



INFLUENCE OF CREDIT RISK MANAGEMENT PRACTICES ON LOAN RECOVERY PERFORMANCE OF THE REGISTERED DIGITAL CREDIT PROVIDERS IN KENYA

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ABSTRACT

This research assessed how methods for managing credit risk affect the capacity of digital credit providers in Kenya to recoup loans. The study used a descriptive survey methodology, and its target population included all 32 of Kenya's registered digital lending enterprises, including both company managers and their credit managers. The study prioritized gathering primary data and used random sampling procedures. Multiple regression was used to measure the inferential data using Statistical Package for Social Sciences (SPSS) version 25. Credit Procedures had aggregate mean response of 4.240 and standard deviation of 1.040. Credit Appraisal had an overall mean response of 4.057, and an aggregate standard deviation of 1.162. Credit Monitoring had an aggregate mean of the responses of 4.089 and an overall standard deviation of 1.001. Credit Recovery Systems had an average response of 4.150 and an overall standard deviation of 1.162. Loan Recovery Performance had an aggregate mean of 4.067 with a total standard deviation of 1.116. The results presented a strong and significant correlation ($r=0.438$, $p=0.000$) between credit procedures, a strong and positive correlation ($r=0.351$, $p=0.000$) between credit monitoring methods, a strong and substantial correlation ($r=0.229$, $p=0.000$) between credit evaluation, a positively and significantly correlation between credit recovery systems ($r=0.205$, $p=0.000$) and loan recovery performance. This implied that a profit gain follows an increase in any of these variables. The findings indicate a positive correlation among all the parameters, with credit procedures being the strongest ($r=0.700$) influencer of loan recovery performance. The R-squared value was .774. All the independent variables, affect loan recovery performance by predicting it, according to the ANOVA table results ($F= 4.691$, $p<0.0005$). With all other factors held constant at zero, a unit increase of the independent variable; credit procedures, credit appraisal, credit monitoring or credit recovery systems, influence on loan recovery performance by 0.334, 0.372, 0.319 or 0.368 respectively. The study recommends that other scholars tackle, in the future, the other aspects of risk management, such as marketing risk, liquidity risk, etc, within digital lending firms.

Keywords: Digital credit providers, Credit management, Credit appraisal, Credit monitoring

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INTRODUCTION

Regardless of their business area, all businesses and economic entities involved in credit operations use credit management as a vital practice on a global scale. This factor is significant and cannot be ignored. According to Myers and Brealey (2003), credit management is a collection of strategies and practices businesses use to maintain optimal credit levels and manage credit well. The system used for credit management significantly impacts identifying credit defaults, leading to a high default rate, lower cash flow, decreased liquidity, decreased loan provisions, and unstable financial conditions. According to Scheufler (2002), a business can make money by establishing credit policies, standards, and procedures for doing credit checks. According to Halling and Hayden (2006), the financial sector's resilience is essential for ensuring the stability and growth of the economy.

In Sweden, a study by Ara, Bakaeva, and Sun (2009) affirmed that the effectiveness of digital lending applications and credit management tactics have positive correlations. Saeed and Zahid came to a similar conclusion after conducting a different analysis in 2016 about how credit management techniques are positively correlated with the success of online loan applications. Ogboi and Unuafé (2013) established that sound credit risk management and capital adequacy positively affected the performance of Digital Lending Applications; further, lending applications were found to be negatively affected by advances and loan expectations. In India, court negotiations support debt recovery by financial institutions (Alimov, 2015). The author further indicates that lawful implementation is lazy in aiding obligation recuperation. The distinction in court exchange in India influences the obligation recuperation procedures through lawful methods. This is because of imperceptible nation-explicit elements that influence the execution, development, and monetary choices of money-related foundations. The presentation of legal intervention aided obligation recuperation in Indian monetary foundations (Sobhan & Sen, 2013).

Olalere and Ahmad (2015) conducted an empirical investigation to determine how Nigerian lending application performance is impacted by credit risk. According to their research, there is a substantial inverse association between performance and the percentage of non-performing loans (NPLs) and a significant inverse relationship between performance and the debt-to-equity ratio. There were no conclusive findings from the research conducted, so this area of research is worth investigating further. The African market is awash with credit-lending firms in the digital space. In Nigeria, despite the growing prominence of Fintech companies such as Pay Later, which controls a sizeable proportion of micro-loaning marketing, the common challenge is managing a growing number of loan defaulters estimated to be about 20% (Greene, 2016). Customers seem not threatened by lousy credit listings. Because of the large number of companies serving in this industry, customers always have another option if they are denied credit by one company. High levels of competition have made firms resort to not caring about customers' credit ratings, hence the consistent default rates (Lewis, 2016).

Digital lending platforms have a unique business model compared to traditional credit. Kaffenberger, Michelle, and Edoardo (2018) highlight three distinctive features: first, the application process for loan application approval is done almost instantly. The second difference is that loan application is automated; this is mainly because digital credit makes use of the data history of the user (such as airtime top-ups, mobile phone call records, and app-based data (on smartphones) to generate credit scores instead of depending on traditional techniques for calculating credit scores. Third, the processing of loans is done remotely, and therefore, the applicant is not required to avail themselves physically in any store or agent. There is a glaring dearth of information about the performance of digital lending companies in the local setting. This lack of information can be linked to the fact that non-deposit-taking service providers previously operated

without licenses and were exempt from the Central Bank of Kenya's regulatory scrutiny. The 2016 law that imposed interest rate ceilings, capping the permitted interest rates on loans at a maximum of 4% over the reference rate established by the central bank, did not apply to these lenders. As a result, they were not required to abide by it. However, after much consideration, the Central Bank of Kenya finally regulated online lending companies. The excessive interest rates they charged borrowers and their aggressive debt collection methods were significant factors in this decision.

Statement of the Problem

Concern has been raised by Kenya's recent and rapid growth of online lending. There are limited protections for borrowers and still little consumer protection for these digital loans. According to McKee et al.'s findings in 2015, a sizable portion of borrowers do not grasp the loan terms. Furthermore, thorough information about the effectiveness of digital lending companies is conspicuously lacking. This is partly because these non-deposit-taking service providers functioned long without Central Bank of Kenya licenses and regulatory control. As a result, these lenders were exempt from the 2016 law's interest rate cap requirements, which limited the permitted interest rates on credit to 4% over the CBK's reference rate. Loan repayment is not easy for any financial institution; despite this, credit institutions continue to thrive in the market, with the default rate in the banking sector in 2012 standing at 4.6% (Kagwe, 2013). Such impressive results cannot be found by default but through a concerted effort of loan repayment mechanisms.

Digital loans are easier to subscribe to, and their quick processing is attractive. When choosing a digital loan provider, customers consider interest rates, repayment duration, and period of loan disbursement (Nzayisenga, 2017). However, customers face a torrid time when they are late in paying back. In the long run, the methods of debt recovery, ranging from intrusive calls to aggressively texting loanees multiple times a day, are both

ineffective and unsustainable for lenders as such tactics often lead to a high churn rate and loss of revenue. Hence, digital lenders risk losing a substantial amount of investments. By design or lack of foresight, some digital lenders struggled to deal with the unprecedented loan defaulting levels, exposing the industry to constant regulatory tussles. The priority of any lending business should be to prevent bad debts from occurring. The destructive debt recovery process starts when the borrower cannot repay the lender within the stipulated time. From a lender's perspective, debt recovery is challenging and cumbersome. Often, the effort to recover a bad debt is not worth the repayment. Every time a firm gives out a loan, they take a risk. Therefore, lenders should know their borrowers well and if they can pay back the loan. However, this has been difficult with the digital lending firms since they do not meet the loanees face to face as most loans are applied for and facilitated digitally, hence the high risk of defaults. Since unsecured personal loans are their primary area of expertise, the bulk of these digital loan providers must charge higher interest rates due to the elevated risk posed by their clientele.

The Central Bank of Kenya reported that the biggest challenge facing digital credit lending companies in Kenya is their loan performance, which is currently characterized by a high default rate of 26.98%. In an industry that offers loans over KES 30 billion monthly, the default rate translates to a colossal amount, indicating that loan performance in Fintech companies is currently low. Furthermore, the 15% interest was not enough to cover the 26.98% default rate, which means that some companies are losing. The goodwill among Kenyans to pay back loans is high but insufficient to sustain the industry (Migwi, 2013). The fact that no specific regulation other than the Banking Act implies that these firms were not well protected against these losses. Products such as Fuliza by Mpesa leverage that almost all adult Kenyans have an active Mpesa account. The product is also successful because it is marketed as an overdraft rather than a formal loan issued to

customers (Juma, 2019). Mpesa reports less than a 5% default rate on Fuliza.

Millions of Kenyans listed with the CRB are probably loan defaulters from digital lending firms, and this spells doom for the lending firms if the same trend continues without devising other measures for checking their loans. This has attracted regulatory measures from the CBK over the operations of the digital lending firms that came into effect in September 2022 (CBK, 2022). It is against this backdrop of regulations of the digital lending firms on loan recovery and several studies done by Kamar and Ayuma (2016), Migwi (2013), Njenga (2013), etc., that it is evident that a gap exists that only a handful of studies have tried to tackle inconclusively. In order to find out how effective credit risk management techniques affect the loan recovery performance of the 32 digital lending firms registered with the CBK in 2023, research is being done in this area.

Objectives of the Study

The study aimed to establish the influence of credit risk management practices on the loan recovery performance of registered Digital Credit Providers in Kenya. The student specific objective;

- To determine the influence of credit procedures on the loan recovery performance of the registered Digital Credit Providers in Kenya.
- To evaluate the influence of credit appraisal on the loan recovery performance of the registered Digital Credit Providers in Kenya.
- To determine the influence of credit monitoring and control on the loan recovery performance of the registered Digital Credit Providers in Kenya.
- To evaluate the influence of credit recovery systems on the loan recovery performance of the registered Digital Credit Providers in Kenya.

LITERATURE REVIEW

Theoretical Review

The following theories were used in the study:

Resource Base View, human capital theory and the Balanced score card model

Finance Distress theory

Finance Distress Theory has been used to explain the importance of corporate risk management on financial performance. This theory proposes that firms enter financial distress because of poor management of risks and economic distress, affecting their financial performance. When financial performance deteriorates to the point where a firm cannot meet its financial obligation, it is said to have entered a state of financial distress. The first signals of financial distress are violations of debt payments and failure or reduction of dividends payouts, which affects financial performance. Firms experience financial distress due to poor managerial policies, inefficient and ineffective internal control systems, non-disclosure of financial information, and inability to recognize stakeholder rights. Poor risk management strategies, which lead to increased non-performing loans, operational risk, sub-optimal liquidity levels, and lack of training among firms' employees on risks, can result in financial distress and, therefore, affect financial performance (Li et al., 2014).

A credit risk situation arises when the banks have non-performing loans resulting from borrowers' delay in setting their loans. Therefore, banks should be vigilant to take care of their liquidity and credit risks to avoid any financial distress. According to Whitaker (1999), corrective actions by firm management to improve its financial performance are activated by financial distress (Wamalwa & Mukanzi, 2018). Because it mainly addresses credit recovery goals, the financial distress hypothesis is relevant to research the relationship between credit risk management and non-financial performance.

Credit Risk Theory

The credit risk theory, also called the structural theory, was first developed by Melton in 1974. It contends that the default event results from the evolution of a firm's assets, which is treated as a diffusion process with constant parameters. These

models, frequently referred to as "structural models," are focused on variables connected to a particular issuer. This category has evolved to include models where the loss conditional on default is explicitly stated. According to these models, default can happen any time before a corporate bond matures rather than just when it does (Longstaff & Schwartz, 1995).

Although credit risk has been a problem throughout history, it has only recently received significant attention. Before 1974, early literature addressed credit risk using traditional actuarial techniques that mainly drew on historical data. The structural, reduced-form, and incomplete information approaches are the three quantitative methods now used to analyze credit risk (Crosbie et al., 2003).

The theory is based on diffusion with constant parameters because of the growth of the company's assets. These models are often called the structural model and are based on factors associated with an issuer. An evolution of this category consists of a collection of models in which the loss is exogenously particular and subject to defaults. The default could occur over a corporate bond lifetime and not only over maturity in these models (Long et al., 1995).

This theory is relevant to this study since it acknowledges that repayment risk can happen depending on the operational models or variables the firm adopts throughout the debt lifespan.

Asymmetric Information Theory

According to the notion of asymmetric information, which was first put forth by which Akerlof (1970), consumers use market data to determine the worth of products. When purchasers know market dynamics, including inherent risks and investment returns, information asymmetry occurs in debt markets. On the other hand, lenders do not thoroughly understand the clients. According to Akerlof (1970), this information gap encourages vendors to offer goods of lower quality than the industry standard.

As stated by Bettis (2009), debates about the economics of information and information

asymmetry had long existed before crucial developments. According to Eppy (2005), information asymmetry refers to business owners or managers being better informed than lenders about the opportunities and hazards involved with their ventures. It describes a situation where all persons involved in an activity are unaware of essential information. When borrowers looking for loans have better knowledge of the possible risks and rewards associated with the investment projects for which the funds are intended, information asymmetry occurs in the context of debt markets.

According to Derban (2010), microfinance institutions should carry out a careful examination during loan assessments to gather adequate and trustworthy client information, either from the Central Bank of Kenya (CBK) or an alternate source. When assessing borrowers, it is critical to use both qualitative and quantitative methods. However, given that qualitative approaches are frequently characterized by subjectivity, they may present specific difficulties. When using qualitative methodologies, borrowers' attitudes are given numerical values. The processing costs are cut, and bias-introducing subjective judgments are mitigated, thanks to this strategy.

Risk identification, risk reduction, and credit evaluation are all relevant to this theory. Deposit-taking institutions ought to use the information from reference bureaus for credit appraisal. They can analyze debt-laden debtors using this method, and they can also determine the likelihood of default. Only customers who can pay back and fulfill their responsibilities can receive credit, thanks to careful screening for creditworthiness. Information is essential to the processes of evaluating credit, identifying risks, and mitigating those risks.

Portfolio Theory

Portfolio theory management is a crucial idea in the world of investments. Finding the best asset pairings to maximize projected returns while preserving a certain amount of risk is its crucial goal. Instead, it seeks to reduce risk while achieving specific anticipated profits. Portfolio theory is presented in a

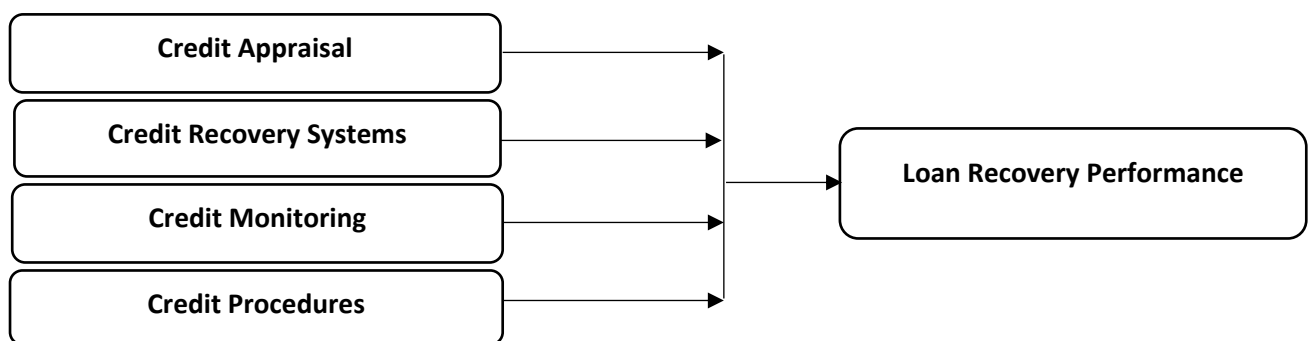
mathematical formulation. It gives the idea of diversifying the assets investment combination to select those assets that will collectively lower the risk than any single asset. The theory identifies that this combination is possible when the individual assets return, and movement is in the opposite direction. An investor, therefore, needs to study the value movement of the intended asset investment and find out which assets have an opposite movement. However, risk diversification lowers the level of risk even if it is positive. Risk is defined as the standard deviation of return; to what extent is the actual return deviating from the expected return? Therefore, a portfolio being a combination of assets, the model becomes a weighted combination of these assets' returns. When different assets are combined and whose returns are not positively correlated, then portfolio theory reduces the total variance of such asset combination returns over a given period of investment. The return is calculated by getting the change in value of the assets plus any distribution received during a given period over which the assets are held and expressed as a fraction of the initial outlay. From this theory, it is evident that the level of risk in a portfolio depends on the risk of each asset, the proportion of resources allocated to each asset, and the interrelationship between the assets making up the portfolio. The significant assumptions in portfolio theory in managing risk are that the

investors are rational and the market is efficient and perfect (Chijoriga, 2007).

In digital lending, company loans constitute the assets in the financials. Therefore, the theory can be used to expound on the needs of these firms, forming a portfolio that cuts across different industries and businesses. The portfolio can be formed based on purpose, time, and industry. The theory poses several gaps; the initial intent by Markowitz was to address the importance of investment portfolios for investors to spread risk when investing and not the management of loan portfolio in Digital lending firms. In this field, significant progress is being made in developing tools for assessing credit risk within a portfolio framework. The sector also uses credit derivatives to transfer risk while keeping solid client connections.

Conceptual Framework

A conceptual framework is described by Regoniel (2015) as a visual representation showing the relationships between the variables used in the study. The credit risk management techniques in this study are precisely indicated by credit procedures, credit evaluation, credit monitoring and control, and credit recovery systems. The performance in loan recovery is being examined as the dependent variable in the meantime.



Independent Variable

Dependent Variable

Figure 1: Conceptual Framework

Credit Procedures

The digital lending loaning procedure is a statement of its philosophy, standards, and guidelines that its employees must observe in granting or refusing a

loan request. These procedures determine which retail or corporate clients the lenders approve for loans and which is to be avoided, and must be based on the loaning laws and regulations. The industry

plays a significant role in economic growth and development by providing credit to execute economic activities. However, the primary concern of any lender while advancing credit is how they will get their money back. The possibility that borrowers would default on their debt obligations and cause a significant surge in non-performing loans causes credit risk. Numerous initiatives to improve the lending processes inside digital lending organizations have been motivated by this problem. The results of a study by Baliwen (2009) on the methods used to manage loan default in primary cooperatives in Nigeria showed that almost all of these cooperatives had written policies that their members strictly implemented. Each cooperative had a credit committee; however, only a few staff engaged in loans. The requirements of the 18 Cooperatives for borrowing loans were share capital, guarantors, collaterals, savings deposits, and business plans. Most of the cooperatives conducted credit investigations and monitored the projects of their borrowers to ensure that the loans were used correctly. The cooperatives forced the borrowers to pay or return immediately their loans, or they would not be granted loans once the cooperative found out that the loan was not being used for the intended purpose.

Credit Appraisal

Credit appraisal is the process by which a lender assesses a potential borrower's creditworthiness. The Borrower's payment history and the nature and sustainability of their income are often evaluated in this process. The Lender frequently looks to verify the Borrower's sincerity by conducting a face-to-face interview. Financial statement lending, asset-based lending, credit scoring, and relationship lending are the four primary, unique methodologies for credit assessment used by financial intermediaries when evaluating small businesses. These techniques address problems that may lead to either "overlending," as detailed by de Meza and Webb (1987) and de Meza (2002), or credit rationing, as described by Stiglitz and Weiss (1981).

A crucial step in deciding whether to accept or reject a credit request from a client is to evaluate their credit. According to Gakure et al. (2012), the Borrower's capacity to repay the loan is the primary consideration in this assessment. The main goal is to ensure that only people with reputable credit histories are given loans. According to Auren (2003), the client appraisal procedure includes determining the Borrower's capacity and any associated risks. Prior to offering credit services, this process entails gathering comprehensive consumer data. The 5 C's of credit are the essential factors in the financial institution's evaluation of a loan request, according to Savery (1977), Sparks (1979), and Galitz (1983). The traditional five criteria for credit are character (the Borrower's willingness to repay the debt), capacity (the Borrower's financial ability to meet repayment obligations), Capital (assets or equity that can be used as collateral), and Condition (the general economic environment or any particular conditions that apply to the borrower or the type of credit). The five credit appraisal criteria are used by lending institutions to assess potential borrowers among their customers. Through improved client comprehension, this methodology helps lending institutions lower the risk of default.

Credit Monitoring

According to Thygerson (1995), credit monitoring serves as the general framework that oversees the credit-granting procedure. This policy establishes guidelines for who is eligible for credit, when it should be extended, and why. It also specifies the terms of repayment, the necessary security, guarantees, and the assets the borrower is obligated to pledge as security. The risk assessment and appraisal methods for all potential applicants are included in the credit control policy. To effectively manage credit risk, maintain a strong credit management program with few expensive bad debts, and lower credit risk, it is crucial to maintain an effective credit control policy. Depending on how much information a lending institution has on a borrower, they can predict the possibility of a default. The importance of monitoring risks is

ensuring they can be managed after identification. Digital Lending firms play an increasingly important role in local financial economies where competition for customers and resources with SACCOs, Micro Finance Institutions, and other commercial banks is high; therefore, they require effective and efficient risk control and monitoring systems. The risk management feedback loop will involve the Management and senior staff in identifying risks. It must assess, process, and create sound operational policies, procedures, and systems. Implementing and designing policies, procedures, and systems will integrate line staff into the internal control processes, thus providing feedback on the digital lending firm's ability to manage risk without causing operational difficulties. The Management should receive and evaluate the results on an ongoing basis (Ombaba, 2013).

Credit Recovery Systems

This involves tracking unpaid credits and persuading the loaner to settle his / her credit commitment. Credit recovery is generally not a simple job, as some customers will try all means possible to make themselves unavailable to the institution. Most banking organizations have a credit recovery section that monitors non-performing credit by trying to save it before it becomes irredeemable. Sending succinct text messages (SMS), emails, or straightforward phone calls to consumers to remind them of their unpaid debts improves credit recovery. In addition, the advent of Credit Reference Bureaus (CRBs) has made it more difficult for regular defaulters to obtain loans from several banks, which has decreased the risk of defaults. Lenders use guarantors to recover non-performing loans as their last resort (Migwi, 2013). Gisemba (2010) investigated the connection between the management procedures of risk and the economic results of SACCOs and discovered that the SACCOs embraced diverse methodologies for risk assessment and analysis before giving credit to the members to moderate loan losses. This involves capacity-building, circumstances, collateral use, borrower assessment, and risk assessment used to

decrease and manage credit risk. He found that to handle credit risks efficiently, SACCOs must minimize credit defaulters' money loss and guarantee better performance by the organization in growing asset returns. According to Weaver and Gahegan (2017), credit information sharing enables both digital and non-digital lenders to address the issue of credit proportioning. In broadening an advance, moneylenders are confronted with data asymmetry, moral peril issues that only the borrower knows of his or her capacity to pay, and adverse selection. The assessment is critical since the loan becomes an agreement where the borrower is supposed to repay within an agreed period without failure. It involves the lender giving value now for a promise by the borrower to repay at a future date (Kemp & Buckley, 2017).

Loan Recovery Performance

Problems with loan recovery performance can significantly affect a company's liquidity, earnings, and overall capital position. According to Ogol (2011), under more dire circumstances, it might potentially result in the liquidation of these businesses. Such businesses become exposed if sufficient safeguards against non-performing loans are not implemented. Many lending companies may turn to market borrowing during liquidity issues brought on by non-performing loans, frequently at exorbitant interest rates. This hurts the lender's performance and raises the debt-to-equity ratio, which, as Mutungili noted in 2011, makes it more challenging to maintain a healthy capital structure. The effect of non-performing loans on the financial performance of financial institutions in Bulgaria was studied by Bernstein in 2013. The study used a multi-regression analysis methodology, with operating costs as the dependent variable and non-performing loans as the independent variable. According to the study's findings, the amount of non-performing loans significantly impacted banking expenses and scale economies in the banking sector. The analysis also showed that compared to banks with low levels of NPLs, banks with high levels of NPLs demonstrated a typical U-shaped curve with an ideal point in their

cost structures. As Joetta pointed out in 2007, creating valuable performance metrics for their firms can be difficult for many managers. This challenge is caused, in part, by the fact that numerous indicators offer insightful data yet only give a partial picture of performance. Additionally, specific indicators are qualitative, although financial analysis has historically dominated the quantitative side of performance evaluation. Balanced scorecards have created a comprehensive yet diversified collection of critical measures to address this diverse terrain. According to Kimathi in 2014, balanced scorecards relate performance evaluation to strategic decision-making, consider many stakeholders' expectations, and contain qualitative and quantitative measures.

METHODOLOGY

This study assumed a descriptive survey design, which involves monitoring and describing the subjects' behavior without influencing them. Therefore, it is the most suitable for this study as it allows the respondents to give their responses without being influenced. This study targeted the firm manager and credit manager of all the thirty-two (32) registered digital lending firms in Kenya, which are tasked with formulating policies within the firm, implementing CBK regulatory guidelines, and issuing and recovering loans. These respondents were the firms' firm managers, credit officers, and accounting officers. The study included all the firms because of the manageable number of licensed digital lending firms.

A straightforward random sample strategy was adopted because the research was primarily concerned with those working in these organizations' credit risk management departments. The researcher explicitly selected the firm manager and a credit officer from each Digital Lending company as the study participants. A total of 64 people responded because of this method. Credit officers were involved because of their firsthand knowledge of dealing with the immediate effects of credit risks in their daily work, and company managers were included because they play a crucial role in making choices relating to credit risk

management. Data was obtained from primary sources by use of a questionnaire. The questionnaire consisted of a list of closed-ended questions. For more insight data collection, the researcher administered the questionnaire by dropping or mailing it to the respondents, who answered them at their convenience and were later picked for cleaning and analysis by the researcher. A pilot study was conducted on the respondents of 4 Digital lending firms (8 respondents), which were not included in the final data collection. Before processing the responses, the completed questionnaires shall be edited for completeness and consistency. The data will then be coded to enable analysis of the responses. Since descriptive analysis will be employed to analyze data, tables, charts, graphs, percentages, and frequencies shall be used. Multiple regressions will measure the quantitative data using Statistical Package for Social Sciences (SPSS) version 25. The data will be analyzed with the aid of a regression model as illustrated by $Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \epsilon$.

FINDINGS AND DISCUSSION

The researcher distributed a combined total of 56 questionnaires to the firm manager and credit manager of 28 Digital Lending firms, with four firms being excluded as they participated in the pilot study. Out of these, 50 questionnaires were completed accurately and returned, resulting in an impressive response rate of 89.29%, meeting the criteria defined by Mugenda and Mugenda (2003).

Descriptive Analysis

Credit Procedures

The initial goal of the study was to determine how credit policies impact how well registered digital credit providers in Kenya recover loans. The aggregate mean of the responses, calculated on a five-point scale, was 4.240, indicating that most respondents tended to concur with the assertions describing the effect of credit processes on loan recovery performance. Despite this, the replies varied, as seen by the standard deviation of 1.040.

Credit Appraisal

The study's second goal was to investigate how credit appraisal affected how well registered digital credit providers in Kenya recovered loans. The results from a five-point scale showed that the overall mean of the responses was 4.057, suggesting that most respondents tended to agree with the statements describing the impact of credit appraisal on loan recovery performance. However, there was variation in the responses, as indicated by the aggregate standard deviation of 1.162.

Credit Monitoring

The third objective of the study was to assess how credit monitoring impacts Kenyan registered digital credit providers' ability to collect loans. The aggregate mean of the responses on the five-point scale came out to be 4.089, which suggests that most respondents tended to concur with the statements outlining the effect of credit monitoring on loan recovery performance. However, the responses varied, as seen by the overall standard deviation of 1.001.

Credit Recovery Systems

The fourth specific objective of the study was to determine the influence of credit recovery systems on the loan recovery performance of the registered

Digital Credit Providers in Kenya. The average response on a five-point scale came out to 4.150, which suggests that many respondents agreed with the assertions outlining how credit recovery methods affect loan recovery success. Nevertheless, as seen by the overall standard deviation of 1.162, there was variability in the responses.

Loan Recovery Performance

The respondents were asked to respond to statements on loan recovery performance. The aggregate mean of the responses on the five-point scale was 4.067, which indicated that most respondents agreed with the assertions regarding loan recovery performance. However, as indicated by the total standard deviation of 1.116, there was variability in their responses.

Inferential Analysis

Correlation Analysis

The correlation analysis's findings are shown in the table that follows. This implies that a profit gain follows an increase in any of these variables. The findings indicated a positive correlation among all the parameters, with credit procedures being the strongest ($r=0.700$) influencer of loan recovery performance.

Table 1: correlation Results

		loan recovery performance	credit procedures	credit appraisal	credit monitoring	credit recovery systems
loan recovery performance	Pearson	1				
	Correlation Sig. (2-tailed)					
credit procedures	Pearson	.438**	1			
	Correlation Sig. (2-tailed)	.000				
credit appraisal	Pearson	.351**	.320	1		
	Correlation Sig. (2-tailed)	.000	.000			
credit monitoring	Pearson	.229**	.395**	.606**	1	
	Correlation Sig. (2-tailed)	.000	.000	.000		
credit recovery systems	Pearson	.205**	.362**	.481**	.364**	1
	Correlation Sig. (2-tailed)	.000	.000	.000	.000	

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

Source: Researcher data (2023)

Regression Analysis

The study sought to determine the association between the variables and presented as follows:

Table 2: Model Summary

Model	R	R Squared	Adjusted R Squared	Std. Error
1	.907a	.774	.772	.3425

Predictor variables include credit policies, credit evaluations, credit monitoring, and credit recovery systems.

Source: Researcher data (2023)

The R-squared value of the results indicated that credit procedures, credit appraisal, credit monitoring, and credit recovery systems can explain 77.4% of the variance in loan recovery performance.

This suggested that factors not covered in this study accounted for 32.6% of the variation in loan recovery performance.

Table 3: ANOVA table

Model		Sum of Squares	Df	Mean of Squares	F	Sig.
1	Regression	2.117	4	.583	4.691	.001 ^b
	Residual	4.642	44	.137		
	Total	6.759	48			

Predictor: (Constant) credit procedures, Systems for credit policies, credit evaluation, credit monitoring, and credit recovery

Source: Researcher data (2023)

All the independent variables, such as credit procedures, credit assessment, credit monitoring, and credit recovery systems, affected loan recovery

performance by predicting it, according to the ANOVA table results (F= 4.691, p<0.0005).

Table 4: Coefficient correlation

Model		Unstandardized coefficient		Standardized coefficient		
		B	Std. Error	β	T	Sig.
1	Constant	1.364	1.046		1.284	0.001
	credit procedures	.334	.125	.208	2.632	0.002
	credit appraisal	.372	.119	.211	2.408	0.000
	credit monitoring	.319	.116	.213	2.561	0.001
	credit recovery systems	.368	.122	.204	2.116	0.000

Predictor: (Constant) credit procedures, Systems for credit policies, credit evaluation, credit monitoring, and credit recovery

Source: Researcher data (2023)

The findings of the multiple regression analysis showed that the performance of loan recovery is highly influenced by all the independent variables, including credit procedures, credit appraisal, credit monitoring, and credit recovery systems.

$$Y = 1.364 + 0.334X_1 + 0.372X_2 + 0.319X_3 + 0.368X_4 + \epsilon$$

With all other factors held constant at zero, a unit increase of the independent variable; credit procedures, credit appraisal, credit monitoring, or credit recovery systems, influenced loan recovery performance by 0.334, 0.372, 0.319, or 0.368 respectively.

From the multiple regression equation, $Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \epsilon$, the result of the model summary was presented as follows:

CONCLUSION AND RECOMMENDATION

The purpose of the study was to ascertain how credit risk management impacts the ability of Kenyan registered digital lending enterprises to recover loans. Regarding the effectiveness of loan recovery in these organizations, the specific objectives included a review of credit policies, credit appraisals, credit monitoring, and credit recovery systems. The study used a descriptive survey methodology, and descriptive and inferential approaches were used in the data analysis. The study tested the relationship between independent and dependent variables. Regression analysis established a positive relationship between credit monitoring and loan recovery performance. Creating robust operational policies, procedures, and systems will enhance proper monitoring of the loans, resulting in good loan recovery performance. In agreement with a study by Baliwen (2009), policies significantly influenced the performance of SACCOs, and almost all of the cooperatives had written policies they implemented strictly for their members. Results show that digital lending firms evaluate collateral availed against the loan credit applied. The appraisal team tends to find out more about the potential borrowers, especially their source of income, to avoid too many liabilities before any loan can be disbursed. Credit recovery systems have been found to impact loan recovery performance. Many concurred that some organizations use demand letters, emails, and SMS to remind borrowers of their outstanding obligations. Most respondents agreed that guarantors are used as a last resort to recover

defaulted loans. Any members who default on loans are listed under the Credit Reference Bureau (CRB).

Based on the findings, this study concludes that credit risk management significantly affects how well registered digital lending companies in Kenya perform regarding loan recovery. According to the research, improving any credit risk management component significantly impacts how blooming loans are recovered. The study unequivocally shows that a practical framework for managing credit risk makes the lending and recovery processes simpler. In conclusion, this study noted that credit appraisal is vital as it enhances loan recovery performance. A high score on analyzing the potential borrower's creditworthiness is critical in determining if the advanced credit will be recovered.

It is natural that when a financial lending institution wishes to maximize the shareholder's wealth, then proper methods of loanee appraisal should be in place. Digital lending firms are fond of relying on information solely provided by the loanee, which, in many cases, is not always true. The government should, therefore, intervene and help these firms with the sound mechanisms of appraising the potential borrower without involving a third party who was not part of the loan negotiation.

Activity for further research

The study recommended that other scholars tackle, in the future, the other aspects of risk management, such as marketing risk, liquidity risk, etc, within digital lending firms.

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