed the impact of credit risk management on the performance of the commercial banks in Sri Lanka by using both primary and secondary data. The return on assets (ROA) is used as performance indicator and loan provision to total loan (LP/TL), loan provision to non-performing loans (LP/NPL), loan provision to total assets (LP/TA) and non-performing loans/ total loans (NPL/TL) were used as indicators of credit risk. The result shows that non-performing loans and provisions have an adverse impact on the profitability. Felix and Claudine (2008) examined the association between the performance of banks and credit risk management. As part of their findings, they observed that return on equity and return on assets both measuring profitability were inversely related to the ratio of non-performing loan to total loan of financial institutions thereby leading to a decline in profitability.

2.5 Conceptual Framework of the Study

The conceptual framework of this study was developed based on the previous study of Sufi Faizan, et al (2015) which found that credit management practices have a significant positive influence on the Loan performance of Microfinance Banks. According to the conceptual framework, the credit management practices: collection policy, client appraisal, credit terms and credit risk control are performed as independent variables and bank performance is the dependent variable. This study examines the effect of credit management practices on performance of MOB Bank. The conceptual framework of this study is described in the following figure (2.4).

Figure (2.4) The Conceptual Framework of the Study



Source: Own compilation based on previous research (2022)

This study is tested by using Multiple regression analysis (SPSS) to know the effect of credit management practices on bank performance. Firstly, it finds out the employee perception on credit management practices. Later the section analyzes the effect of credit management practices on employee job performance. The results are anticipated to provide the significant and useful beneficial blessings for the MOB Bank to growth overall performance and to gain the advantages through this.

For the purpose of this study the following definitions was be taken:

Table (2.1) Definition of Key Terms

No	Variable	Working Definition
1	Credit Management	The efficient control and coordination of loan-able fund so as to keep credit and the investment in credit at optimal level.
2	Credit management practices	Procedures and styles adopted in curbing debt levels in an organization disease or infirmity.
3	Performance	Measures used to evaluate how well a company is Performing
4	Collection Policy	The set of procedures a bank uses to ensure payment of loan
5	Client Appraisal	Estimating or judging the nature or value of borrower.
6	Credit Terms	The payment terms and conditions made by the lending party in exchange for the credit benefit.
7	Credit control	A procedure used by business to make sure it gives credit only to customers who are able to pay.
8	Loan	Credit facility offered by a financial institution
9	Portfolio at Risk	Loans that is late in their repayments
10	Collateral	A guarantee given to the lender (the creditor) by the borrower (the debtor) at the time of the financing transaction.
11	Management of bad debts	A strategy developed and implemented to help a company manage its debts.

Source: Own compilation

CHAPTER III

PROFILE AND CREDIT MANAGEMENT PRACTICES OF MYANMAR ORIENTAL BANK LIMITED

This section mainly presents the credit management practices of Myanmar Oriental Bank Limited. It includes the profile of MOB Bank, organization structure of MOB Bank, types of credit services in MOB Bank and credit management practices of MOB Bank.

3.1 Profile of Myanmar Oriental Bank Limited

Myanmar Oriental Bank Limited (MOB) was established as a private bank under the Financial Institutions Act of Myanmar and commenced operations on 18 November 1993. Its founding members were prominent retired from state-owned banks, family members holding the majority of shares, their close friends and relatives from the business circle.

Over the past 28 years, the Bank has played an important role in the stability and prosperity of Myanmar's domestic banking system by contributing to efficient and reliable banking services and promoting financial intermediation in the country. The bank accepts foreign currencies (USD, EUR, SGD, THB) as checking accounts and Myanmar Kyats for checking, overnight, savings and term deposits within its current banking network of 48 branches across the country. In addition, the bank also provides banking facilities and other financial assistance to its customers in the form of commercial loans, trustee and remittance services.

After being approved by the Central Bank of Myanmar, the bank became one of the first few financial institutions permitted to conduct foreign currency and international banking transactions. It was one of the first of his six private banks to be permitted to open exchange offices in the country. The bank currently has 22 exchange offices in Yangon's commercial city and other business centers. As a key member of the Myanmar Payments Union, the bank has introduced ATM and POS debit and credit card capabilities to facilitate the country's electronic payment system. The bank has established an overseas network by establishing relevant banking relationships with 58 banks around the world. The bank also signed a partnership agreement with Western Union. This will allow customers to transfer funds to and from the bank through his network of connections in over 100 countries.

In addition to its core banking business, MOB has established a subsidiary, Oriental Leasing Company Limited (OLCL), to provide financial assistance to customers in purchasing household and other durable consumer goods. Bank owns his 99% of the company's share capital.

Anticipating future needs, the World Bank signed his MoU with IFC to join the Global Trade Finance Program (GTFP). Companies that set up major international banks via the GTFP banking network. In addition, under the Framework Agreement, IFC is helping banks strengthen their corporate governance and improve their trade finance operations.

The vision and mission of the MOB are as follows:

Vision of MOB Bank is

"To become a modern financial powerhouse propelling the prosperous growth in Myanmar."

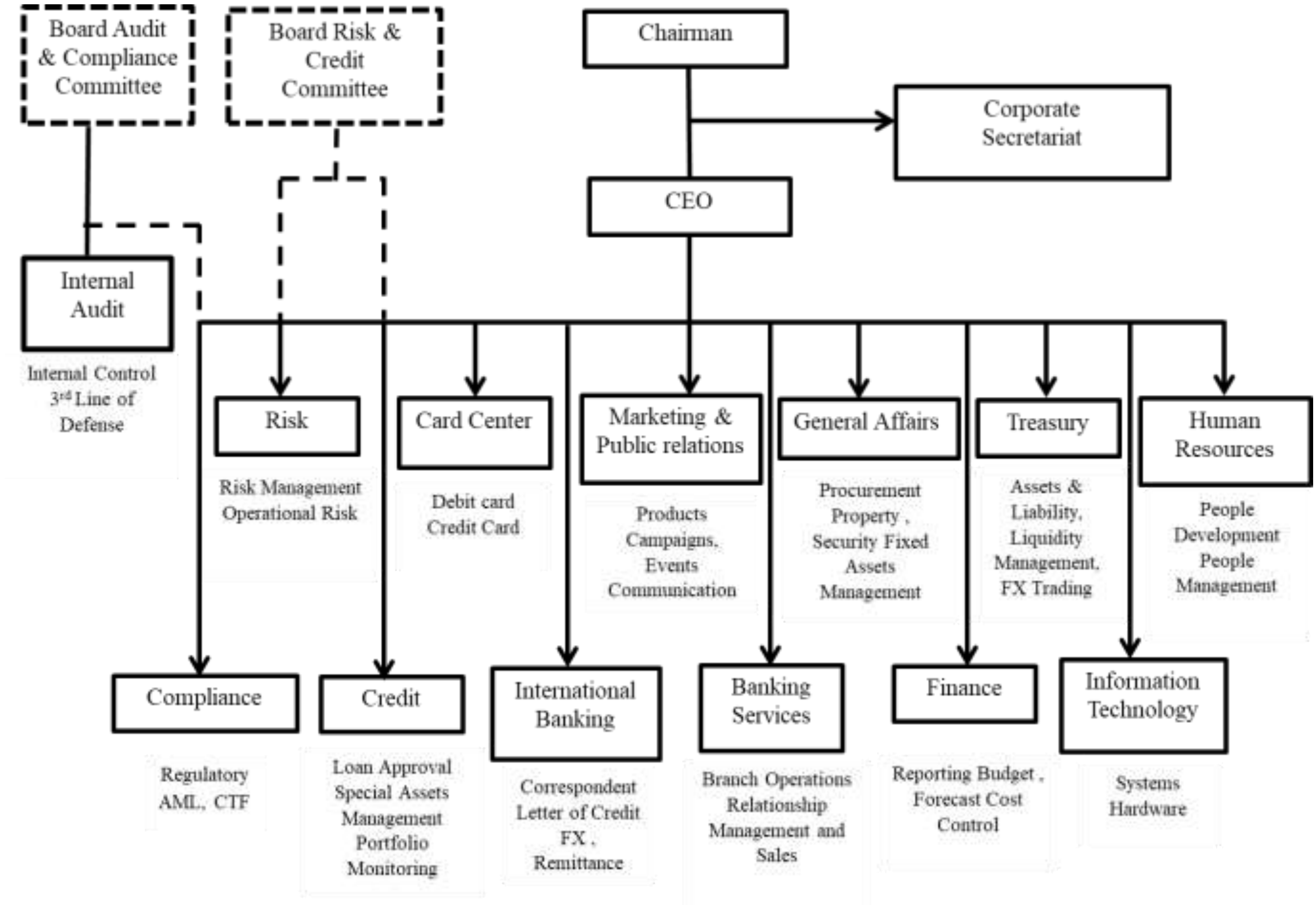
Mission of MOB Bank is

- To mobilize all resources to support customer's pursuit of their financial dreams.
- To offer rewarding career opportunities for employees to realize their full potential.
- To bank on integrity, prudence and compliance to provide sustainable return to investors.

3.2 Organization Structure of Myanmar Oriental Bank Limited

The organization structure of the MOB is organized by fifteen departments and four management committee that included Board of Directors and one independent audit committee. The chairman is a chairman of the Board of Directors and also the chairman of the executive committee. And then the senior management level, such as assistant general manager to senior general manager are taking care the each related department. The organization structure of Myanmar Oriental Bank Limited is shown in Figure (3.1).

Figure (3.1) Organization Structure of Myanmar Oriental Bank



Source: Annual Report of MOB Bank (2021)

3.3 Types of Bank Services in Myanmar Oriental Bank Limited

According to the Annual Report of MOB Bank (2020-2021), the following principal business activities are operating.

Deposit taking in the forms of current, fixed, saving deposit and call deposit and Trust Deposit

Bank interest rates are [6% (MMK 10,000 to MMK 10,000,000), 6.25% (MMK 10,000,001 to 100,000,000), 6.5% (100,000,001 and above)]. 7% per annum for 90 days and 180 days, 7.25% per annum for 270 days, 7.5% per annum for 365 days, 3% per annum for time deposits (10,000,001 or more), 3% per annum for calls, 7% per annum for escrow accounts. Banks do not accrue interest on current accounts. By the end of fiscal year 2020-2021, deposits reached MMK 427.08 billion.

University Education Saving Scheme (UESS)

UESS was introduced on May 2, 2002 to promote savings for the people of Myanmar. The purpose of this product is to support early planning for higher education for children under the age of 12. Parents or guardians who wish their child to benefit from this program can open a savings account with a bank and regularly deposit multiples of K5,000 each month. Minimum monthly savings cannot be less than her 5,000 Kyat. By participating in the program, the customer will receive an additional interest of her 3% on the annual balance of the account. Clients can pay annual tuition fees from their own account by submitting documents proving their admission to the university.

Extension of commercial loan to business borrowers

The Bank's Credit Committee consists of the Chairman and Management. The committee considers the prospective borrower's credibility, performance and collateral before issuing approval and adheres to a prudent lending policy. Banks now offer commercial loans of up to one year. Loans are paid primarily for the borrower's working capital. Interest on loans charged by banks is based on the central bank's interest rate policy, which is currently set at 9% per annum. 1% service charge on loan basis. As of the end of September 2021, the bank's outstanding loans and claims amounted to MMK 361.69 billion. Most current account holders and lending customers are businesses and sole proprietors, the rest are households.

Trustee, telephone and electricity bill payment services

The trustee service, which began operations on February 1, 2001, has grown significantly since its inception. He has become one of the bank's most important sources of income, providing significant funding to OLCL. In the fiscal year 2019-2020, the number of trust deeds decreased from 369 to 177 and the value also decreased from MMK 12.37 billion to MMK 5.3 billion.

Bill payment services were introduced on October 2, 2001. The bank charges him MMK 100 for electricity and MMK 500 for telephone for each bill. All these invoices are paid by the bank on behalf of the customer from the designated checking account.

Domestic remittance services

MOB utilizes a nationwide network of 48 branches and nine other domestic private banks (Myawaddy Bank, Global Treasure Bank, Myanmar Citizens Bank, Rural Development Bank, Inwa Bank, Myanmar Microfinance Bank, Shwe Bank, Minerals Development Bank, Myanma Tourism Bank). Bank provides wire transfer services. MOB cooperates with other banks in the country to provide Customer Direct Transfer (CCT) service and online tax payment through CBM NET.

International money transfer services

In partnership with Western Union, an internationally renowned money transfer company, MOB is the first financial institution in Myanmar to deliver inbound & outbound money transfer services.

ATM and POS debit card & credit card facilities

As a leading member of the Myanmar Payment Union, MOB has been issuing debit and credit cards to its customers and installing POS terminals at various merchants like shopping centers, restaurants, hotels, airlines etc. The bank is also setting up ATMs at various public places to be more accessible for customers. MOB notably received the Member Service and Trademark License Agreement from Union Payment International (UPI).

International banking services

MOB is one of the few privileged banks to have obtained the Authorized Dealer License for International Banking Services from the Central Bank of Myanmar on 25 November 2011. Seizing this opportunity, the bank installed his SWIFT communication system and began building an international network of correspondent banks for its operations. With the support of international organizations and prominent international financial institutions, the bank has been able to improve its standards of practice in overseas remittance, trade finance and treasury operations, and expand its overseas banking services.

MOB Bank has been currently providing the retail and corporate customers with the financial services such as Trust Funds Services, Deposits, Card Services, Loans and Credit, Fund Transfer services, International Banking Services etc.

Currently MOB Bank emphasizes in business expansion of loan and credit services to enhance new loan products.

MOB Bank offers customer with a wide range of loan products. Loan products offered by MOB, interest rate and penalty fees collected by MOB bank are as follows.

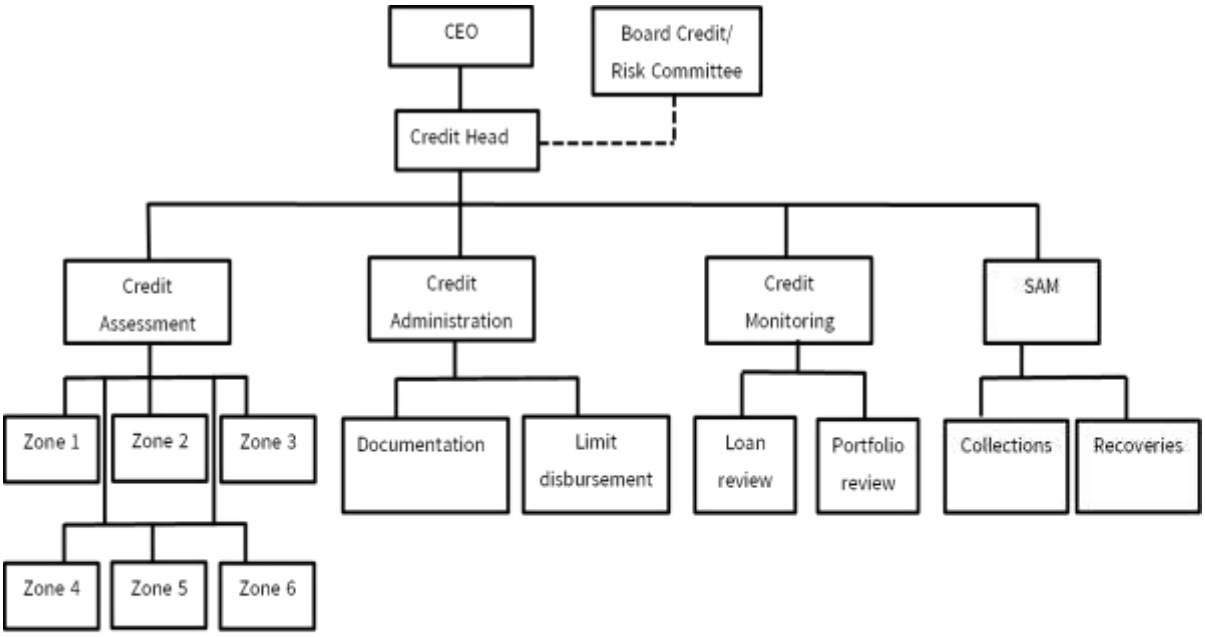
Table (3.1) Loan Products with Respective Interest Rate of MOB Bank

No.	Loan Products	Interest Rate (per annum)	Commission/Penalty Fees
1.	Immovable Property Financing	10%	10%
2.	Overdraft	10%,1%	11%
3.	Pledge Financing	10%	10%
4.	Hypothecation Financing	10%	10%
5.	Gold Financing	10%	10%
6.	Deposit Financing	Deposit % + 1%	Deposit % + 1%
7.	Vehicle Financing	10%,11%	11%
8.	Hire Purchase Financing	10%,1%	11%
9.	Education Loan Financing	11%	11%
10.	Assignment of Debts Financing	12%	12%
11.	Staff Loan	9%	9%
12.	Housing Loan (Staff)	9%,10%	9%,10%
13.	Housing Loan (Customer)	10%,12%	10%,12%
14.	Supply Chain Financing	12% , 13%	12% , 13%
15.	Government & Commercial Staff Loan	11%,12%,12.5%,13%	11%,12%,12.5%,13%
16.	JICA SME Two-Step Loan TSL (Secured)	5.5% ,6.5%,7%	10%
17.	JICA SME Two-Step Loan TSL (Unsecured)	10%	10%
18.	Unsecured Loan	10% to 14.5%	10% to 14.5%

Source: https://www.mobmyanmar.com/

MOB Bank controls tightly on credit management to reduce non-performing loan (NPL). Credit management practices can impact the achievement or failure to achieve performance of bank according to Nzotta (2004). This is because of the way that the performance of banks is affected, all things considered, by the nature of credit choices and henceforth the nature of the unsafe resources. Furthermore, organization's biggest challenge historically is the management of credit. Therefore, MOB Bank considered that sound credit management is essential for improving bank performance. For more effective and efficient credit management system, MOB Bank organized the credit department as follows.

Figure (3.2) Organization Structure of Credit Department



Source: Annual Report of MOB Bank (2021)

According to Figure (3.2), credit department of MOB Bank is mainly organized by four unit such as credit assessment unit, credit administration unit, credit monitoring unit and credit special asset management unit. The responsibilities of each unit are as follows.

Credit Assessment Unit

Credit Assessment Unit is mainly responsible for accepting loan application, inspecting business together with lawyer and assessor, documenting relevant evidence of business, verifying of business correctness. After all of the above processes are conducted and completed documentation, it is reported to board risk and credit committee. If board risk and credit committee permit and approve the loan proposal, then loan disbursement is preceded in credit administration unit.

Credit Administration Unit

Credit administration unit is mainly responsible for further proceeding instruction of loan approval after checking disbursable amount, loan period, loan types, loan scheme such as new loan, renew loan, extension loan or increase loan, permitted loan interest rate, client's name, client's account number& loan account. When disbursing loans, collaterals are accepted after disclosing fire insurance and these collaterals are needed to be submitted by the owner accordance with original property documents. Further, credit administration unit is responsible for submitting monthly loan listing report with respect to the type of loans and business clients to Central Bank of Myanmar (CBM) and Finance Department of MOB Bank. Additionally, the findings from internal audit of MOB Bank, external audit of MOB Bank and Central Bank of Myanmar (CBM) are needed to clarify by credit administration unit of credit department.

Credit Monitoring Unit

Board Risk and Credit Committee and credit monitoring unit has kept loan listing of each loan granted, monitored the promissory note, disbursement, loan repayment and supervised directly to regional managers (zone in charge), branch manager by noticing the instructive or directives if needed. In accordance with the instructions of credit department and credit risk committee, all branches follow up for collecting loan repayment from clients, inspecting business and collaterals granted by clients during loan period. Further, credit monitoring unit is responsible for monitoring the repayment with respect to the criteria of past due loan and complying the instructions of CBM and Credit Department of MOB Bank.

Credit Special Asset Management Unit (SAM)

Credit Special Asset Management Unit is generally responsible for overall management of Non-Performing Loans (NPL) to prevent further deterioration, maintaining NPL to loan ratios below the industry, controlling specific provisions within budget, complying with bank credit policy and CBM Prudential Guidelines on loan classification and ensure adequate levels of provisions on NPLs in accordance with the CBM Prudential Guidelines. Furthermore, SAM takes responsibilities of re-establishing contact with the customers, persuading them to meet the obligation, maximizing on loan recoveries and write backs to P&L account from the Non-Performing Portfolio through aggressive direct recoveries/viable restructuring/ negotiating workouts or realization of securities, supporting management of all non-performing accounts along with branches and regional managers, taking legal measures for the recovery of debt from customers, applying of various remedial solutions/ product offerings to delinquent accounts based on customer profiling and/or customer segment.

3.4 Credit Management Practices of Myanmar Oriental Bank Limited

A suitable technique to manage credit is crucial in safeguarding the performance of bank. Bad credit policy leads to inappropriate allocation of credit which results in bad debts and hence lost income in form of interest and bank's asset on the principal loaned out. MOB also know if its bank has not appropriately structured the loan product where it is more expensive to repay the loan late, then, it may not do much in preventing bad debts. Only credit management practices can contribute enormously to the performance of the bank and determines how well it can perform in line with other goals and strategies. Therefore, MOB Bank uses the following practices to prevent increasing delinquent loan and to promote the bank performance.

Collection Policy

The collection policy is essential to manage account receivables in MOB Bank. As a process of collection policy, MOB Bank spells out the incentives and rewards for early repayments of clients. Furthermore, if the clients fail to repay the interest or both principal and interest, the clients are reminded by noticing as manager note once a month. In such cases, before expiring the term of promissory note which is 3 years, bank lawyer reminds by issuing lawyer note. Before noticing by manager note and lawyer note, MOB Bank arranges to meet and negotiate with the delinquency customers and if they are not capable to repay the loan, the prosecution is preceded. MOB Bank determines the strict repayment scheme for new customers and customers who have low ability to repay the loan. However, MOB defines the flexible repayment schedule for loyal customers. Additionally, as a part of collection policy, staff incentive systems are practicing for improving the recovery of delinquent loan in MOB Bank.

Client Appraisal

Client appraisal is applied as the viable strategy for all loan types in MOB Bank. The basic considerable factors of loan verification are character, capacity, capital and purpose of the advance, primary source of repayment and collateral secondary source of repayment. In the process of loan appraisal, loan applications of various loan products are summited and analyzed by professional employee, then disburse the loan granted. MOB Bank accurately performs inspection of business, collateral and guarantor. In the procedures of client appraisal, MOB Bank considers the market price reports of goods, gold, building and land which are submitted by accessor and described depending on the current price. MOB Bank precedes the loan disbursement after receiving the reports in which bank lawyer recommends the significant documents such as property documents.

Credit Terms

MOB Bank has the specific credit terms to reduce and manage credit risk with respect to types of loans. In the stage of loan application, kind of collateral is needed to describe clearly in all type of loans. The repayment schedules are issued and clarified to the clients in MOB Bank when disbursing the loan. There are loan interest rates, penalty charges, late charges which are clearly described in repayment schedules depending on the type of loans. Credit terms of MOB Bank vary according to the type of loans.

Table (3.2) Credit Terms of Various Loan Types in MOB Bank

No.	Loan Products	Credit Terms
1.	Immovable Property Financing	1 Year
2.	Overdraft	1 Year
3.	Pledge Financing	1 Year
4.	Hypothecation Financing	1 Year
5.	Gold Financing	1 Year
6.	Deposit Financing	1 Year
7.	Vehicle Financing	1 to 2 Years
8.	Hire Purchase Financing	1 to 5 Years
9.	Education Loan Financing	1 to 2 Years
10.	Assignment of Debts Financing	1 Year
11.	Staff Loan	1 to 5 Years
12.	Housing Loan (Staff)	3 to 10 Years
13.	Housing Loan (Customer)	3 to 10 Years
14.	Supply Chain Financing	1 Year
15.	Government & Commercial Staff Loan	1 to 3 Years
16.	JICA SME Two-Step Loan TSL (Secured)	1 Year
17.	JICA SME Two-Step Loan TSL (Unsecured)	1 Year
18.	Unsecured Loan	1 Year

Source: https://www.mobmyanmar.com/

Credit Risk Control

MOB Bank determines the specific loan amount which can be repayable by clients to reduce the delinquency risk. As the process of credit risk control, MOB Bank re-inspects the business of client and the situation of guarantor once a year. Since the penalty fees are highly fixed to reduce loan delinquency, customer's commitment to loan repayment is high in MOB Bank. The credit committee's involvement in making decisions regarding loans is essential in reducing default/credit risk in MOB Bank. In order to control credit risk in MOB Bank, effective loan interest rate is defined and it can enhance the performance of loans.

Currently, these credit management practices have been using by MOB Bank. This study focus on the effect of these credit management practices on the performance of MOB Bank. The results are shown in chapter four and findings, suggestions and recommendations can be seen in chapter five.

CHAPTER IV
ANALYSIS ON THE EFECT OF CREDIT MANAGEMENT PRACTICES ON BANK PERFORMANCE

This chapter shows the outcomes of the study and their interpretations. This chapter includes research methodology, the demographic data of the respondents, analysis on credit management practices of MOB Bank, and bank performance in MOB Bank. Finally, the regression analysis on the effect of credit management practices on bank performance of MOB Bank is provided.

4.1 Research Methodology

The main objective of this study is to analyze the effect of credit management practices on bank performance of MOB Bank. In order to carry out the objectives, this study used primary data collection method to obtain whether credit management practices have any effect on bank performance in MOB Bank. Hence, this study uses quantitative research method to find answers to the study's questions while gaining new information and knowledge relating to credit management practices and bank performance of MOB Bank.

In order to analyze the effect of credit management practices on bank performance in MOB Bank, this study uses descriptive research method. As a tool of research instrument, structured questionnaire is used to obtain data. Then, they were put into Google Form and the survey questionnaires are distributed to MOB Bank's employee which is 40% of MOB Bank's all branches through Google links via Emails, Viber and Facebook Messenger. The study adapts the questionnaire from various past studies related to the topic. The questionnaire mainly used 5-point Likert scale measurement for all the variables. The question was organized into 3 parts. Part 1 consists of respondents' demographic data. Part 2 consists of MOB Bank's credit management practices and part 3 consists of bank performance on MOB Bank. A 5-point Likert scale has been used in three of those sections to measure credit management practices on bank performance.

The sample size for this study is 200 employees using simple random sampling method to obtain the information. After collecting the desired data, the processed data are further analyzed by SPSS. With descriptive analysis, this study will include frequency, percentage and inferential analysis such as multiple linear regression analysis.

4.2 Demographic Profile of Respondents

This section presents the profiles of the respondents who participated in this study. This section covers respondents' gender, age, educational level, marital status, work experience and job position. All the data obtained from the questionnaires collected are interpreted and summarized in frequency distribution and percentage distribution. The frequency analysis of selected customers' demographic profile is shown as below.

Table (4.1) Demographic Profile of Respondents

Description		Frequency	Percent
Gender	Male	85	42.5
	Female	115	57.5
Age	21 – 35 years	110	55.0
	36 – 50 years	76	38.0
	51 – 65 years	14	7.0
Educational level	Bachelor's Degree	157	78.5
	Diploma	8	4.0
	Master's Degree	34	17.0
	Other	1	0.5
Working experience	1 – 3 years	11	5.5
	4 – 6 years	44	22.0
	7 years above	145	72.5

Source: Survey Results (2022)

According to above table (4.1), 42.5% of respondents are males and 57.5% are female. Thus, the majority of the study's respondents are female. Age of the respondents is divided by 3 groups which are between 21 to 35, between 36 to 50, and between 51 to 65 years. According to the results, 55% of the respondents are at the age of between 21 to 35, 38% are at the age of between 36 to 50 and 7% of the respondents are between 51 to 65 years old. This shows that the majority of the respondents' age group falls between 21 to 35 years old.

Educational level of the respondents is divided into 4 categories; Bachelor, Diploma and Master and others. Based on the results, 78.5% of the respondents have bachelor degree educational level, 4% have diploma degree, 17% have Master degree and 0.5% have other degree. This indicates that most of the respondents are Bachelor degree holders. Working experience is divided into 3 categories. According to the results, 5.5% of the respondents have between 1-3 years' experience, 22% of the respondents are working for 4-6 years in the bank, 72.5% of the respondents are working for 7 years and above in the bank. This shows that the majority of the respondents are working for 7 years and above in MOB Bank.

4.3 Reliability Analysis

Before testing the effect of the credit management practices on bank performance, it should be checked their reliability of each dimension. In this study, Cronbach's alpha value is used as a measure of the internal consistency of the scales used in the questionnaire. If alpha value is low (near zero), then at least one of items are unreliable and must be identified via item analysis procedure. The Cronbach's alpha value is considered good above 0.7. The results of reliability tests are as follows:

Table (4.2) Reliability Test for Construct Variables

Sr No.	Description	N of items	Cronbach's Alpha
1.	Collection Policy	6	0.75
2.	Client Appraisal	5	0.70
3.	Credit Terms	6	0.78
4.	Credit Risk Control	5	0.75
5.	Bank Performance	7	0.83

Source: Survey Results (2022)

According to Table (4.2), all the variables have alpha value above 0.7, suggesting very good internal consistency and reliability for the scale with this sample.

4.4 Respondents’ Perception on Credit Management Practices of MOB Bank

This section presents respondents’ perception on MOB Bank’s credit management practices which include collection policy, client appraisal, credit terms and credit risk control. Measurement of perception level is conducted by mean and standard deviation. The 200 employees from MOB bank were asked to describe their rating upon the perception on MOB Bank’s credit management practices and performance. 5-points likert scales are interpreted in accordance with following criteria:

- Average score between 4.21 and 5.00 Strongly agree.
- Average score between 3.41 and 4.20 Agree.
- Average score between 2.61 and 3.40 Neutral.
- Average score between 1.81 and 2.60 Disagree.
- Average score between 1.00 and 1.80 Strongly disagree.

4.4.1 Employees’ Perception on Collection Policy

The descriptive status like mean and standard deviation for collection policy on credit management practices are presented in Table (4.6). Collection policy is divided into 6 statements in order to significant the employees’ response rating.

Table (4.3) Employees’ Perception on Collection Policy

Sr No.	Description	Mean	Std. Deviation
1.	A collection policy is available to manage account receivables in MOB Bank.	4.29	0.507
2.	MOB Bank spells out the incentives and rewards for early repayment.	3.05	1.249
3.	Customers are notified severally when their repayments are due in MOB Bank.	4.43	0.645
4.	New and poorly performing customers have tighter collection terms in MOB Bank.	4.03	0.779
5.	Long-standing and trusted customers have more flexible collection terms in MOB Bank.	4.11	0.583
6.	Staff incentives are effective in improving the recovery of delinquent loans in MOB Bank.	3.74	1.154
	Overall mean	**3.94**	

Source: Survey Results (2022)

Above table showed that the respondents are agreed with collection policy. This indicates that the majority of the respondents agreed with which a collection policy is essential to manage account receivables in MOB Bank, customers are notified severally when their repayments are due in MOB Bank, new and poorly performing customers have tighter collection terms in MOB Bank, long-standing and trusted customers have more flexible collection terms in MOB Bank with the mean scores of 4.29, 4.43, 4.03, 4.11 respectively. However, the majority of respondents do not know whether MOB Bank spells out the incentives and rewards for early repayment and staff incentives are effective in improving the recovery of delinquent loans in MOB Bank with which the mean scores of 3.05 and 3.74 respectively. The overall mean of collection policy is 3.94 which indicate that the respondents are neutral with which MOB Bank practices collection policy effectively. This implies that MOB Bank had moderate level of collection policy.

4.4.2 Employees' Perception on Client Appraisal

The descriptive status like mean and standard deviation for client appraisal on credit management practices are presented in Table (4.4). Five statements are used in order to know the employees' response rating on client's appraisal.

Table (4.4) Employees' Perception on Client Appraisal

Sr No.	Description	Mean	Std. Deviation
1.	Client appraisal is a viable strategy for credit management in MOB Bank.	4.02	0.597
2.	MOB Bank has competent personnel for carrying out client appraisals.	4.15	0.579
3.	The client appraisal process considers the loan application form depending on the type of applied loan in MOB Bank.	4.19	0.675
4.	Client appraisal considers the inspection of business, aspects of collateral, and guarantee in MOB Bank.	4.50	0.549
5.	Client appraisal considers the reports of the assessor and lawyers in MOB Bank.	4.55	0.556
	Overall mean	**4.28**	

Source: Survey Results (2022)

Table (4.4) showed respondents' response rate on client appraisal of MOB Bank's credit management practices. According to the results, MOB Bank practices client appraisal as a viable strategy for credit management practices with the mean score of 4.02. Moreover, with the mean score of 4.15, 4.19, 4.50, 4.55 respectively, MOB Bank has competent personnel for carrying out client appraisals, the client appraisal process considers the loan application form depending on the type of applied loan in MOB Bank, client appraisal considers the inspection of business, aspects of collateral, and guarantee in MOB Bank, and client appraisal considers the reports of the assessor and lawyers in MOB Bank. The overall mean of credit appraisal is 4.28 which indicates that the respondents are agreed with which MOB Bank is practicing credit appraisal effectively. It is clear that client appraisal is a veritable tool for bank performance.

4.4.3 Employees' Perception on Credit Terms

Employee perceptions on credit terms are tested with 6 statements and overall mean value is explored. The mean value for each statement of workplace diversity and overall mean value are presented in Table (4.3).

Table (4.5) Employees' Perception on Credit Terms

Sr No.	Description	Mean	Std. Deviation
1.	Clear credit terms are in place to manage credit risk in MOB Bank.	4.07	0.595
2.	Credit terms determine the amount of credit a customer can get in MOB Bank.	4.06	0.702
3.	Credit terms also spell out the loan repayment schedules in MOB Bank.	4.09	0.784
4.	Credit terms indicate the type and amount of interest charged by MOB Bank.	4.52	0.530
5.	Credit terms indicate collateral and guarantees needed for loans in MOB Bank.	4.42	0.588
6.	Credit terms spell out the other charges imposed on loans in MOB Bank.	4.42	0. 652
	Overall Mean	**4.26**	

Source: Survey Results (2022)

According to table (4.3), the respondents agreed that MOB Bank's credit terms are in place to manage credit risk in bank with the mean score of 4.07. They also agreed that credit term determine the amount of credit a customer can get in MOB Bank with the mean score of 4.06. Further, with the mean score of 4.09, 4.52, 4.42 and 4.42 respectively, credit term spells out the loan repayment schedules in MOB Bank; it indicates the type and amount of interest charged by MOB Bank, it indicates collateral and guarantees needed for loans in MOB Bank and credit term spell out the other charges imposed on loan in MOB Bank. The overall mean value of credit term is 4.26 which indicate that the respondents are strongly agreed with which credit term is strongly practicing in MOB Bank.

4.4.4 Employees' Perception on Credit Risk Control

The descriptive status like mean and standard deviation for credit risk control on credit management practices are presented in Table (4.5). Credit risk control is divided into 5 statements in order to significant the employees' response rating.

Table (4.6) Employees' Perception on Credit Risk Control

Sr No.	Description	Mean	Std. Deviation
1.	Imposing loan size limits is a viable strategy in credit management in MOB Bank.	4.06	0.492
2.	The use of credit checks regularly in MOB Bank enhances credit management.	4.25	0.591
3.	Penalty for late payment enhances customers' commitment to loan repayment in MOB bank.	4.18	0.700
4.	The credit committee's involvement in making decisions regarding loans is essential in reducing default/credit risk in MOB Bank.	4.45	0.538
5.	Interest rates charged affect the performance of loans in MOB banks.	4.25	0.599
	Overall mean	**4.24**	

Source: Survey Results (2022)

The results showed that the majority of the respondents agreed with which imposing loan size limits is a viable strategy in credit management in MOB Bank, the use of credit checks regularly in MOB Bank enhances credit management, penalty for late payment enhances customers' commitment to loan repayment in MOB Bank, the credit committee's involvement in making decisions regarding loans is essential in reducing default/credit risk in MOB Bank and interest rates charged affect the performance of loans in MOB Banks with the mean score of 4.06, 4.25, 4.18, 4.45 and 4.25 respectively. The overall mean of credit risk control is 4.24 which indicate that the respondents are agreed with which credit risk control is practiced in MOB Bank. This implies that MOB Bank had outstanding level of credit risk control.

By summarizing all the results of credit management practices are listed in Table (4.7) as below. Based on respondents Five-Likert answers, mean score and standard deviation are mostly moderate but some are strong. Among them, the highest mean score is the most impressionable dimensions and this means that the respondents are more satisfied with this dimension than expected.

Table (4.7) Summary of Average Score in Credit Management Practices

Sr. No.	Statements	Mean
1.	Collection Policy	3.94
2.	Client Appraisal	4.28
3.	Credit Terms	4.26
4.	Credit Risk Control	4.24

Source: Survey Results (2022)

From the findings of Table (4.7), the respondents' responses were averaged across four dimensions with the overall mean of 3.94 whereas the respondent satisfaction for above statements is merely strong and fully powerful for the competitive strategies of the company. In the comparison of mean scores in independent variables from Table (4.7), it is found out that client's appraisal was the highest mean score. This means that client's appraisal is dominant in the company to achieve performance of the bank. From the result of overall score, employee agreed that MOB Bank is exerting all credit management practices to enhance the performance of Bank.

4.5 Bank Performance of MOB Bank

This section presents bank performance of MOB Bank. All the data obtained from the questionnaires collected are summarized in frequency distribution and percentage distribution which is shown as follow.

Table (4.8) Bank Performance

Sr No.	Description	Mean	Std. Deviation
1.	The level of collateral influences loan repayment performance in MOB Bank.	3.84	0.843
2.	Borrowers' previous credit information affects loan performance.	4.31	0.571
3.	Strict penalties imposed for non-payment in MOB Bank also affect loan repayment performance.	4.09	0.774
4.	Management of bad debts has affected profitability for the previous years in MOB Bank.	4.21	0.793
5.	Pre-borrowing evaluation has affected profitability for the previous years in MOB Bank.	4.06	0.957
6.	Borrowing approval of the credit management committee has affected profitability for the previous years in MOB Bank.	4.10	0.980
7.	Notifying severally when their repayments are due in MOB Bank enhances the loan repayment performance.	4.48	0.549
	Overall mean	**4.16**	

Source: Survey Results (2022)

Above table showed the bank performance of MOB Bank. The results indicate that the majority of the respondents strongly agreed that notifying severally when their repayments are due in MOB Bank with which mean score is 4.48. The majority of the respondents agreed that borrowers' previous credit information affects loan performance of MOB Bank, strict penalties imposed for non-payment in MOB Bank also affect loan repayment performance, management of bad debts has affected profitability for the previous years in MOB Bank and borrowing approval of the credit management committee has affected profitability for the previous years in MOB Bank with the mean scores of 4.31, 4.09, 4.21, 4.06 and 4.10 respectively. However, the majority of the respondents feel neutral about the level of collateral influences loan repayment performance in MOB Bank with the mean score is 3.84. The overall mean of bank performance is 4.16 which means the employees agreed whether they have better performance towards MOB Bank or not.

4.6 Correlation between Credit Management Practices and Bank Performance

The correlation coefficient is a numerical measure of some type of correlation, meaning statistical relationship between two variables. The correlation coefficient is assumed in the range from −1 to +1, where −1 indicates the perfect negative correlation and +1 indicates perfect positive correlation.

Table (4.9) Correlation between Credit Management Practices and Bank Performance

Sr. No	Description	Person Correlation Coefficient	P-value
1	Collection Policy	.621 **	.000
2	Client Appraisal	.405**	.000
3	Credit Terms	.499**	.000
4	Credit Risk Control	.659**	.000

Source: Survey Data (2022)

Dependent Variable: Bank Performance

** Correlation is significant at the 0.01 level (2-tailed)

* Correlation is significant at the 0.05 level (2-tailed)

Table (4.9) describes the relationship between credit management practices and bank performance. According to the result, the correlation between credit terms and bank performance is at .499 and significant at 1% level, meaning there is a moderate positive relationship between credit terms and bank performance. The correlation between client appraisal and bank performance is at .405 and significant at 1% level, meaning there is a moderate positive relationship between client appraisal and bank performance. The correlation between credit risk control and bank performance is at .659 and significant at 1% level, meaning there is a strong positive relationship between credit risk control and bank performance. The correlation between collection policy and bank performance is at .636 and significant at 1% level, meaning there is a strong positive relationship between policy and bank performance. As a result, all variables are highly positively correlated and significant at 1% level.

4.7 Multiple Regression Analysis on the Effect of Credit Management Practices on Bank Performance

Multiple regression analysis was conducted to access the effect of internal corporate social responsibilities on employees' commitment. It is important to consider which factors of internal corporate social responsibilities can significantly explain employees' commitment in the bank. The result of multiple regression analysis is shown in Table (4.10).

Table (4.10) Analysis on the Effect of Credit Management Practices on Bank Performance

Variable	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-1.571	.631		-2.492	.014
Collection Policy	.429**	.073	.398	5.893	.000
Client Appraisal	.300	.104	.213	2.887	.004
Credit Terms	.041	.108	.029	.384	.702
Credit Risk Control	.789***	.127	.525	6.207	.000
R square		0.518			
F value		54.375**			
Durbin Watson		1.552			

Source: SPSS Output

P< 0.01: Dependent Variable: Bank Performance

***Significant at the 0.01 level (2-tailed)

**Significant at the 0.05 level (2-tailed)

According to Table (4.10), the results of multiple regression analysis showed that all of the coefficients in the model are jointly significant which is indicated by the value of F-statistics. In addition, individual coefficients have expected positive signs. Among of the four variables, three variables of credit management practices in the model namely collection policy, client appraisal and credit risk control are significant at 1% level, while credit terms are not significant. The more increased in collection policy, client appraisal and credit risk control, the more MOB Bank can enhance bank performance. The magnitude of each coefficient indicates the amount of how much of the score of dependent variables will change if the score of an independent variable increases by 1 unit while other things remain unchanged. This means, if the client appraisal is increased by 1 unit while other things remain unchanged, then the level of bank performance will increase by 0.30 units. If the score of credit risk control is increased by 1 unit while other things remain unchanged, then the level of bank performance will increase by 0.789 units. Further, If the score of collection policy is increased by 1 unit while other things remain unchanged, then the level of bank performance will increase by 0.429 units.

In terms of the magnitude of standardized coefficient, credit risk control (beta = 0.525) is relatively the most important is enhancing bank performance, followed by collection policy (beta = 0.398) and clients appraisal (beta = 0.213). As the performance of regression model, the model can explain about 52% of the variation of the credit management practices on bank performance of MOB Bank. This implies that credit management practices (collection policy, client appraisal and credit risk control) are major determinants of bank performance of MOB Bank. The implication of this finding is that if credit management techniques are implemented and monitored, the issue of writing off the amounts of debt yearly by MOB Bank will be thing of the past.

CHAPTER V
CONCLUSION

This chapter presents the conclusion of the study on analysis of credit management practices and performance of MOB Bank. It consists of discussions of findings from the analysis, conclusion and recommendations based on the results, and suggestions for further research.

5.1 Findings and Discussions

This research focuses on investigating the effect of credit management practices on the performance of MOB Bank. Both the descriptive research and inferential research are carried out in order to explore the credit management practices, and to examine the relationship between the credit management practices and performance of MOB Bank. Four credit management practices are emphasized in this study: collection policy, client appraisal, credit terms and credit risk control. The research is based on the responses from the total of 200 respondents. According to the survey data, in gender group, female respondent is more than male respondent. Majority of the respondents' age group falls between 21 to 35 years old. This is an effective workforce because this kind of age is strong and mature enough to do job. The most of respondents are graduated. According to experience, the majority of respondents has services 7 years and above in MOB Bank.

Objective one of this study aims to find out employee's perception on credit management practices of MOB Bank. Employee perception on these variables is measured by using Five-point Likert scale and the descriptive research is also conducted. The measures of mean and standard deviation values are used for this analysis. The credit management practices include four variables: credit term, client appraisal and credit risk control and collection policy. According to the perception of employees, credit terms are strongly practicing in MOB Bank. In client appraisal, the respondents are agreed with which MOB Bank is practicing effectively. It was found that the availability of collateral is considered while appraising clients; failure to assess customers' capacity to repay results in higher credit defaults; there is critical consideration of customers' character during credit appraisal; and that MOB Bank has competent personnel to carry out effective client appraisal. The majority of respondents are strongly agreed that credit risk control is strongly practicing in MOB Bank. It was found that limiting on loans is a viable credit management strategy that ensures that credits do not exceed a minimum threshold. MOB Bank knows that flexible repayment periods also reduce the rate of credit default; penalty for late payment enhances customers' commitment to loan repayment schedules; use of customer credit application forms improves monitoring and evaluation of loan portfolios. The respondent's perception on collection policy of MOB Bank is neutral. This implies that MOB Bank had moderate level of collection policy. It indicated that formulation of collection policies may be a major challenge in the credit management practices of MOB Bank.

The second objective of this study is to analyze the effect of credit management practices on the performance of MOB Bank. The multiple regression model points out that collection policy, client appraisal and credit risk control have positive and significant effect on the performance of MOB Bank. Moreover, the results also indicated that credit terms have no significant effect on the performance of MOB Bank. From the finding of the results, the more increased in collection policy, client appraisal and credit risk control, the more MOB Bank can enhance bank performance while other things remain unchanged. In terms of the magnitude of standardized coefficient, credit risk control is positive and dominant effect on the performance of MOB Bank, collection policy is second priority effect on the performance of MOB Bank and as the least priority impact on the performance of MOB Bank, client appraisal exists.

The result found that credit management practices have a significant positive influence on bank performance of MOB Bank. The result also established that collection policy, client appraisal and credit risk control were independent predictors of bank performance of MOB Bank. This indicates that effective implementation and monitoring of credit management had helped MOB Bank to overcome the issue of bad debt.

5.2 Suggestions and Recommendations

The study examined the effect of credit management practices on performance of MOB Bank. The result revealed that credit management practices have a significant positive influence on bank performance of MOB Bank. The result also established that collection policy, credit risk control and was independent predictors of bank performance of MOB bank. MOB Bank contributes its efficient and reliable of banking services and promoting financial intermediation in Myanmar. In addition, MOB Bank also provides banking facilities and other financial assistance to its customers in the form of commercial loans, trustee and remittance services. Application of effective credit management practices definitely enhances the performance of MOB Bank. Since credit risk control has dominant effect on performance of bank, MOB needs to emphasize to be more strengthened and to obtain the highest level of bank performance. It is recommended that MOB Bank can enhance its credit risk controls by creating profile assessment database of prospective and current borrowers and guarantors who can help to minimize non-performing loans. This will help in improving its bank performance.

Furthermore, MOB Bank needs to improve the collection policy to promote performance since it is second dominant factor on bank performance. It is suggested that enforcement of guarantee policies can provide better opportunities for loan recovery in case of loan defaults. Proper staff incentive is recognized as an effective tool in improving recovery of delinquent loans, and a stringent credit policy is more effective in debt recovery than a lenient policy. The credit department should conduct regular reviews on collection policies to improve state of credit management, and finally that available collection policies have assisted in achieving effective credit management.

Client appraisal has also significant effect on the performance of MOB Bank. Bank needs to put in place very sound appraisal techniques for reviewing the clients' evidence from various angles. MOB Bank should apply client appraisal in its credit management process through background check for full disclosure of information, granting of concessionary rate to good customers, extension of loan duration from 12 to 24 months, pre and post disbursement monitoring, insurance of loan products, and quarterly recovery and monitoring. Others include, reduction in processing fees and days of contribution as a procedure for accessing loan products, taking cash collateral for all loan facilities, inspection of businesses/homes of borrowers, policies on loan graduation based on client's loan repayment performance, using the risk department to recover bad loans and expired loans, inter branch monitoring and recovery teams formed to make loan recovery effective.

Although credit terms has no significant effect needs to explore to influence on performance of MOB Bank, all of the credit management practices are important in banking industry. This study concludes that credit management practices have a great extent to promote the performance of MOB Bank thus it may drive to gain competitive position in the industry. The study therefore recommends that management of other banks should learn from MOB Bank by enhancing their client appraisal techniques, credit risk control and adapting a more stringent policy so as to improve their bank performance. The strong credit management practices can enhance the performance, reduce non-performing loans and improve asset quality. The streamlined financial management system can create a solid financial sector and ensure fair competition. The study also makes contributions to improve the practice and the existing knowledge on bank performance and credit knowledge.

5.3 Limitations and Needs for Further Studies

This study emphasizes on the performance of MOB Bank affected only by credit management practices. Therefore, this study does not cover other factors that may influence on the performance of MOB Bank. Hence, this study can serve as a basis for other researchers who intend to study the same field of the study. It is therefore recommended for further research that a comprehensive assessment of how sector enhances the performance of industry players. Both qualitative and quantitative research methods should be applied to collect relevant primary and secondary information for more reliable and valid analysis.

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APPENDIX

Questionnaire

Dear Respondent,

This questionnaire is meant to collect data regarding the **EFFECT OF CREDIT MANAGEMENT PRACTICES ON BANK PERFORMANCE (Case Study on Myanmar Oriental Bank-MOB).** The whole exercise is treated with utmost confidentiality strictly as stipulated in all academic instructions. Kindly respond to each item as truthfully and accurately as you can. Thank you.

Part I: Respondent Profile

1. Gender ☐ Male ☐ Female

2. Age

   ☐ 21-35 years ☐ 36-50years ☐ 51-65 years ☐ above 66 years

3. Marital Status

   ☐ Single ☐ Married ☐ Others

4. Education Levels

   ☐ Masters' Degree
   ☐ Bachelors' Degree
   ☐ Diploma
   ☐ Others

5. Please indicate your job position

   ____

6. Please indicate your branch name

   ____

7. Your working experience in years at Myanmar Oriental Bank Limited.

   ☐ 1-3 years ☐ 4-6 years ☐ 7 years & above

Please tick the level of agreement that matches your opinions.

(1) Strongly disagree

(2) Disagree

(3) Neutral

(4) Agree

(5) Strongly agree

Part II: Collection Policy

No.	Statement	1	2	3	4	5
1	A collection policy is essential to manage account receivables in MOB Bank.					
2	MOB Bank spells out the incentives and rewards for early repayment.					
3	Customers are notified severally when their repayments are due in MOB Bank.					
4	New and poorly performing customers have tighter collection terms in MOB Bank.					
5	Long-standing and trusted customers have more flexible collection terms in MOB Bank.					
6	Staff incentives are effective in improving the recovery of delinquent loans in MOB Bank.					

Part III: Client Appraisal

No.	Statement	1	2	3	4	5
1	Client appraisal is a viable strategy for credit management in MOB Bank.					
2	MOB Bank has competent personnel for carrying out client appraisals.					
3	The client appraisal process considers the loan application form depending on the type of applied loan in MOB Bank.					
4	Client appraisal considers the inspection of business, aspects of collateral, and guarantee in MOB Bank.					
5	Client appraisal considers the reports of the assessor and lawyers in MOB Bank.					

Part IV: Credit Terms

No.	Statement	1	2	3	4	5
1	MOB Bank has clear terms to manage credit risk.					
2	Credit terms determine the amount of credit a customer can get in MOB Bank.					
3	Credit terms also determine the loan repayment schedules at MOB Bank.					
4	Credit terms indicate the type and amount of interest charged by MOB Bank.					
5	Credit terms indicate collateral and guarantees required for a loan at MOB Bank.					
6.	Credit terms determine the other fees charged for loans with MOB Bank.					

Part V: Credit Risk Control

No.	Statement	1	2	3	4	5
1	Imposing loan size limits is a viable strategy in credit management in MOB Bank.					
2	The use of credit checks regularly in MOB Bank enhances credit management.					
3	Penalty for late payment enhances customers' commitment to loan repayment in MOB bank.					
4	The credit committee's involvement in making decisions regarding loans is essential in reducing default/credit risk in MOB Bank.					
5	Interest rates charged affect the performance of loans in MOB banks.					

Part VI: Bank Performance

No.	Statement	1	2	3	4	5
1	The level of collateral influences loan repayment performance in MOB Bank.					
2	Borrowers' previous credit information affects loan performance.					
3	Strict penalties imposed for non-payment in MOB Bank also affect loan repayment performance.					
4	Management of bad debts has affected profitability for the previous years in MOB Bank.					
5	Pre-borrowing evaluation has affected profitability for the previous years in MOB Bank.					
6	Borrowing approval of the credit management committee has affected profitability for the previous years in MOB Bank.					
7	Notifying severally when their repayments are due in MOB Bank enhances the loan repayment performance.					