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Effects of credit risk management practices on nonperforming Loans in commercial banks in Kenya

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Abstract
Risk management is an integral part of good management practice. Poor credit risk management practices leads to rising non-performing loans which compresses profit margins, of commercial banks hence bringing about more challenging environment for banks. Lending has been and still is the mainstay of financial institutions and this is more true to emerging economies of developing countries where capital markets are not yet well developed. To most of the transition economies, lending activities has been a controversial and difficult matter. This study sought to determine the effects of credit risk management practices on non-performing loans in commercial banks in Kenya. The study used descriptive research design and the target population for this study was 44 banking institutions transacting business in Kenya as at December 2012 whereby the study carried out census. the study used both primary and secondary data whereby the dat was analyzed using Statistical Package for Social Sciences (SPSS). Data presentation was done by the use Frequency tables and graphs and percentages. The study findings established that Risk identification affected the level of nonperforming loans in their banks to a great extent and that risk rating and collateral, credit scoring, credit worthiness analysis affects the the level of nonperforming loans' the banks to a great extent. The study findings established that risk analysis and appraisal affected the level of nonperforming loans their bank to a great extent and that measurement, risk estimation and determining risk reduction measures affect the performance of the bank to a great extent. This study recommends that clear established process for approving new credits and extending the existing credits need to established in banks as it is very important while managing credit risks in banks. the study further recommends that credits to related parties should be closely analyzed and monitored so that no senior individual in the institution is able to override the established credit granting process and that monitoring of borrowers should be keenly executed by banks

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Kenyan banks have taken big leaps in setting the bar high for themselves as pertains to emerging technology, improved facilities, redefined customer service and customer experience with most, if not all of the operational process fully automated. The objective of the study was to examine the effect of mobile credit on operational efficiency of commercial banks in Kenya. This research study was carried out in Kenya using Commercial Banks with mobile credit and that were registered with the Central Bank of Kenya. There were a total of 43 banks in Kenya that were included in the study. The study was conducted in the Nairobi city where all the banks were located. Data was gathered online from the annual reports posted by commercial banks that offered mobile credit. The study yields fourteen benefits that commercial banks in Kenya enjoy from engaging in SME lending. In Kenya, specifically, 50 per cent of banks were motivated to participate in the SME market in view of its profitability. De la Torre et al. On the other hand, small commercial real estate loans, being transactional rather than relationship in nature, do not contribute additional value to banking organizations relative to larger commercial real estate loans [Holod, Peek, 2013]. The need to seek out SME relationships from existing large corporate clients (reverse factoring) is also cited as another driver of bank involvement in the SME segment. In Kenya the commercial banks dominate the financial sector. In a country where the financial sector is dominated by commercial banks, any failure in the sector has an immense implication on the economic growth of the country. However, a higher net interest margin could reflect riskier lending practices associated with substantial loan loss provisions (Khrawish, 2011). 2.2 Determinants of Bank Performance. The determinants of bank performances can be classified into bank specific (internal) and macroeconomic (external) factors (Al-Tamimi, 2010; Aburime, 2005). Thus, low nonperforming loans to total loans shows that the good health of the portfolio a bank. The lower the ratio the better the bank performing (Sangmi and Nazir, 2010).