International Journal of Commerce and Management Research
ISSN: 2455-1627; Impact Factor: RJIF 5.22
Received: 23-02-2019; Accepted: 25-03-2019
www.managejournal.com
Volume 5; Issue 3; May 2019; Page No. 163-165

Significance of Credit Risk Management in Banking Industry in Yemen: A Study

Ebrahim Al-Gamal[1], Dr. Abbokar Siddiq[2]
[1] Research Scholar, Commerce Department, Mangalore University, Karnataka, India
[2] Coordinator PG Studies in Commerce, University College, Mangalore University, Karnataka, India

Abstract
Banks face many risks that must deal with sensitively in accordance with the instructions of decision makers in the banking sector. In the forefront of these risks is credit risk that considers as one of the banks' main activates, which in case of ignoring would lead to many problems to the bank or rather to bankruptcy. This study aims to highlights on credit risk management review, to find out the importance of credit risk management, to examine credit risk management techniques. The study recommended that banks have to focus on credit risk management and improve the techniques of mitigating credit risk.

Keywords: credit risk management, yemen, and the banking industry

1. Introduction

With the rapid progress of science and technology by globalization, the world has become a small village where financial and non- financial transactions are completed faster, so Banks working as a link to completed these financial transactions.

Banks extreme importance of the economic stability of the country, as well as great importance when it is working on a compilation of the savings of individuals and re-invest in exchange for the return, as well as the provision of funds to finance economic projects, which leads to an increase in the gross national product of the country (Al-Gamal & Siddiq, 2017) [3]. In the additional that considered being a standard of a peace economy, which must develop its systems and practices to ensure that it maintains sound performance and low-risk level.

Banks face many risks that they must deal with sensitively in accordance with the instructions of decision makers in the banking sector. In the forefront of these risks is credit risk that considers as one of the banks main activates, which in case of ignoring would lead to many problems to the bank or rather to bankruptcy.

Some studies, such as (Gil Diaz, 1994) argue that the major cause of serious banking problems continues to be directly related to lack of credit standards for borrowers and counterparties, poor portfolio risk management, or lack of attention to changes in economic or other circumstances that can lead to a deterioration in the credit standing of a bank's counterparties.

Banking industry in Yemen is considered as the weakest industry in the MENA region and middle east, also facing serious banking problems, the bankruptcy of the national bank in 2005 - because of lending without taking central banks of Yemen guidelines - a significant impact on the banking sector and the transactions of national banks with their foreign counterparts.

2. Objectives

The study is shown with the following objectives

- To highlights the credit risk management review.
- To find out the importance of credit risk management in Yemen.
- To examine credit risk management techniques in Yemen.

3. Review of literature

Prakash, (2016) [7] stated the Significance of Risk Management in Banking Sector, Where aimed to understand the different types of risk faced by the Banks, to examine the process of Risk Management, to find out the importance of Risk Management, to analyze the contingency plans to deal with risk. The study is conceptual in nature. It concluded that the success of the organization would be depending upon how efficiently the enterprise takes care of the entire risk management system. It ensures that the risks are consciously taken with full knowledge, clear purpose, and understanding - so that it can be measured and mitigated.

Safari *et al,*. (2016) studied the significance of risk management for banks and other financial institutions, with mine objectives to examine the importance of risk management in the financial institutions. The study concludes that risk management is a higher priority these days for almost all industry fields. Not many industries have experienced the effect of risk management more profoundly than the financial services industry.

Singh (2015) [2] stated the Credit Risk Management In Indian Commercial Banks, it gives an overview about the credit risk management in commercial banks in India, for arguing his aides he points out some studies which speak about the credit risk management in the banks. Study finds that Credit Risk Management Policy of the bank dictates the Credit Risk Strategy and he finds that the ever-improving risk management practices in the Bank will result in Bank emerging stronger.

Abdou *et al,*. (2015) Surveyed on Risk Management Practices in the Republic of Yemen: Are Islamic banks different? with the purpose of investigating the extent to which Yemen's bank is applying risk management practices as well as to compare and distinguish between the risk management practices used in Islamic, national, and foreign banks for all the banks working in Yemen. The result of the study shown that there are significant differences between Islamic and national banks in terms of their understanding of risk and risk management, risk identification and analysis and credit risk analysis. However, there are no major differences found between national and Islamic banks in terms of risk management and risk management practices. There are significant differences in terms of understanding risk, risk management, risk identification and analysis in Islamic and foreign banks, but no differences between their risk management, risk management practices and credit risk analysis.

Arora & Singh (2014**)** [8] evaluated the credit risk management practices of Indian public sector banks through discussed the problems and obstacles in credit risk management practices of Indian public sector banks in a grant of commercial loans to find the grey areas, which need review and restructuring to improve banks' asset quality. The study pointed that credit risk management practices of Indian public sector banks have resulted into emergence of various grey areas, like insufficient training, data management, inappropriate IT support, system disintegration, inconsistent rating approaches, which need immediate attention and if tackled properly, can reduce their non-performing assets.

Rajeswari (2010) [10] conducted research on credit risk and NPA management practices of an Indian bank, with aims to study the credit risk possibilities of an Indian bank, to evaluate the trends in the loans and deposits of Indian Bank, to analyze the NPA pattern of the bank. To understand the various credit risk activities of Indian Bank and its NPA performance for the study period (2009-2012). The study finds that there is a direct correlation between market risk and credit risk and credit risk has an impact on the operational market.

Goyal (2010) [6] stated research on Some Emerging Issues of Risk Management in Indian Banks, it attempts to discuss in depth, the importance of risk management process and throws light on challenges and opportunities regarding implementation of Basel-II in Indian Banking Industry. it finds that Over a period of time, the risk management improvements that are the intended result may be rewarded by lower capital requirements. However, these changes will also have wide-ranging effects on a bank's information technology systems, process, people and business, beyond and regulatory compliance, risk management, and finance function. Also, the reform process is on and the Indian banks are in the right direction.

4. Credit risk management

Credit is very important for individuals and nations, and this significant comes from two levels of bank level and economic level. Bank use its funds by offering credit to individuals and companies, and this uses includes a specific basis restrict credit size:

Liquidity: the ability of the bank to meet the demands of depositors and short-term obligations.

Profitability: achieving an acceptable level of profits as a result of using the banks' resources.

Safety: Making sure that the banks' amounts will return to the bank at the agreed time.

Social responsibility: to support charitable projects and helping to finance economic development plans.

4.1 Importance of credit risk management in Yemen

Credit risk management has to lead to raise a bank’s performance by maintaining an acceptable limit credit risk exposure in order to provide a framework of the understanding of Credit risk management and its impact on banks profitability (Kodithuwakku, 2015) [12]. Credit risk management in banks become more important day by day not only because of the financial crisis that banking industry is experiencing, but also a crucial concept of Credit risk management which determine banks' survival, growth, and profitability. (Olausi &Abiola, 2014) [5].

4.2 Credit risk management techniques in Yemen selection

A good credit risk management starts with a good selection of their counterparts and products. Good risk assessment models and qualified credit officers are key requirements for a good selection strategy. Important credit decisions are made at credit committees. For counterparts with higher default risk, more collateral is asked for to reduce recovery risk. Requiring more stringent covenants, e.g., on asset sales also reduces recovery risk. A good selection strategy also implies good pricing of the products in line with the estimated risk.

Limitation

Limitation restricts the exposure of the bank to a given counterparty, it avoids the situation that one loss or a limited number of losses endanger the bank's solvency. The total amount of exposure to riskier counterparts is more restricted by a system of credit limits. The limit setting of the bank determines how much credit a counterpart with a given risk profile can take.

Diversification

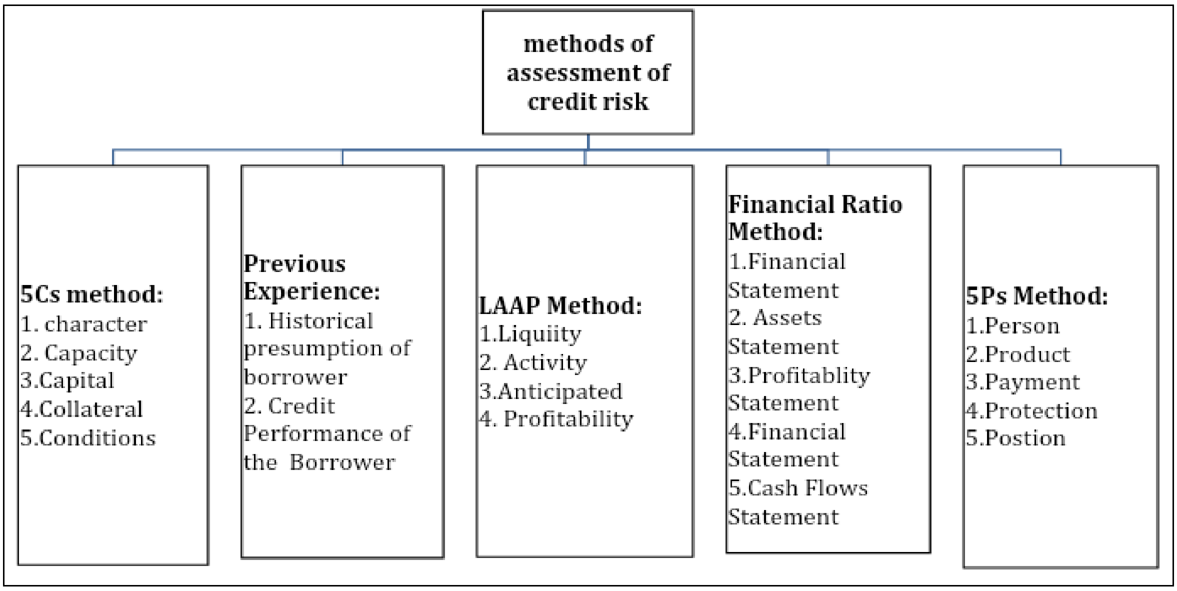
The allocation process of banks will provide a good diversification of the risk across various borrowers of different types, industry sectors, and geographies. Diversification strategies spread the credit risk in order to avoid a concentration on credit risk problems. Diversification is easier for large and international banks.

Credit enhancement

When a bank observes it is too exposed to a certain category of counterparts, it can buy credit protection in the form of guarantees from financial guarantors or via credit derivative products. By the protection, the credit quality of the guaranteed assets is enhanced. This is also known as credit risk mitigation. (Tony van, 2009)

4.3 Methods to mitigate credit risk

There are many methods to mitigate risk and the below graph showing this method which can be used by management during providing credit.



Source: Sherif Mesbah Abu Karash, banks credit risk management, Forum entitled " Investment and finance in Palestine: prospects for development and contemporary challenges", Alkhalil University, Palestine, May 2005, page13

Fig 1

5. Conclusion

The study concluded that Credit risk management is very important in banks and it has to include many techniques to mitigate risks, therefore good Credit risk management lead to raise a bank's performance and vice versa. The study showed that the Banking industry in Yemen is considered as the weakest industry in the MENA region and the Middle East, so banks have to improve its techniques to mitigate risk.

6. Reference

1. Abdou H, Muslem O, Ismal R. 'Risk Management Practices In The Republic Of Yemen: Are Islamic Banks Different?', Journal of Islamic economics, Banking And Finance. 2014; 10(3):46-73.
2. Asha Singh. "Performance of Credit Risk Management in Indian Commercial Banks ". Int. J. Manag. Bus. Res. 2015; 5(3):169-188.
3. Ebrahim Al-Gamal, Abbokar Siddiq." Study on Risk and Return Factors of Selected Banks in Bombay Stock Exchange (BSE) ", international journal of the trend in scientific research and development, 2017, 3.
4. Gil-Diaz F. The Origin of Mexico's 1994 Financial Crisis, The Cato Journal. 2008; 17(3). Http://Www.Cato.Org/Pubs/Journal/Cj.
5. Idowu Abiola, Awoyemi Samuel Olausi. "The Impact of Credit Risk Management on the Commercial Banks Performance in Nigeria ", International Journal of Management and Sustainability. 2014; 3(5):295-306.
6. Krishn A Goyal, Sunita Agrawal, "Risk Management in Indian Banks: Some Emerging Issues" Nt. Eco. J. Res. 2010; 1(1):102-109.
7. Prasanna Prakash. "A Study on the Significance of Risk Management in Banking Sector ", International Journal of Research in IT and Management (IJRIM). 2016; 6(9):135-139.
8. Renu Arora, Archana Singh. "Problems and Obstacles in Credit Risk Management in Indian Public Sector Banks ", Annals Of The University of Petroş Ani, Economics. 2014: 14(1):353-362353.
9. Roya Safari, Mahboubeh Shateri, Hamid Shateri Baghiabadi, Noosha Hozhabrnejad. "The Significance of Risk Management for Banks and Other Financial Institutions". International Journal of Research – Granthaalayah. 2014; 4(4):74-81.
10. Rajeswari. "A Study on Credit Risk and NPA Management Practices of Indian Bank ", Journal of Management Research, 2010, 1(1).
11. Sherif Mesbah Abu Karash. "Banks Credit Risk Management, Forum Entitled" Investment And Finance In Palestine: Prospects For Development And Contemporary Challenges", Alkhalil University, Palestine, Ma, 2005, 13.
12. Sujeewa Kodithuwakku. "Impact of Credit Risk Management on the Performance of Commercial Banks In Sri Lanka ", International Journal Of Scientific Research And Innovative Technology, 2015, 2(7).
13. Tony Van Gestel, Bart Baesens. Book title "Credit Risk Management", Oxford University Press is a department of the University of Oxford, 2009.