Managing Credit Risk in Lending Institutions: A Study of Access Bank PLC, Nigeria.

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ABSTRACT

The study investigated the roles of Fintech in managing credit risk in lending institutions: A Study of Access Bank Plc, Nigeria. The study was guided by two research questions. Descriptive survey research design was adopted for the study. The population of this study comprised all the staff of Access Bank Plc, Anambra State. The sample size for the study was 175 staff drawn using Krejcie and Morgan's sample size determination table. The instruments utilized for data collection was a questionnaire titled "Roles of Fintech in Managing Credit Risk Questionnaire (RTMCRQ)". The instrument was validated by three experts. Cronbach alpha method was used for reliability test of the instrument which yielded overall value of 0.81. Mean and standard deviation were used for data analysis. The findings of the study revealed among others that the roles of Fintech in managing credit risk in Access Bank include to: offer crowdlending service by connecting capital-seeking companies with investors who are willing to lend directly to businesses, facilitate crowdfunding to improve person-to person lending, provide alternative sources of finance to potential loan defaulters, provide online loan repayment advice, provide quicker loans through simplified lending process, provide digital platform that enhances savings for loan repayment, provide financial tips on credit management and offer mobile wallets services that enable individuals make payment. Based on the findings, it was recommended among others Fintech Companies should use mass media for awareness-raising ontheir various services and potential benefits to individuals and firms.

Keywords: Roles, Credit Risk, Lending Institution, Access bank

INTRODUCTION

The banking sector contributes to unemployment reduction and provision of credits for economic development of any nation. The commercial banks accept deposits and grant credit facilities to members of the public. Access Bank of Nigeria, Plc which belongs to the banking sector has remained one of banks known for excellent services in the country. Access Bank constantly renders numerous innovative services and operates in technological innovativeness, complex, uncertain and dynamic environment. Oke and Olawale (2018) pointed out that the fluctuating exchange rates, frequent changes in government policies and other factors beyond the sphere of influence of the financial environment contribute to risks in lending institutions.

Risk is any hindrance or obstacle to attainment of an organization's objectives. Kakiya, Mose and Rono (2019) asserted that risks represent the threats to the capacity of an enterprise to execute businessplans and create customer value. Risk may not totally be avoided but can be controlled for smooth operation of an organization. Salaudeen, Atoyebi and Oyegbile (2018) noted risks are uncertainties which affect a company's ability to achieve its objectives and may result in many interdependent outcomes either negative or positive. Risk is concerned with the likelihood of threating event occurring in an organization. Okoli and Okeke (2019) defined risk as the possibility of damage or any other negative occurrence that is caused by external or internal vulnerabilities; which may be avoided through preemptive action. The author added that risk is commonly associated with uncertainty, as the event may or may not happen. Financial institutions are confronted with various risks in which credit risk is one of them.

Credit risk is the tendency of bank debtor to refuse or fail to service or repay loan accessed through lending institutions. According toUmar, Tijjani and Salisu(2022), credit risk is the refusal or incapability of debtors to pay as per the contractual agreement. Credit risk occurs, when bank debtors fail to meet the loan obligations which result in loss to the lending institutions. Adeniyi, Opeyemi, Kayode and Emeje (2021) asserted that the issue of credit risk in banks is of serious concern to the stakeholders and regulators because of the high levels of perceived risks resulting from default and loan loss. Odion, Yusuf and Shuaibu(2022) asserted that the main sources of credit risk include, limited institutional capacity, inappropriate credit policies, volatile interest rates, poor management, inappropriate laws, low capital and liquidity levels,massive licensing of banks, poor loan underwriting, reckless lending, poor credit assessment, laxity in credit assessment, poor lending practices, government interference and inadequate supervision by bank. Subsequently, Financial Technology (Fintech) is one of the crucial innovative mechanisms to mitigate the effects of risks on operations oflending institutions.

The involvement of Fintech companies in delivering financial services to the banking sector help to respond to rapid changing expectations of customers. Ezenwa for, Adebayo and Okafor (2022) noted that Fintech company handles transactions such as transferring money, tracking loans, applying for a loan, or managing investments. Okoli (2020) averred that Fintech Company can reduce bank credit risk by providing alternative sources of finance to potential loan defaulters, thereby enabling them to offset their accounts with their banks. The author added that Fintech Company also provide alternative source of funds through its peer-to-peer lending and crowd-funding channels which can enable bank debtors gain access to credit to pay their loan. Similarly, Kyari, Waziri and Gulani (2021)noted that Fintech Company provides finance to both individuals and corporate bodies mainly in the form of crowdfunding and crowdlending, with the former facilitating person-to person lending and the later connecting capital-seeking companies with investors who are willing to lend directly to businesses. Fintech offer innovative devices that support online transactions in the banking sector. Adam and Yusuf (2020) noted that Fintech provide financial services ofall kinds such as online transfer payment, online financial planning services and online lending and borrowing through peer to peer system among others. The authors added that the fintech offers digital payment options that operate both within and outside conventional banking payments systems. Muhammad, Abdulmalik and Shuaibu (2022) asserted that one remarkable feature of FinTech is its ability to ensure efficiency within the market and at same time keep transaction costs very low.Adam and Yusuf(2020) asserted that the development of Fintech is seen by banks as an easy option to adopt Fintech companies.

Credit risk is one of the major threats to the success of commercial banks in Nigeria. Umar, Tijjani and Salisu(2022) noted that the credit risk can also be measured using non-performing loan profiles. Odion, Yusuf and Shuaibu (2022) asserted that non-performing loans are those loans that are not earning incomeand full payment of principal and interest is no longer anticipated, principal or interest is ninety days ormore delinquent or the maturity date has passed and payment in full has not been made. The high levels of non-performing loans in lending institutions in Nigeria portray poor credit risks management. Umar, Tijjani and Salisu(2022) asserted that the presence of greedy debtors who often abandon their debt responsibilitiesin one bank only to contract new debts in other banks also contributed to the mess of non-performing loan. Adam and Yusuf (2020) pointed out that difficulties facing banks regarding Fintech adoption are less expertise, lack of awareness and distrust of bank customers. This background prompted this study.

Purpose of the Study

The main purpose of the study is to find out the roles of Fintech in managing credit risk in lending institutions: A Study of Access Bank Plc, Nigeria. Specifically, the study sought to

1. Determine the roles of Fintech in Managing Credit Risk in Access Bank
2. Investigate the constraints to the adoption of Fintech in Managing Credit Risk in Access Bank.

Research Questions

The following research questions guided the study:

1. What are the roles of Fintech in Managing Credit Risk in Access Bank?
2. What are the constraints to the adoption of Fintech in Managing Credit Risk in Access Bank?

REVIEW OF RELATED LITERATURE

The review of the related literature was done in this section.

Conceptual Clarification

Key concepts in the study are identified and clarified with a view to creating a synergy in the course of the discourse and to avoid ambiguities.

Financial Technology

Fintech is an application of electronic information resources in rendering financial services. Similarly, Kyari, Waziri and Gulani(2021) defined Fintech as the use of software and modern devices to provide financial services of all kinds across. Suharti and Ardiansyah (2020) pointed out that Fintechcompanies make it easy for people to access financial services through online platform. Fintech companies perform financial transactions similar to that a bank such as funding, capital raising, lending and facilitating payments but differ form banks as their customers are not required to open an account with them to get financial services. Fintech Companies operate a digital financial market that brings together people whowish to provide fund and those who need the funds. Adam and Yusuf (2020) asserted that Fintech companies provide financing services to individuals and corporations in a number of ways, includingcrowd funding and crowd lending. The authors added that in crowd funding, Fintech facilities consist of face- to-face lending between individuals or companies, while in the case of crowd lending, Fintech platforms connect companies that are seeking for capital with investors who are willing to lend directly to businesses. The use of crowd funding and crowd Lending services of Fintech companies to raise funds helps eliminate costs associated with hiring financial consultants. Fintech company collect and provide data such as financial tips, credit and investment opportunities to individuals.

Credit Risks

Credit risk is failure of bank debtors to repay the principal and interest of the loan they collects on an agreed date. According to Anetoh, Nwadialor, Anetoh and Okeke(2021), credit risk is the delay of repayment on loan contract or the inability of a borrower to pay its debts, which can cause cash flow problems and affect a bank's liquidity position. Credit risk is associated with financial losses induced by the default of bank borrowers. Erhabor and Ofiafoh (2020) pointed out that credit risk occurs when a borrower cannot meet his/her financial obligations or repays the loan contracted.

One of the measures of credit risk is Non-performing loan. Non-performing loan is loss of funds due to loan defaults after 90 days of collection of the principal. Similarly, Adebayo and Oluwaremia (2017) noted that loan is nonperforming when payments of interest and principal are past due by 90 days or more. Okey-Nwala, Kenn-Ndubuisi and Wachukwu (2022) defined credit risk as the potential to lose an existing debt entirely or substantially in commercial banks. It is failure to principal, interest or both of loanscollected from commercial banks. Ndubuisi and Amedu (2018) noted that managing of credit risk involves credit analysis, credit rating, credit classification and credit reporting.

Empirical Studies

Adam and Yusuf (2020) conducted a study on an assessment of the level of adoption of financial technology by Nigerian Banks. Descriptive survey research design was adopted for the study.A set of structured questionnaire was administered on the population of 20 commercial banks in Nigeria categorised according to the level of authorization. Percentage was used for data analysis. The findings of the study revealed among others that the level of Fintech adoption in Nigerian Banks was average.

Suharti and Ardiansyah (2020) investigated Fintech implementation on the financial performance of Rural Credit Banks. The population of the study comprised all the 58 rural credit banks in Banten province that were registered with the OJK. The secondary data used for the study was published financial reports. The result of the study revealed that the implementation of Fintech has positive impact on the financial performance of Rural Credit Banks

Muhammad, Abdulmalik and Halima (2022) examined the impact of financial technology (Fintech) on financial service delivery of deposit money banks in Nigeria. Ex-post facto research design was adopted for the study. The study utilized annual reports and accounts of listed deposit money banks in the Nigerian Stock Exchange (NSE).Mean and simple regression was used for data analysis. The result showed that mobile banking, internet banking and POS banking have significant impact on the financial service of listed deposit money banks in Nigeria.

RESEARCH METHODOLOGY

Descriptive survey research design was adopted for the study. The study was carried out in Access Bank in Anambra State. Anambra State is one of the thirty-six states in Nigeria. The population of this study constituted of all the staff of Access Bank Plc, Anambra State. The sample size for the study was 175 staff drawn using Krejcie and Morgan's sample size determination table.

The instruments utilized for data collection were two sets of questionnaires titled 'Enterprise Risk Management Questionnaire (ERMQ) and "Organizational Performance Questionnaire (OPQ). The instruments were validated by three experts. Test-re-test method was used for reliability test of the instruments. The copies of the questionnaires were administered to the staff of Access Bank Plc in Enugu State which outside the area of the study but share same characteristics. The data obtained were subjected to test of internal consistency using Cronbach which yielded overall values of 0.81.

A total of 175 copies of the questionnaire were distributed and 167 were duly filled and retrieved indicating 95 return rates. This analysis thus based on the 167 returned copies of the questionnaires. Mean and standard deviation were used to answer the research questions. In taking decisions on the research questions, mean item rating of 2.50 and above was taken as agreement and any mean rating that falls below 2.50 was taken to indicate disagreement.

RESULTS

Demographic Profile of the Respondents

Table 1: Distribution of Respondents based on Gender

Gender	Frequency	Percentage (%)
Male	98	59
Female	69	41
Total	167	100

Source: Researcher's Field Survey and Computation, 2022

Table 1 shows that the majority 59% of the respondents are males, while 41% of the respondents are females.

Table 2: Distribution of Respondents based on Age

Age	Frequency	Percentage (%)
20-40	125	75
41 and above	42	25
Total	167	100

Source: Researcher's Field Survey and Computation, 2022

Table 2 indicated that the majority 75% of the respondents was between 20-40 years and 25% of the respondents were between 41 years and above.

Table 3: Distribution of Respondents based on Cadre

Cadre	Frequency	Percentage (%)
Management Staff	**79**	**47**
Senior Staff	**66**	**40**
Junior Staff	**22**	**13**
Total	**167**	**100**

Source: Researcher's Field Survey and Computation, 2022

The result presented on Table 3 reveals that majority 47% (79) of the respondents are management staff, 40% (66) of the respondents were senior staff, while 13% (22) of the respondents are junior staff.

Results

Research Question One: What are the roles of Fintech in Managing Credit Risk in Access Bank?

Table 4: Mean and Standard Deviation Scores on the roles of Fintech in Managing Credit Risk in Access Bank

S/N	Item statements	(N =167)		
		Mean	SD	Decision
1	Offer crowdlending service by connecting capital-seeking companies with investors who are willing to lend directly to businesses	2.98	1.07	Agree
2	Facilitate crowdfunding to improve person-to person lending	2.76	0.98	Agree
3	Tracking of loan	2.46	1.04	Disagree
4	Provide alternative sources of finance to potential loan defaulters	2.91	1.10	Agree
5	Provide online loan repayment advice	2.66	1.09	Agree
6	Analyze the profiles of credits to ensure that they are credit trustworthy	2.45	1.03	Disagree
7	Provide quicker loans through simplified lending process	2.83	1.12	Agree
8	Provide digital platform that enhances savings forloan repayment	2.63	1.05	Agree
9	Provide financial tips on credit management	2.71	1.16	Agree
10	Offer mobile wallets services that enable individuals make payment	2.56	1.00	Agree
	Mean of Means	**2.70**	**1.06**	**Agree**

From Table 4, items 1, 2, 4, 5, 7, 8, 9 and 10 have mean scores above the cut off mean of 2.50 which indicated their agreement with the items as the roles of Fintech in Managing Credit Risk in Access Bank. On the other hand, the mean scores of the respondents for items 3 and 6 are below the cut off mean of 2.50which indicated their disagreement with the items as the the roles of Fintech in Managing Credit Risk. The average standard deviation score of 1.06 shows that their responses are close and this indicates homogeneity in their responses. The mean of means of 2.70 which is above the cut off mean of 2.50 indicates that Fintech plays positive roles in Managing Credit Risk in Access Bank.

Research Question Two: What are the constraints to the adoption of Fintech in Managing Credit Risk in Access Bank?

Table 5: Mean and Standard Deviation Scores on the Constraints to the Adoption of Fintech in Managing Credit Risk in Access Bank

S/N	Item statements	(N =167)		
		Mean	SD	Decision
11	Insufficient awareness of Fintech products	3.21	1.08	Agree
12	Poor funding	2.86	1.11	Agree
13	Irregular power supply			
14	Low level of trust in Fintech services	2.63	1.07	Agree
15	Shortage of digital infrastructure			
16	Low level of technical-know-how	2.60	1.04	Agree
17	Absence of standard policy to guide their operations	2.53	1.14	Agree
18	High cost of Fintech software development	2.77	1.01	Agree
	Mean of Means	**2.77**	**1.08**	**Agree**

Result from Table 5, the mean scores of respondents for all the items which above cut off mean score of 2.50 indicated agreement with the items as the constraints to the adoption of Fintech in managing credit risk in Access Bank. The average standard deviation score of 1.08 shows that their responses are close and this indicates homogeneity in their responses. The mean of means of 2.77 which is above the cut off mean of 2.50 showed that there are many constraints to adoption of Fintech in Managing Credit Risk in Access Bank.

DISCUSSION

The result of the study indicated that that Fintech plays positive roles in Managing Credit Risk in Access Bank. This is in line with the finding of Guo, Wei and Fang (2022) which revealed the adoption of Fintech has positive impact on reduction of credit risks. The roles of Fintech in managing credit risk in Access Bank include to: offer crowd lending service by connecting capital-seeking companies with investors who are willing to lend directly to businesses, facilitate crowd funding to improve person-to person lending, provide alternative sources of finance to potential loan defaulters, provide online loan repayment advice, provide quicker loans through simplified lending process, provide digital platform that enhances savings for loan repayment, provide financial tips on credit management and offer mobile wallets services that enable individuals make payment.

The result of the study indicated that there are many constraints to adoption of Fintech in Managing Credit Risk in Access Bank. These constraints are insufficient awareness of Fntech products, poor funding, irregular power supply, low level of trust in Fintech services, shortage of digital infrastructure, low level of technical-know-how, absence of standard policy to guide their operations and high cost of Fintech software

development. This is in agreement with the finding of Adam and Yusuf (2020) which revealed that Challenges/constraints of adoption of Fintech by commercial banks include poor understanding/ acceptance and distrust of Fintech innovation, difficulty in finding reliable cooperation partners for Fintech innovation, lack of adequate information on Fintech, regulatory challenges, Lack of qualified personnel and lack of adequate finance for Fintech innovation in the bank

CONCLUSION

Based on the findings, it is concluded that Fintech plays crucial roles in managing credit risks in Access Bank, Plc, Nigeria. Fintech is confronted with numerous challenges that adversely affect their roles in managing credit risks. The challenges were: inadequate funding, irregular power supply and absence of technical experts among others. The challenges create unfavourable atmosphere that undermine the smooth operations of Fintech in Nigeria. The roles of Fintech could be improved through tackling the challenges by creating awareness, improving funding and developing standard legal framework among others.

RECOMMENDATIONS

Based on the findings, the following recommendations were made:

1. Fintech Companies should use mass media for awareness-raising on their various services and potential benefits to individuals and firms.
2. Cenrtal Bank of Nigeria should develop standard regulatory requirement for operation of Fintech in Nigeria.
3. Fintech Companies should organize periodic training for their emeployees to up-date their knowledge, skills and technical experts in managing credit risks.

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