

# **Lax Credit Administration Process, Non-Adherence To Credit Risk Management Policies: My View**

By Dr. Chris Onalo, *FICA, ICCF*  
080-34030160

I was in a meeting with a head of training of a financial institution recently, who strongly expressed concern over the inability of authorities in credit management to clearly explain what really constitutes credit administration, credit risk management and credit analysis.

Briefly, I told him that credit administration deals with internal operational control or arrangement of credit customers in such a way that makes the facility management effective. Credit risk management on the other hand is all about identification of and mitigation against dangerous situations or obstacles (risks) likely to stand against the ability of someone that has been trusted to borrow money today and pay back tomorrow. Credit analysis simply is an undertaking to put all prescribed facts and figures together with a view to determining whether or not the credit applicant or loan applicant is suitable for the facility. Each of these constituent of credit management is heavily loaded with operational activities.

Looking closely at these clarifications, credit management truly has three major components: credit analysis, credit administration and credit risk management or measurement. Credit policy and procedure manual of an organization must clearly reflect these pillars in order to be effective. Each pillar is loaded with enormous amount of activities so that it is capable of standing alone as a department with sufficient staff.

In the past, and perhaps till now, most banks in Nigeria do not have clearly defined and adherently implemented credit lending policies. What exist is more or *less* “*discretion or good judgment lending*” a practice which has fuelled unacceptable incidence of bad debt stock, leading to stresses and depletion on liquidity position of the banks.

What is responsible for this good judgment lending mentality in our system can be traced to two deadly monsters: (1) high corporate profit appetite resulting to industry competitive madness and (2) extreme culture of disregard to or absence of professionalism and best practices.

When the owner of business corporate are reckless in their quests for more profit, more profit, and more profit, the resultant effect is that best practices and sound professionalism, industry cohesion and regulatory compliance will all be either circumvented or undermined. Perhaps, in the case of banks, the regulatory authorities should consider coming up with either policy or statutory restriction on the yearly incremental percentage in net profit that a bank must not exceed. This way, there will be less pressure on the bank management coming from directors and shareholders. It also may be right to suggest that there should be a cap on bank workers’ remuneration, especially at top level. To the shareholders and directors, the adage that says, “to whom much is given, much is required” is really a fact of life. Nigeria as a nation need to cross-examine our attitudes to life. There should be decency and decorum in the way we

approach material life. I think we are looking for too much and in the process we find that we are not innocent.

The Central Bank of Nigeria has been trying to implement the Basel II Capital Accord Initiative. However, the impact is yet to be felt in the industry. Banks are still, to a large extent, un-bothered. If lax credit administration and non-adherence to responsible credit risk management must be fought, then banks must be made to obey doctrines of sound credit management system as well as application of ethical credit monitoring and recovery tools. Like in other countries of the world, what is wrong if Nigerian banks avail themselves the use of independent Company Credit Report prepared by expert firms of credit services to support or complement their own internal credit analysis? Where compromise exists, the system tends to reject such outstanding collaboration. The work of credit management is a predicate of collaboration, co-operation and consultation. Why are Nigerian banks saying they don't want anybody else? This mentality due lead to warms in the Can, and that's exactly what has happened now in the Industry.

The Dun & Bradstreet of this world, CBS Credit of this world, Graydon, Equifax, Control Risk, to mention but a few, are expert firms providing credit services with professional rigor to business credit providers around the world. Some of these Company Credit Report Supplier-firms have even used their Nigerian counterparts to supply Credit Reports on many, if not all Nigerian banks in order for their local clients, which are banks, to judge their fitness for correspondence banking or trade finance relationships. Yet Nigerian banks pretend against valuable contributions that independent Company Credit Report can make to quality credit decision process.

Company Credit Report contains every detail about the prospective or existing borrower, including well analyzed audited accounts, profile of its registered directors/shareholders, scrutiny of its management team, market and business viability analysis, collateral verification and value grading, owners' personal asset identification, among others. These are exercises which can be completed within five to eight business days and forwarded to the bank for their use. In credit management, information is key. As much as possible, sufficient but necessary business information must be obtained on the prospective borrower or credit customer in order to convince yourself that the applicant is good or otherwise for your lending. Most of the time, credit booked is bad from the first day as it lacked feasible information on which to drive or manage the facility.

When you have a good Credit Report on a company, you have solved a great deal of credit related problems. A good Company Credit Report has potential to aid effective debt recovery in the future if the account fall into default category. It also supports facility monitoring once the drawdown has commenced in favour of the purpose of the loan; and more importantly, you can use the Credit Report to back up legal action to recover the debt. One more beauty of Independent Credit Report on borrower or credit customer is that, the report which seeks to complement the internal credit analysis department of a lending institution also serves as a check on both the competence and behavioral tendency of credit analysts in the department. They must of necessity work hard to ensure that major differences do not exist between their own report on the subject (the borrower) and that of the Independent supplier of Credit Report. One immediate achievement which the Company Credit Report would have achieved is elimination of

compromise on the part of lender's account officers or credit analysts. If really Nigerian banks are going into the regime of quality credit decision process for quality risk assets, then they should be patriotic and reasonable enough to admit and deploy all known credit management enhancement tools for a healthy credit system.

Apart from unbiased subscription to best practices in credit management solutions, there is also the problem of inadequate training of credit personnel in the nation's banking market. The only popular training that most of the time banks are eager to give to their workforce is the one on marketing for deposit mobilization. Almost every employee in the system has one marketing target or the other. There is also the issue of over stressing the employees of the bank so much that these employees no longer think of undertaking a Self-Improvement Learning Programme in order to create career value and skills competence. How can a system like this not disintegrate? A functional emerging financial services market like ours must pay attention, provide strong support and motivation to its workforce in terms of continuous knowledge acquisition and employee capacity building. There must be definite closing time from office by the employees (5. pm); there must be a well implemented policy on "no work on Saturday s and Sundays); there must be across board policy on offsetting all or part of study costs relating to "work and learn" professional programmes embarked upon by the staff of the banks if such programme is capable of helping the employee to do his or her job better. With these, the nation no doubt will be on her way to producing competent and ethically minded professionals that will manage well future organizations.

*Dr. Chris Onalo is the Registrar/CEO (080-34030160)  
of The Institute of Credit Administration*