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DEPOSIT MONEY BANKS LOAN RECOVERY STRATEGIES AND CUSTOMER-BANK RELATIONSHIP

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ABSTRACT

This research work investigated the influence of deposit money banks loan recovery strategies on customer relationship. The objectives of the study were to examine the effect of careful consideration of loan application, regular visits to the customer's shop and house, use of litigation, the use of collateral and the overall loan recovery strategies adopted by banks on customer relationship. The research work employed the descriptive design and questionnaires were the research instrument. The target population were employees of six selected banks, out of which 394 respondents were chosen as the sample size using Yamane's formula. The data gathered were analysed using statistical method while the relationship between the variable were done using regression models. Based on the findings, the study showed that the loan recoveries strategies have an effect on customer relationship. The study suggested that banks carefully select the loan recoveries strategies depending on the situation or the type of customer and also for banks to develop closer relationships with their customers. Further studies should be carried on other banks not considered in the study to get a broader view.

Keywords: Deposit money banks, Loan recovery strategies, customer relationship.

INTRODUCTION

Banks are the most important savings, mobilization and financial resource allocation institutions (Olokoyo, 2011). They have grown to be vital parts of most economies as they aid growth and development across the various sectors and improve the human capacities as well. They play the role of mobilising funds to avail these funds in form of loans which have become the major contributing asset in the bank in terms of profitability. Granting of loans is an important service rendered by banks to individuals, small and medium businesses, large corporations, blue chip companies and governments for various purposes like covering for cash flow shortages, acquiring capital equipment, market expansion, making the most of suppliers' discount offerings etc in different sectors of the economy.

In Nigeria, the banking industry have witnessed a rapid growth and expansion as a result of high and immense competition from various institutions like finance houses, discount houses, insurance, private equity firm providing almost similar products and all aiming for the available funds from the same pool of customer base. As a result of this competition, banks are faced with decreasing market shares and reduced profit margins which encouraged bank's management to take up riskier ventures in order to stand ahead in the industry. These ventures have also included and not limited to unsecured credit facilities due to high demand of their customers and the need to retain their existing customer base. However, while some of these unsecured credit facilities have turned out to be good contributors to the bank's earnings, some have been bad leading to huge losses and some untimely ends to banks.

Banks are learning that these traditions of bombarding debtors with letters, follow up calls, locking of shops have proved ineffective and unproductive as their loan losses have reached new heights. It is obvious that a new approach must be in place which is flexible enough to meet with the recovery aim of the bank as well as its outreach. This new approach must be forward looking and aimed at both loan recovery and customer retention. It involves having a complete view of the customer's profile across his business, associations to the personal life of such customer. The essence of this approach is that good customer relationships will lead to early anticipation of problems and identification of important patterns to manage the loan default situation. Banks will understand customers with good intentions to repay the loan and the customers with hopeless cases, when to intervene appropriately at the early stages of any problem witnessed as well as knowing what works for the various individual customers. This could be a defining edge for banks who will not only improve their loan repayment but also in terms of reduced cost and the efficient use of bank's resources. Hence, in this study, the researcher seeks to examine the relationship that exist between the loan recovery strategies adopted by many banks and customer relationship?

Literature Review

There has been a lot of research work similar to this study. Ngugi (2001) analyzed the interest rate in Kenya when commercial banks increase the lending rates, there is a probability of increased non-performing assets. The researcher prescribed that commercial banks should apply thorough strategies on loan advances with the aim of guaranteeing that loans are disbursed to just those with the ability to reimburse and relieve moral peril, for example, insider lending and information asymmetry.

In an examination directed in Turkey by Ozdemir (2004), the researcher declared that at the beginning stage of a sound lending there should be a policy to obtain information on the authentic credit need of the potential borrower. Afterwards, the lending institution ought to guarantee that the loan recovery systems are always updated and viable.

Another study conducted in Italy by Sergio, (2006) the researcher revealed that adopting a forceful/aggressive lending policy may increase the riskiness of loans and thus raise the level of NPAs and vice versa.

Ighoroje and Oshiobugie (2015) evaluated banker-customer relationship in Nigeria Deposit Money Banks using First Bank Nigeria Plc. It was discovered that the emergence of electronic banking has significant and positive impact on the banker-customer relationship and in ensuring its survival; management has a crucial role to play.

Methodology

The study is a descriptive research design which adopts the survey approach as the platform upon which the research is anchored. The choice of the research design is warranted by the fact that the study, by the nature of its problem, can best be tackled by collecting data from the field.

The structured questionnaires which contained closed ended questions were used as the primary research instrument to make it easy for respondents to understand the objective of the study and also for easier analysis. The population of this study were mainly the employees of the six selected banks (Zenith, Access, UBA, Fidelity, Union and Sterling Bank). The choice

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of these banks was as a result of the comparison of the 21 commercial banks in Nigeria based on their lending activities and the impairment incurred in the last two years.

Table 3.1: Interest income and impairment of banks in Nigeria

2016				2015				
BANK	**Interest Income**	**Impairment**	**%**	**BANK**	**Interest Income**	**Impairment**	**%**	**TIER**
ZENITH	343,555.00	26,295.00	7.65	**UBA**	185,919.00	3,491.00	1.88	1
ACCESS	210,794.00	17,641.00	8.37	**ZENITH**	303,545.00	15,673.00	5.16	1
UBA	177,313.00	25,521.00	14.39	GTBANK	206,478.00	11,769.00	5.70	1
GTBANK	226,579.00	63,543.00	28.04	**ACCESS**	184,047.00	13,288.00	7.22	1
FBN	885.00	-	-	FBN	614.00	-	-	1
STANBIC	17.00	-	-	STANBIC	14.00	-	-	2
FIDELITY	123,153.00	8,671.00	7.04	WEMA	37,128.00	-	-	2
STERLING	98,902.00	11,714.00	11.84	**FIDELITY**	121,158.00	5,764.00	4.76	2
UNION	95,363.00	16,486.00	17.29	**UNION**	88,879.00	9,881.00	11.12	2
FCMB	475.00	106.00	22.32	SKYE	107,081.00	19,706.00	18.40	2
SKYE(2015)	125,559.00	28,706.00	22.86	**STERLING**	39,542.00	8,151.00	20.61	2
WEMA	44,446.00	16,268.00	36.60	ECOBANK	345,754.00	105,220.00	30.43	2
DIAMOND	130,879.00	57,015.00	43.56	DIAMOND	142,702.00	53,247.00	37.31	2
ETI	429,325.00	221,700.00	51.64	UNITY	62,711.00	27,122.00	43.25	2
UNITY	69,377.00	35,949.00	51.82	FCMB	536.00	690.00	128.73	2

Source: Banks' financial statements posted in Nigeria Stock Exchange

The total number of employees of the selected banks was obtained from the financial statements and this is shown below.

Table 3.2: Employees of selected banks

	UBA	FIDELITY	ACCESS	STERLING	ZENITH	UNION	TOTAL
Number of employees	9,068	3,358	3,189	2,253	6,130	2,703	26,701

Source: Banks' financial statements posted in Nigeria Stock Exchange

In order to ascertain the sample size of the employees to be used as the respondents to the study, the research used Yamane's formula (1967).

$$n = \frac{N}{1 + N(e)^2}$$

Where n represents the sample size

N represents the total number of employees for the selected banks (26,701)

This is taken at a 95% confidence level (revealing data to be accurate) and e (precision level) is at 5% or 0.05.

$$n = \frac{26,701}{1 + 26,701(0.05)^2}$$

n= 394 employees

Approximately 400 employees

The data collected through questionnaires were tabulated and analyzed using such statistical methods. Computer analysis of data was done with SPSS and the hypotheses were tested using regression analysis.
The model for hypothesis 1 -4 is therefore shown below;

$$Y = f(X)$$

Where Y = Dependent variable = Customer relationship
X = Independent variable = Loan recovery strategies

This means that customer relationship is a function of each loan recovery strategies.
The dependent variable, customer relationship is further explained by two sub-variables as shown below;

$$Y = (y_1, y_2)$$

Where

y_1 = Customer satisfaction
y_2 = Customer retention

The independent variable, loan recovery strategies is represented by several sub-variables as shown below;

$$X = (x_1, x_2, x_3, x_4)$$

Where

x_1 = careful consideration of loan application
x_2 = regular visits to the customer's shop
x_3 = use of litigation
x_4 = use of collateral

Therefore, the model for hypothesis 7 in the study is;

$$Y_t = B_0 + B_1x_{1t} + B_2x_{2t} + B_3x_{3t} + B_4x_{4t} + a$$

Where

Y = customer relationship
B_0 = the intercept variable
B_1x_1 = control variable (careful consideration of loan application)
B_2x_2 = control variable (regular visits to the customer's shop)
B_3x_3 = control variable (use of litigation)
B_4x_4 = control variable (use of collateral)
a = error term
t = time

Data Presentation, Analysis And Interpretation

The researcher administered 400 questionnaires to the employees of the selected banks, out of which 389 representing (97.3%) were recovered and validly filled for the purpose of data analysis. The summary of the results are presented in table 4.2 below.

Hypothesis Testing

Test of hypothesis 1

Hypothesis 1 (null): Careful consideration of loan application has no significant effect on customer relationship.

Table 1a: Descriptive statistics for careful consideration of loan application and customer relationship

	N	Mean	Std. Deviation
The bank considers the customer's loan application to ensure repayment before giving out loan	389	4.38	.492
The careful consideration of loan application process helps to retain customers for the bank	389	4.26	.593
The careful consideration of loan application breeds loyalty and satisfaction with the customer	389	4.28	.517

Table 1 shows the results; from the findings, the respondents agreed that the bank considers the customer's loan application to ensure repayment before giving out loan and this was supported by a mean of 4.38 and standard deviation of 0.492. They also believe that the careful consideration of loan application process helps to retain customers for the bank with a mean value of 4.26 and a standard deviation of 0.593.

Finally, the respondents supported the fact that the careful consideration of loan breeds loyalty and satisfaction with the customer with a mean value of 4.28 and standard deviation of 0.517.

Test of hypothesis 2

Hypothesis 2 (null)**:** There is no significant relationship between regular visits to the customer's shop and house and customer relationship.

Table 2: Descriptive statistics for regular visits to the customer's shop and house and customer relationship

	N	Mean	Std. Deviation
The bank considers the customer's loan application to ensure repayment before giving out loan	389	4.38	.492
The careful consideration of loan application process helps to retain customers for the bank	389	4.26	.593
The careful consideration of loan application breeds loyalty and satisfaction with the customer	389	4.28	.517

Table 2 shows the results; from the findings, it was observed that the respondents agreed that the bank encourages regular visits to the customer's shop and house before giving out loan with a mean score of 4.30 and standard deviation of 0.703. It was also agreed that the regular visits to the customer's shop and house breeds loyalty and satisfaction with the customer with a mean value of 4.24 and standard deviation of 0.753. Lastly, it was discovered that the respondents agreed that the regular visits to the customer's shop retains the customer for the bank by a mean score of 4.29 and standard deviation of 0.605.

Test of hypothesis 3

Hypothesis 3 (null): The use of litigation have no significant impact on customer relationship.

Table 3: Descriptive statistics for careful consideration of loan application and customer relationship

	N	Mean	Std. Deviation
The bank employs the use of litigation during loan recovery	389	4.19	.526
The use of litigation can be adapted to breed loyalty and satisfaction for the customer	389	4.31	.545
The use of litigation can be used to retain customers	389	4.32	.636

From the findings, the respondents strongly agreed that the bank employs the use of litigation during loan recovery supported by a mean score of 4.19 and standard deviation of 0.526. The respondents also strongly agreed that the use of litigation can be adapted to breed loyalty and satisfaction for the customer with a mean score of 4.31 and standard deviation of 0.545. Lastly the respondents agreed that the use of litigation can be used to retain customer which was evidenced by a mean score of 4.32 and standard deviation of 0.636.

Test of hypothesis 4

Hypothesis 4 (null): There is no significant relationship between the use of collateral and customer relationship.

Table 4: Descriptive statistics for the use of collateral and customer relationship

	N	Mean	Std. Deviation
The bank adopts the use of collateral to ensure repayment before giving out loan	389	4.23	.681
The type of collateral requested breeds loyalty and satisfaction with the customer	389	4.20	.734
The use of collateral helps to retain customers for the bank	389	4.17	.724

From the findings, it was observed that the respondents agreed that the bank adopts the use of collateral to ensure repayment before giving out loan with a mean score of 4.23 and standard deviation of 0.681. It was also agreed that the the type of collateral requested breeds loyalty and satisfaction with the customer with a mean score of 4.20 and standard deviation of 0.734. Respondents agreed that the use of collateral helps to retain customers for the bank with a mean score of 4.17 and standard deviation of 0.724.

Test of hypothesis 5

Hypothesis 5 (null): There is no significant relationship between the overall loan recovery strategies adopted by the bank on customer relationship.

Table 5a: Test of hypothesis 5 (Model Summary)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.856[a]	.733	.730	.25420

a. Predictors: (Constant), The use of collateral ensures the bank recovers its loan effectively, The use of regular visit ensures the bank recovers its loan effectively, Careful consideration of loan application ensures the bank recovers its loan effectively, The use of litigation ensures the bank recovers its loan effectively

Table 5b: Test of hypothesis 5 (ANOVA)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	68.138	4	17.034	263.615	.000[b]
	Residual	24.814	384	.065		
	Total	92.951	388			

a. Dependent variable: customer relationship
b. Predictors: (Constant), The use of collateral ensures the bank recovers its loan effectively, The use of regular visit ensures the bank recovers its loan effectively, Careful consideration of loan application ensures the bank recovers its loan effectively, The use of litigation ensures the bank recovers its loan effectively

From the results in table 5a and 5b, R=0.856, R square = 0.733, F = 263.615. Multiple correlation R coefficients measure the degree of linear relationship of customer relationship with the independent variables, the overall loan recovery strategies of the bank ensure the bank recovers its loan effectively. The R square is the coefficient of determination which shows the total variation of the dependent variable (customer relationship) that is explained by the independent variable (the overall loan recovery strategies of the bank ensures the bank recovers its loan effectively). It can be seen that 0.733 (73.3%) of customer relationship can be explained by the bank adopts the overall loan recovery strategies of the bank ensures the bank recovers its loan effectively. It was also observed that F=263.615, p=0.000 tested using one-way ANOVA at 95% confidence level. Since the value of F is significant at 0.000 and less than 0.05, it means the overall loan recovery strategies of the bank ensures the bank recovers its loan effectively contribute significantly to customer relationship.

Table 5c: Test of hypothesis 5 (Coefficients)

Model		Standardized Coefficients Beta	t	Sig.
1	(Constant)		4.949	.000
	Careful consideration of loan application ensures the bank recovers its loan effectively	-.014	-.261	.794
	The use of regular visit ensures the bank recovers its loan effectively	.527	8.835	.000
	The use of litigation ensures the bank recovers its loan effectively	.251	4.005	.000
	The use of collateral ensures the bank recovers its loan effectively	.158	4.287	.000

a. Dependent Variable: customer relationship

From table 5c, it was also revealed that the use of collateral, the use of regular visits to the customer's shop and house and the use of litigation had t value of 7.573, 4.677, 3.014 and 3.747 respectively greater than 2(decision criteria). This means they are statistically significant to customer relationship. While the Careful consideration of loan application had t value of -0.261 to indicate that it is not statistically significant to customer relationship.

We hereby reject hypothesis 5(null) and accept the alternate hypothesis 5.

CONCLUSION

The findings revealed that the overall loan recovery strategies (careful consideration of loan application, regular visits to customer's shop and house, use of litigation and use of collateral) used by banks have a significant effect on customer relationship. This denotes that the choice of recovery strategies employed can be adapted to retain the borrowing customers. The following recommendations are hereby made by the study; banks should put policies in place that will stipulate the strategy of loan recovery to be adopted in different situation as this have significant impact on loan payment and load default among customers, banks should also come up with reward and punishment system on their staff concerned with customer relationship and it is also recommended to the banks to leverage the good relationship between them and their customers to facilitate ease of loan recovery.

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