AN ASSESSEMENT OF DEBT RECOVERY IN BANKS. A CASE STUDY OF ZANACO BANK PLC.

BY

NYAWA MAWELE

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DECLARATION

I, Nyawa Mawele, declare that, this research report is my original work and that it has not been presented to any other institute/university for a similar or any degree award.

Signature…………………….

Date…………………………
DEDICATION

This research is dedicated to God Almighty above for blessing me and giving me the strength to finish this program. My mother, Mrs. Esther Mawele thank you for always supporting me and giving me courage. My brother Gershom Mawele for always giving me a push and showing me that the sky is not the limit, I owe this journey to you. My Sister Catherine Mawele for your undying love and support for me during this journey. The rest of my family, Zephaniah Mawele and Solomon Phiri. Thank you all for the part you have each played to help get me this far.
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# TABLE OF CONTENTS

## Table of Contents

**CHAPTER ONE** .................................................................................................................. 1

Introduction................................................................................................................................. 1

1.1 Background to the study: ................................................................................................. 5

1.2 Statement of the Research Problem: ............................................................................... 6

1.3 Objectives of study: .......................................................................................................... 7

1.3.2 Specific objectives: ........................................................................................................ 7

1.4 Research questions: .......................................................................................................... 7

1.5 Scope of study: .................................................................................................................. 8

1.6 Significance of study: ........................................................................................................ 8

1.7 The organization of the report ......................................................................................... 8

**CHAPTER TWO**: ................................................................................................................. 9

2.0 Literature review ............................................................................................................... 9

2.1 Theoretical Framework: .................................................................................................. 9

2.2 Empirical review: ............................................................................................................ 11

Knowledge Gap: ..................................................................................................................... 21

2.4 Conceptual Framework: .................................................................................................. 22

**CHAPTER THREE** .............................................................................................................. 24

3.0 Research methodology and design .................................................................................. 24

3.1 Introduction ..................................................................................................................... 24

3.2 Research design .............................................................................................................. 24
LIST OF TABLES

Table 4.1 response rate ........................................................................................................................................27
Table 4.2 gender of respondents .........................................................................................................................28
Table 4.3 age of respondents ...............................................................................................................................29
Table 4.4 level of education..................................................................................................................................30
Table 4.5 obstacles of debt recovery ..................................................................................................................31
Table 4.6 recovery procedure to retrieve credit ..................................................................................................32
Table 4.7 action taken when a debtor defaults ....................................................................................................33
Table 4.8 effectiveness of debt recovery process .................................................................................................34
Table 4.9 effect of loan default on the bank .........................................................................................................35
Table 4.10 causes of loan default ......................................................................................................................36
Table 4.11 biggest contribution to bank failure ..................................................................................................37
Table 4.12 measures that help reduce loan default ..............................................................................................38
Table 4.13 loan officer measures to reduce default .............................................................................................39
Table 4.14 loan default reduction as a bank priority ............................................................................................40
LIST FIGURES

Figure 4.1 response rate .................................................................................................................................. 27
Figure 4.2 gender of respondents ............................................................................................................... 28
Figure 4.3 age of respondents ..................................................................................................................... 29
Figure 4 level of education .......................................................................................................................... 30
Figure 4.5 obstacles of debt recovery .......................................................................................................... 31
Figure 4.6 recovery procedure to retrieve credit .......................................................................................... 32
Figure 4.7 action taken when a debtor defaults ............................................................................................ 33
Figure 4.8 effectiveness of the debt recovery process .................................................................................. 34
Figure 4.9 effect of loan default on the bank .............................................................................................. 35
Figure 4.10 causes of loan default .............................................................................................................. 36
Figure 4.11 biggest contribution to bank failure .......................................................................................... 37
Figure 4.12 measures that help reduce default ............................................................................................. 38
Figure 4.13 loan officer measures to reduce default .................................................................................... 39
Figure 4.14 loan default reduction as a bank priority .................................................................................. 40
ABSTRACT

The objective of the study was to assess debt recovery in banks. The research was centered on finding out the debt recovery problems that banks face when it comes to debt recovery, the debt recovery procedures that banks use to retrieve their money, to find out the causes of loan default in banks, as well as the effects that loan recovery has on the bank and finally offer possible solutions to the problems of debt recovery.

The study also looks at literature review from previous studies, which include theoretical as well as empirical reviews and conceptual framework.

The study was conducted at Zanaco Bank Plc, Head Quarters. A convenience sampling technique was used and it was aided by use of a questionnaire. Data collection was done through primary and secondary sources, it was analyzed to assist with the findings and recommendations. In the study it was found that despite the debt recovery obstacles that banks face, possible solutions would greatly assist in the management of debts.

Based on the major findings of the research, the recommendations made included the bank carefully selecting its borrowers, strict monitoring of loans, reminders to borrowers, use of collection agencies and payment plan for borrowers who have difficulties repaying their debts.
CHAPTER ONE

Introduction

Banks face a wide range of difficulties when it comes to debt recovery from its customers, this research aims at finding out the problems that banks face when it comes to debt from its customers, this to (Ghandi, 2014), when a bank sets out to recover money it is owed the debt recovery process is said to begin. When a customer fails to make repayments on a loan, the bank takes action. Debt recovery may include:

a) Referring the matter to a specialist debt recovery team with the bank
b) An external debt collection agency employed on behalf of the bank.
c) Sell of property over which the bank holds security
d) Seeking a judgement from the courts to enforce the debts

Timely recovery of a loan between two parties might not be of critical importance to anyone, except to those two. A loan isn't just a contract between the bank and therefore the borrower. Entwined with this contract is that the general welfare of the general public, out of whose deposits the loan has been granted. However, timely recovery of bank loans is important for various reasons and from various perspectives (Ghandi, 2014). From the borrower's angle, the longer the delay in settlement, the outstanding liabilities of the borrower increase; the likely penalties can also increase with time. From the bank's perspective, the longer the delay in recovery, they lose the chance to earn income in alternative investments, the safety and collateral may lose value and hence may incur financial loss also. More importantly, the delays in recovery proceeds can result in credit crunch within the bank and consequent failure of the bank. From the society's angle, the productive assets are delayed, not producing value, not creating employment and income. From the government's perspective, if such loan losses cascade and switch into systemic risk and endanger the financial and economic stability, the tax payers' money will need to be spent for rescuing these banks, otherwise the depositors, meaning the standard, general public will need to bear losses. Thus, from very many perspectives, timely recovery of loans is critical for the borrower, the bank, the society and therefore the government (Ghandi, 2014).
Bank lending principles:

Lending of cash to different sorts of borrowers is one among the foremost important functions of banks. A serious portion of its fund is employed for this purpose and this is often also the main sources of a bank’s income (study, 2020). However, lending isn't without risk. The borrowers of a bank range from individuals to partnership, companies, institutions, societies etc. The character of their activities, the situation of business, financial stability, earning and repaying capacity, purpose of advance, securities all differ and their degree of risks are also different. Therefore, a banker must take necessary precaution during this process. A number of the vital considerations to be kept in mind by a banker during this respect are discussed below:

Safety: Safety means the borrower should be ready to repay the loan and interest in time at regular intervals without default. Banks are trustee of public money. Bank deposits are always payable on demand. Bank have therefore got to maintain trust of depositor forever. Intrinsically the primary and foremost principle of lending is to make sure safety of funds lent.

Liquidity: The term liquidity refers to the extent of availability of funds with the banker for providing credit to borrowers. It's to be seen that cash lent isn't getting to be locked up for an extended time. The cash should return to the bank as per the repayment schedule. This schedule that's prepared by the banker has got to adhere to the need that at any point of your time the banker should possess liquidity to satisfy the withdrawals of the depositors. It's to be kept in mind that various deposits have various maturities and a few of them might even be payable on demand. A bank’s inability to satisfy the demand of its depositors can cause a run on the bank which may be a threat to its basic survival (study, 2020). Hence the banker has got to always monitor the cash flows and perform the exercise of ensuring liquidity with the borrower as this successively means liquidity with the banker.

Purpose: The aim should be productive in order that the cash not only remains safe but also provides a particular source of repayment. Loans could also be required for productive purposes, trading purposes, agriculture, transport, self-employment etc. If a loan is required for a non-productive or speculative purpose, the banker should be considerably cautious in entertaining such proposals. It's very difficult to make sure that the loan has been utilized for the aim that it had been sanctioned. Bankers should take follow-up measures to make sure end use of funds is exactly for an equivalent purpose that it's borrowed.
**Profitability:** Banks aren't charitable institutions. They are profit-earning institutions, the main objective of lending is to earn profits. Banks receive interest on loans and advances lent, and that they pay interest to their depositors. This difference between the receipts and payments are going to be the bank’s gross profit margin (study, 2020) Banks further incur various expenses as any organization does. After accounting for all such expenses and provisions, banks need to earn reasonable amount as net income (NIM) in order that dividends are often paid to its shareholders. The trust and confidence level of the customer and investor are going to be high with a bank that features a good diary of profits and dividend rates. Hence, it's important that regardless of the business the bank engages itself with, the business be profitable enough not just to hide its costs but to make sure generation of surplus funds or margin. it's prudent for the banker to think about overall profitability of the whole business that's undertaken instead of the profitability against each component of business or service offered.

**Security:** Another principle of sound lending is that of the security of lending. Security offered against loans or a loan could also be various. It might be a plot of land, building, flat, insurance policies; term deposits etc. There may even be cases where there's no security in the least. The banker must realize that's it's only a cushion to fall back upon just in case of need. The safety if accepted must be adequate and readily marketable, easy to handle and free from encumbrance. it's the duty of the banker to see the character of the safety and assess whether it's adequate for the loan granted.

**Diversification:** A prudent banker always tries to pick the borrower very carefully and takes tangible assets as security to safeguard his interests. If the bank lends large amounts to one industry or borrower, then the default by that customer can affect the banking system as an entire and can affect the essential survival of the industry. To safeguard his interest against all such risks, the banker follows the principle of diversification of risks supported the famous maxim ‘never keep all the eggs in one basket’. By lending funds to different sectors, a bank can save itself from the slump in some sectors by way of prosperity within the others. Banks need to lend to an outsized number of industries and borrowers in order that the danger gets diversified (study, 2020)

**National Interest:** Even when an advance satisfies all the aforesaid principles, it's going to still not be suitable. The advance may run counter to national interest. Bank features a significant role within the economic development process of the country (study, 2020) They ought to confine mind
the national development plan/program while going for lending but maintaining safety, liquidity and profitability.

The five C’s of lending:

The system employed by lender to measure creditworthiness is known as the five C’s of credit. This system weighs five characteristics of the borrower and conditions of the loan, attempting to estimate the prospect of default and consequently, the danger of a loss for the lender. The five Cs of credit are capacity, capital, collateral, conditions and character. (Segal, 2020)

Capacity: Prospective lenders will want to understand exactly how you plan to repay a loan. They’ll consider the income of your business, your proposed schedule of repayment, and therefore the probability that you simply will, in fact, successfully repay the loan

(Konig, 2020) Your payment history on existing credit relationships, personal or commercial, is taken into account an indicator of your future payment performance. Prospective lenders also will want to understand more about your “backup” sources of repayment.

Capital: this is often the cash you've got personally invested in your business and subsequently stand to lose should your business fail. Prospective lenders wish to see that you’ve used a number of your own assets and brought on personal financial risk to determine your business before you ask them to offer you any of their money. They also want to understand what proportion of debt your company can handle.

Collateral: this is often security you'll provide the lender. You pledge an asset, like your home, to the lender with the agreement that the lender can take it if you can’t repay the loan (Konig, 2020) This is often different from a guarantee, where somebody else signs a document promising to repay your loan if you can’t. Some lenders may require both.

Conditions: What does intend or shall they use the loan for? Are you seeking money for capital, additional equipment, or inventory? Lenders want to understand this. They’ll also consider the economic climate in your industry and other industries all of which affect the success of your business.
**Character:** Prospective lenders will want to understand that you’re trustworthy enough to repay your loan. They will never be completely certain, of course, but they will and can review your educational background and your experience in your industry. The standard of your references is additionally critical. Lenders want to place their money with clients who have the simplest credentials and references (Konig, 2020).

### 1.1 Background to the study:

ZANACO was established by the Zambian government in 1969 with the objectives of meeting the credit needs of indigenous Zambians who had difficulty accessing loans from the foreign banks, and of extending banking into Areas that were rural areas. Since 1978 it's been a subsidiary of the Zambia Industrial and Mining Corporation (ZIMCO), the company for many of the parastatal corporations (Africa, 2017). ZANACO has become the most important bank in Zambia after experiencing rapid climb. In 1991 it had 26 per cent of total full-service bank deposits and 31 per cent of loans. It also has the biggest branch network among the commercial banks, with around 40 branches within the early 1990s. ZANACO’s main customers are the parastatals, to which it's extended short-term credit for capital. Despite the very fact that one among its objectives was to finance indigenous businesses it's been reluctant to become heavily exposed to the present sector, and especially to small farmers, although agricultural lending did increase within the 1990s after the credit guarantee scheme was introduced. ZANACO’s financial performance during the 1980s appears, from its published accounts, to have been reasonably good. It had been consistently profitable, with pre-tax operating profits during 1981-89 averaging quite 50 per cent of its capital and reserves and around 2.5 per cent of total assets. It also had an honest reputation among bankers. (Advisory, 2019) The foreign banks were willing to increase credit to ZANACO on the interbank market, which contrasts with the attitude taken by their counterparts towards government owned banks in some other African countries. However, ZANACO’s published accounts don't clarify the magnitude of provisions made for doubtful loans or (until 1992/93) the premise on which they were made: neither is it clear whether unpaid interest was accrued as income or not. Hence ZANACO’s actual profitability may are overstated. It's possible that ZANACO’s loan portfolio was more seriously impaired during the 1980s than was evident from its published accounts, but that the impact on its financial position - especially its profitability and liquidity - was limited for 2 reasons. First, loans and advances as a share of total assets were not particularly large (generally...
around 45 per cent). Second, although gross earnings would have been reduced to the extent that loans weren’t serviced, the impact of this on profitability would have been mitigated because both deposit and lending rates were low as a result of administrative controls: i.e. the controls served to carry down ZANACO’s interest costs. ZANACO’s financial position may additionally have benefited because its branch network was relatively small as compared thereto of the many of the opposite government owned banks in Africa: it had been therefore ready to avoid the operating losses, which it could have incurred had overheads been higher (advisory, 2019) ZANACO continued to record strong profits until the 1992/93 fiscal year, the foremost recent year that published accounts were available in mid-1995. However it’s clear that non-performing loans were becoming a more significant issue. By 1995 ZANACO’s position had deteriorated markedly. Sources within the banking industry indicated that an outsized share of its loan portfolio wasn’t being serviced, with adverse effects on its liquidity position. Lending to parastatals, a number of which were within the process of being privatized et al. liquidated, accounted for the majority of the non-performing loans. (advisory, 2019) Loans for agriculture and agricultural marketing were also behind. Although most of its loans had been disbursed as overdrafts, that they had effectively acquired the characteristics of future loans, as a result of the borrowers’ inability to satisfy servicing commitments. Whether ZANACO is insolvent as a result of its impaired loan portfolio is dependent upon what proportion of the collateral can eventually be recovered: many of the parastatals to whom it’s lent are unlikely to be viable within the future and can need to be liquidated and their assets sold if ZANACO is to be repaid (advisory, 2019).

1.2 Statement of the Research Problem:

According to (bank, 2014) The recovery process is defined as the set of well-coordinated, appropriate, and timely activities, aimed at the full recovery of loans from clients. The process is intended to convert the Bank’s receivables into liquid assets as quickly and efficiently as possible, while at the same time maintaining the goodwill of the client in case of future transactions. Loan recovery is an important service within the Bank that helps to both maintain clients and free up money for lending again. It is a strategic process that is key to generating good habits and a payment culture among clients. It can also be seen as a business activity whose primary objective is to generate returns for the institution, converting losses into income. Recovery of debt is very vital for the performance of a bank and the economy’s financial environment and wellbeing. When
it comes to debt recovery it is not always that banks recover their debt and It is for that reason that this research is being carried out to assess problems faced in banks concerning debt recovery from its customers.

1.3 Objectives of study:
Objectives of study are divided into general and specific objectives.

1.3 General objective:
The objective of study is to assess the problems faced by banks when it comes to debt recovery.

1.3.2 Specific objectives:

1. To understand the debt recovery procedures of banks
2. To explain the debt recovery problems in banks
3. To establish the effect loan default has on commercial banks
4. To find situations leading to bank loan default
5. To determine measures to help reduce defaults on loans

1.4 Research questions:
1. What are the debt recovery procedures of banks?
2. What are the problems facing debt recovery in banks?
3. What are the effects of loan default on commercial banks?
4. What are the reasons for loan default in banks?
5. What are the measures to help reduce default on loans?
1.5 Scope of study:
This study is limited to the debt recovery procedures of banks, the debt recovery problems banks face, the effects of loan default on banks, reasons for loan default in banks and measures to help reduce default on loans.

1.6 Significance of study:
The study will help lessen problems of debt recovery by offering possible solutions. The results that the study will be of great importance to bankers in the industry as well as Zanaco bank in particular. It will help Zanaco Bank to be mindful when paying out loans and to help them to determine better the people that they will grant loans to. It will help improve the revenue status of the bank in question and other banks as well and the function of the banking industry as a whole. It will also provide useful information to those who want to embark on future research on the topic as it will add to literature available and finally it will also play an important role in the partial fulfilment of a Bachelor’s Degree in Banking and Finance.

1.7 The organization of the report
The study is organized in five chapters. Chapter One is the introduction and the following fall under the introduction namely: background of the study, statement of the research problem, objectives of study, research questions, scope of the study and significance of the study. Chapter two looks at three study. Chapter framework, empirical review and conceptual framework. Chapter three looks at looks at the methods of study or methodology. Chapter four looks at data presentation and analysis and finally Chapter five and six looks at recommendations and conclusions of the study.
CHAPTER TWO:

2.0 Literature review

This chapter is coverage of information researched by other scholars who carried out their research in the same field of study. According to (Michael Coffa, 2020), a literature review is said to be a comprehensive summary of previous research on a subject. The literature review surveys scholarly other sources relevant to a specific area of research. The review should soothe and clarify this previous research. It should provide a theoretical base for research and assist the researcher determine the character of the research. The literature review acknowledges the work of previous researchers and in doing so, assures the reader that the work has been well conceived. It’s assumed that by mentioning a previous sector or field of study that, the author has read, evaluated and assimilated the said work. This particular literature review is divided into three areas namely: theoretical framework, empirical review and finally the conceptual framework.

2.1 Theoretical Framework:

The study is guided by two theories in banking that fall under liquidity management namely, the real doctrine or commercial theory and the anticipated income theory.

Liquidity management:

Banks are often assessed on their liquidity or their capability to meet cash and collateral obligations without incurring substantial losses. Liquidity management describes the efforts of investors or a manager to lower liquidity exposure (Meghana, 2020). Liquidity risk is the risk that a company or bank may not be able to meet short term financial demands.

Theories of Liquidity Management:

The top four theories of liquidity management are as follows: The real bills doctrine or the commercial loan theory, the shift ability theory, the anticipated income theory and the liability management theory. For the purpose of this research the focus will be on two of the four liquidity theories being: the commercial loan theory and the anticipated income theory.
The real bills doctrine or commercial loan theory:

The real bills doctrine or commercial loan theory states that a commercial bank should advance only short term self-liquidating productive loans to business firms (Meghana, 2020). Self-liquidating loans are which are meant to finance the production and movement of goods through the successive stages of production, storage, transportation and distribution. When such goods are ultimately sold, the loans are said to liquidate themselves. Short term liquidity productive loans mature in the short run and are for productive purposes only, there is no risk of them becoming bad debts. They also earn income for the banks.

The advantage of this theory is that there is no risk of the loan becoming a bad debt and also loans of this nature are high on productivity making it easy for banks to earn a high income (Point, 2020). The limitation however is that, if the loan is declined by the bank in order for the old loan to be repaid, it will mean that the borrower would have to minimize production which will affect activity of the business and it may result in the reduction in money supply thereby making it impossible for debtors to repay their loans in good time.

The anticipated income theory:

For the anticipated income theory, irrespective of the nature and character of a borrower’s business the bank plans for the liquidation of the loan from the anticipated income of the borrower. The bank puts limitations on the financial activities of the borrower while granting them this loan. At the time the loan is granted, the bank takes into consideration not only the security but the anticipated earnings or income of the borrower. Thus, a loan by the bank gets paid out of future income of the borrower in instalments (Meghana, 2020)

According to (Point, 2020), the advantage of the anticipated theory of income is that it meets all the three objectives of liquidity, safety and profitability. Liquidity is said to be settled to the bank when the debtor saves and repays the loan on a regular basis after a period of time. Safety is fulfilled as a principle when, the bank permits a relaying on good security and also the ability of the borrower to repay the when, the term loan is said to be highly profitable for the business community of which collects funds for medium terms. The limitation of this theory however is that, it does not adequately meet the emergency cash requirements.
2.2 Empirical review:

This part of the study reviews previous studies or the review of thesis mainly based on the following research questions: What are the debt recovery procedures of banks? What are the problems facing debt recovery in banks? What are the effects of loan default on commercial banks? What are the reasons for loan default in banks? And What are the measures to help reduce default on loans?

What are the debt recovery procedures of banks?

A study was conducted in Kenya by (Migwi, October 2013) on credit monitoring and recovery strategies adopted by commercial banks, the aim of the study was to determine the monitoring strategies adopted by commercial banks. The following are considered to be the debt recovery procedures of banks according to the research mentioned above.

1. Debt rescheduling: denotes a change within the existing terms of a loan. A financial organization should consider rescheduling a debt when it’s determined that the rescheduling is within the government's interests which recovery of all or a share of the debt is fairly assured (Maphartia, 2004). With installment payments, before rescheduling a debt, the agency should reassess the debtor's financial position and the flexibility to repay the debt if rescheduled. The agency should also determine if it should in the least require the debtor to use pre-authorized debit for making payment. In reference to any repayment arrangement, the terms and conditions of the rescheduling, including the acceleration clause, must be in writing and signed by the debtor. The bank shouldn't encourage informal workout arrangements with debtors. Each bank should establish uniform policies, procedures and criteria for rescheduling. Its policies and procedures should leave the popularity of gains and losses on rescheduled accounts in accordance with the provisions of credit management standards.

2. Repossession of security: This is aimed toward recovery of dues and not in any way to deprive the borrower of the property. The recovery process through repossession of security will involve the repossession, valuation of security and the attainment of security through appropriate means. These would be administered in a very just and transparent manner. Repossession are done only after issue of the notice as detailed above. The due process of law of law are going to be followed while taking repossession of the property. The bank will take all due care for ensuring the
protection and security of the property after takes custody, within the ordinary course of the business (Umoh, 2007). In efforts to recover a delinquent debt, a bank may use the services of personal collection agencies (Early, 2006). Private collection agencies charge fees, these fees are paid out of amounts collected. The creditor agency preserves the ultimate authority to resolve disputes, compromise debts, suspend or terminate collection action, and refer accounts to Credit Reference Bureaus.

3. Credit scoring systems: this could be employed by the banks as a credit recovery strategy. A credit score is a number that's strategy. A supported by a statistical analysis of a borrower’s credit report, and is employed to represent the creditworthiness of that person. A credit score is based on credit report information. Lenders, like banks use credit scores to gauge the potential risk posed by giving loans to consumers and to mitigate losses because of debt. Using credit scores, financial institutions determine who are the foremost qualified for a loan, at what rate of interest, and to what credit limits (Capon, 2002). While written language, telephonic reminders or visits by the bank’s representatives to the borrowers’ place or residence are going to be used as loan follow up measures, the bank won't initiate any legal or other recovery measures including repossession of the safety without giving due notice in writing. The Bank will follow all such procedures as needed under law for recovery/repossession of security. (Migwi, october 2013).

Major findings of the study: The study established that banks have various strategies of debt recovery, it as well established there are various challenges experienced by Kenya in reference to debt recovery. The study established that there are various ways through which risky debts are measured that include the amount or interval of payment by the customers themselves. This indicated that the banks continuously monitor loans borrowed by their customers to make sure that they pay. The banks evaluate the application by borrowers to make sure that only those that can service the credits qualify for the loans. The study concluded that the banks in Kenya make follow-ups to the customers’ premises as the simplest way of debt recovery. This ensures that the banks are in an exceedingly continuous touch with borrowers and make the servicing required by the bank. The banks debt recovery section, the management and risk department work as a team in handling loan recovery. the managers evaluate the customers’ eligibility, the credit department ensures that credit policies are adhered to and therefore the credit recovery ensures that defaulting customers are followed to recover bad debts. Timely follow-ups on bad debts and coordination
among the varied departments of the banks influence the success of debt recovery within the banks. This indicates that banks are keen in debt recovery so as to avoid losses.

Recommendations:

The researcher gave the subsequent recommendations supported the study.

1. The policy makers within the banking institutions should use credit score card as a tool of monitoring of loan and recovering of such loans. The credit score card which is a number of which is based on a statistical analysis of a borrower’s credit report, and is employed to represent the creditworthiness of that person.

2. The policy makers within the banking institutions should observe use of personal collection agencies during which the creditor agency retains the ultimate authority to resolve disputes, compromise debts, suspend or terminate collection action, and refer accounts into Credit Reference Bureaus so as to avoid long lawsuits.

3. The policy makers within the banking institutions should build good customer relations to make sure that their customers don't change names and notify them in times of adjusting business names to avoid the increase of bad debts that cause the loses made by the banking institutions as a results of high bad debts.

What are the problems facing debt recovery in banks?

An article done by (Chakraborty, 2015) with the aim of finding out the problems that banks face when it comes to debt recovery states the following as the problems of debt recovery:

Customer Bankruptcy: Banks need to halt their collection efforts, once a customer (person or business) declares itself bankrupt. Because bankruptcy may be a detailed and lengthy process, it can sometimes take years for a bank to receive money, if in the least it does. Several bad loans are suffered by banks because of this reason. (Chakraborty, 2015)

Delinquent debtors: Banks are finding it increasingly difficult to recover their money from defaulting borrowers as bad loans still pressurize their capital base and threaten their ability to grow during a competitive environment. Customers failing to pay due to genuine reasons are few,
whereas people who use tactics to delay or flout payment are many. Banks are breaking their backs over these customers, trying hard to access them and to get them tell the bank their reasons.

**Customers unexpectedly falling out of business:** Several debtors every year, take heavy loans as business investment then fall through and therefore the business collapses hard. This engenders the debtor helpless and unable to pay off any loans. (Chakraborty, 2015) This is often a cardinal obstacle that banks face.

**Undertaking several efforts for commercial collections:** When a customer fails to pay off his debts past the Date due, the bank has got to bask in a great deal of correspondence including sending overdue notices, debt collection letters, request letters, and follow up statements. Emails and calls are regularly sent. If this correspondence becomes overtly nagging, the bank risks losing out on its loyal customers. Thus, it becomes a serious obstacle.

**Hiring a collection agency at last minute:** Granting loans is the most relatively easy part, but recovery is way harder. Acting before the loan fully goes bad is the only key and this is only possible if loans are regularly monitored through multiple channels. Banks tend to rent commercial collection agencies, much after sinking within the sea of debtors, escalating collection efforts (Chakraborty, 2015).

**Findings/Recommendations:**

1. Banks should undertake rigid application processes when asked for loans, have credit checks and trade verifications put in place and use strict rules regarding account receivables.

2. The bank has got to adopt measures that appear less aggressive and softer hinted to urge its customers to open up and eventually beyond their debts.

3. Banks should try and anticipate debtor excuses and have simpler debt collection process in place.

4. The banks can choose to foreclose secured properties and freeze accounts to recover whatever little they will.
What are the effects of loan default on commercial banks?

(Abeyrane, 2017) conducted a study in London on the effects of default on commercial banks, a comparative study of law and practice in comparative and Malaysia. The objective of the study was not clearly stated. According to the research the following are the effects of loan default in banks:

Capital and interest receivables are amongst a bank’s primary asset. Of these, interest comprises a bank’s principal source of revenue and thus profit. (Development Report, Oxford University Press, New York, 2017). Accordingly, from a bank’s perspective it's essential that its borrowers keep their contractual commitments and pay interest and capital as scheduled. Defaults are inevitable, but once they occur a bank should take appropriate remedial action or, failing that, recover the outstanding interest and capital promptly. If the bank neglects to try and do so the recovery process is said to become lengthy, the impact on the bank could also be severe. The bank may find itself with very large outstanding loan portfolio, which in turn would affect the bank’s own capital ratios. In such circumstances, the bank may find itself having to supply above average deposit rates to draw in more capital. Inevitably these higher rates are going to be reflected within the bank’s lending rate. Higher lending rates may as a result adversely affect the typical quality of future lending, forcing the bank to lend to high risk borrowers (Development Report, Oxford University Press, New York, 2017). As a bank’s capital diminishes, the incentives, which its owners need to preserve solvency are reduced because with indebtedness, they would need to bear only a proportion of the losses incurred to creditors the matter grows out of hand and regulators begin to question a bank’s capital adequacy ratios it's going to also affect that bank’s ability to lend further or maybe threaten its very existence.

Major findings of the study: The research established that there are not any easy solutions to scale back the issues faced by lenders which the introduction of specific measures may improve the prevailing situation. The reforms introduced were mainly focused on the symptoms of debt default instead of its causes.

Recommendations: the subsequent were the recommendations by the researcher.

1. Central bank must take initiate in to appoint a committee to review the issues further, important maybe learnt.
2. Credit appraisal must be improved and therefore the use of collateral security minimized. If there has been a component of risk, and security were required, lenders should be willing to require varied range of securities.

3. Loan agreements ought to be carefully drafted and documented for security prepared preferably by lawyers.

**What are the reasons for loan default in banks?**

Research conducted by (Shodhganga, 2020), on the recovery management system in India looks at the following as the main cause of default of loans in banks:

**1. Improper selection of an entrepreneur:** Selection of the proper Entrepreneur is one among the main factors within the profitability of Banks. Two major criterions namely, the intention to repay and therefore the capacity to repay should be properly addressed in Credit Evaluation. The entrepreneurs who have the willingness, capabilities, qualities and requisite expertise for successfully putting in place and running an industrial unit, should be identified with proper prudence. this is often the simplest way of safeguarding the investment of a bank, thereby ensuring proper and timely repayment. Unbiased survey report of the location and capability of the Entrepreneur must be verified by the surveyor. In other words, the credit worthiness of the entrepreneur in addition because the project should undergo very careful scrutiny before the sanctioning of the loan. Strict measures and security should be taken before the sanctioning of the loan.

2. **Deficient analysis of project Viability:** one among the important reasons for poor recovery of loan is due to wrong selection of projects. Success of any project depends upon the viability of the project, and therefore the viability successively, depends upon the straightforward availability of material, transportation, railways, skilled labor, and communication facilities, markets etc. If any of the above isn't easily available to the entrepreneur it leads to a rise within the cost of the project and also in delay of production (Shodhganga, 2020) This inevitably causes default in repayment of loans. In usual practice, when an entrepreneur approach for a loan he presents his project in such the way that nobody can easily comprehend the non-availability of the first prerequisites. All the weak points are camouflaged and only strong points of the project are highlighted.
3. Inadequacy of Collateral Security/Equitable Mortgage against Loan: Collateral Security by way of mortgage of immovable property or other fixed assets, thereby creating a charge, trains the mind of the borrower to be prepared to pay the dues to the lenders. But when he's free from this fear of losing his encumbered asset within the event of his defaulting within the payment of dues to banks, he often takes the freedom, and tends to weigh the pros and cons vis-à-vis default. Security against loan, though sometimes may fall harsh on the borrower serves a worthwhile purpose therein it creates promoters’ stake within the borrowers and thus, disciplines the borrower to be more committed in paying the dues to Banks.

4. Lack of Follow up Measures: “A stitch in time saves nine” Follow-up measures taken regularly and systematically keep the borrowing unit under constant vigil of the banks. Many ills are often checked through such follow-up measures by keeping the borrowing units on their alertness and guiding them to rectify their mistakes within the first opportunities or extending them a hand (Shodhganga, 2020) Performance of the borrowing units, if carefully and systematically monitored through regular inspections by scrutiny of returns, annual record and inspection of site, are often significantly improved. Naturally, such inspections prevent the borrowers from deviating from the terms and conditions of the loan or from diverting any fund for purpose aside from those earmarked in the sanction letter and keep the financial health of the units in good order.

5. Default due to natural calamities: Natural calamities not only affect the unit directly but also exert additional burden on the govt in terms of relief measures, waivers etc. (Shodhganga, 2020) an additional fraction, albeit nominal, is of such borrowers who tend to require undue advantage of such natural calamities so as to avoid repayment, thereby increasing the magnitude of default.

Major findings/conclusions: The researcher established that with the introduction of Securitization Act, 2002 banks in India can now issue notices to their defaulters to repay their dues alternatively make defaulters face hard and difficult actions under the aforementioned Act. This enables banks to eliminate sticky loans thereby improving their bottom lines. Also, an indicator of an honest business is approaching it with a fresh, new perspective and requires management that's fully awake, fully alive and in fact fully focused on making things better. Also, the passing of the Securitization Act, 2002 came as a bonanza for investors in banking sector stocks that successively resulted into an improvement in their share prices.
(Onditi, 2016), in a study conducted on the influence of loan lending policies on financial performance of commercial banks in Kenya with the objective to examine the influence loan lending policies have on financial performance of banks in Kenya points out that:

The single biggest contributor to bank failures and or distress in Kenya is poor management of lending. this is often where the bank’s staff fails take particular note and analyze their customers/ borrower’s information before they approve and release loans to them and also fail to observe and follow abreast of how the borrowers are faring on with repayments causing poor return on assets. In at most half the bank failures, poor management of the loans and quick approval of loans to unqualified borrowers accounted for a considerable proportion of reduced return on assets as a consequence of high default rates on payment of bank loans. per Karanja (2010), most of the larger local banks failures in Kenya involved extensive poor analyzed lending where it couldn't establish internet interest income to be realized from assets lent out therefore, affecting the return on assets and consequently its influence on financial performance. Credit appraisal, evaluation and approval, loan monitoring and follow-up, as well as well loan recovery and repayment play an enormous role in determining net interest income to be earned on various investments as an indicator of monetary performance.

**Major findings/conclusions:** The study confirmed that client appraisal was a crucial process that needed to be done whenever a member requested for a loan to avoid extending credit facilities to clients who were financially incapable to repay credit borrowed as per the terms and conditions stipulated considering qualities like credit history of the member, income of the client, collateral substitutes, and other loan delinquencies that were key in credit appraisal process. The results concluded that if a case is appraised properly, default rate is low thus reduced provision on bad debts translating to higher performance.

**What are the measures to help reduce default on loans?**

A study conducted on factors influencing the performance of loan collection by commercial banks through outsourcing of non-performing loans to private firms in a Kenya, by (Wandera, 2017) with the objective to evaluate the effectiveness of loan collection by commercial banks through outsourcing of private firms found that the following are recompensated debt recovery tips in banks:
**flexible repayment plans:** Clients experiencing financial difficulty, well formulated hardship programs for borrowers that are late on their repayments, extend or lower interest rates, or lower fees once you anticipate customer repayment problems, create communication channels where customers can openly discuss their issues (Chester, 2012). By proactively reaching customers early, he points out larger problems are often avoided later. this may be done by banks organizing regular pipelines of clients with issues to work towards assisting them make repayments through discussions, and outsourcing bank debt recovery to collection agencies in extreme circumstances when the debt isn't likely to be recovered. in line with economic outlook (2015), use of reminders has proved to be an honest measure to encourage debtors to pay their debts although its use alone isn't bound to ensure success. despite the fact that some customers are genuinely unable to recollect when their debts are due, it has been noted that others don't prioritize for what they owe.

**Major findings/Conclusions:** The study concluded that by outsourcing, the bank can is in a position to access best business outsourcing, the and other sources which will be too expensive. It also further concluded that collection staff of a personal debt collection firm are adequately trained in collection and recoveries before being deployed to the teams and their long years of operation gives them a favorable position for tasks allocated by their clients.

**Recommendations:** The study recommended that, the banking sector should hire collection firms as they're more trained and experienced to conduct debt collection during a manner which will not affect the reputation of the bank and also not interfering with its operations.

(Addae-Korankye, 2014), conducted a study on the causes of loan delinquency/default in microfinance institutions in Ghana aimed at investigating the causes of loan delinquency/default in microfinance institutions in Ghana. The study found that:

Loan repayments should be monitored and whenever a customer defaults action should be taken. Thus, banks should avoid loans to risky customers, monitor loan repayments and negotiate loans when customers get into difficulties (Ameyaw-Amankwah, 2011). Sheila, (2011) is of the view that proper and adequate appraisal is vital to controlling or minimizing default. This is the essential stage within the lending process. According to Anji chi (1994), the appraisal stage is said to be the heart of a prime quality portfolio. This includes diagnosing of the business in addition to the
borrower. Before beginning the method of collecting information on the client for the aim of determining credit limit, the loan officer should have specific information available which can guarantee that the information and figures provided by the client will have a pro-margin error (Sheila, 2011). The majority of the knowledge obtained by the loan officer through direct interaction with the client in such some way that every loan analysis provides valuable insights in evaluating the appliance for the longer-term client. However, most clients withhold an excellent deal of data making the evaluation a difficult and unreliable exercise. Furthermore, the loan officer should visit the house or the work place of the client with the most objective of determining whether the client need the loan programmed or not. This information will help the loan officer to assess the flexibility to effectively utilize the loan. Haute (1996), observed that the time to assess the applicants credit worthiness also matters. He argues that the longer it takes to assess the applicant, the better. this is often because he believes that a shorter time isn't enough to completely assess the applicant. this is often in agreement with Bigambah (1997) who contends that it's necessary to analyze the client before a loan is issued, the applicant has got to be screened to assess his or her credit worthiness. that's the flexibility to repay the loan, the business and guarantee to secure the repayment of the loan. In a number of cases, the information received isn't verified, in some cases the data received is doctored or falsified. It must therefore be emphasized that credit risk analysis is another important element in loan appraisal. When lending out the cash, the lender should consider the borrowing proposition and subsequent repayment in isolation from security. It should be supported by capital, character, capability, purpose, amount, repayment, term and security. Basing knowledge on the above, the lender should investigate on customers record, ability and skill. Security tends to come back towards in the end and is taken into account only after the borrowing proposition has met the standards. This process of appraising the client will help the officer to assess the flexibility of the borrower to utilize the loan effectively. Furthermore, the loan officer shall be ready to predict the likely changes or effect on the business that the cash is being lent out. Another stage within the lending which is critical to minimizing default is that the disbursement stage consistent with Sheila (2011). This stage is considered the foremost demanding to borrowers which frequently times results in failure to satisfy their loan obligations. this is often because most of the financial institutions take long to disburse funds to successful applicants. This affects the borrowers therein they take long to shop for inputs needed to carry out their activities hence find themselves spending unnecessarily. the foremost affected are those
involved within the agricultural sector because their activities are usually in line with the prevailing weather. If the people involved within the agricultural sector receive the loan late, this will delay the planting season hence they find themselves not making any profit or may yield less as a result they're unable to pay their loans in time.

**Major findings/Recommendations:** It was found that factors assigned by clients as reasons for default of payment aren't explicitly the major reasons thereby much consideration should be thereto of loan officers so as to scale back loan default. It must be noted that the MFI (microfinance institutions) have the potential for helping create wealth and hence reduce poverty, so government and for that matter bank of Ghana should ensure their success, in order that they don’t not collapse. The following are recommended to regulate or minimize default. The formation of strong solidarity groups is vital to preventing high arrears. The training and formation stage often cover several sessions. Group members must clearly understand their roles and responsibilities and fully understand that they're individually signing for the loans of every group member. MFI BoS should have clear and effective credit or lending policies and procedures and must be regularly reviewed. The credit supervisor should ask credit officers daily to make sure that policies are followed and therefore the supervisor must respond quickly to unravel credit officers’ problems. It makes no sense to possess strong policies on paper that aren't followed within the field. Next, if credit officers have a selected geographical area, they will visit clients more often; limiting geographic scope, reduces time and money wasted traveling from the office to clients ‘businesses.

**Knowledge Gap:**

This aim of this study was to assess the problem of debt recovery in banks. The study included literature review using previous studies, the aimed being mainly to get a perspective of what other scholars have studied on the subject matter.

When it comes to studies done on debt recovery in banks, specifically Zambia. There are very few studies that have been done on debt recovery in banks. This made the study a little difficult as there was no way of gaining a point of view from the Zambian perspective.

A study conducted by Migwi Mwangi in Kenya looked at the debt recovery procedures in banks. The researcher gave detailed debt recovery procedures for banks but there was not enough information on how best banks can recover debt.
Another study conducted by Somali at the effects of loan default on commercial banks. The sections of the study that discussed the effect of loan default on commercial banks seemed brief and as well as the recommendations and conclusions that followed based on the effect that loan default has on banks.

Shodhganga conducted a study on the recovery management system in India. The study gave detailed information on the causes of or reasons for loan default in banks which proved to be of great help to the India. The gave little to no information on the ways in which banks can reduce loan default.

A study on the factors influencing loan collection by commercial banks conducted by Antony Wandering a detailed information on the measures that help reduce loan default. The recommendations and conclusions that followed on the matter were equally brief.

2.4 Conceptual Framework:

When developing the research questions, it is very beneficial to also diagram the problem or the topic. This is often called conceptual framework. According to (Miles, 1994), a conceptual framework explains, either graphically or in narrative form, the main things to be studied-key factors, constructs or variables and the presumed relationships among them.
Conceptual Model:

**Independent variable**
- Debt rescheduling
- Customer bankruptcy
- Higher lending rates
- Improper selection of a borrower
- Flexible payment plan

**Dependent variable**
- Debt Recovery

*Source: developed by the researcher from research questions*

*debt rescheduling: bank changing terms of a loan to suit debtor
*customer bankruptcy: when a customer is unable to repay their debts
*higher lending rates: bank increases its lending rates to make up for loss due to default
*improper selection of a borrower: strict measures not taken to ensure a borrower can repay a debt
*flexible payment plan: loan payment plan for a debtor*
CHAPTER THREE

3.0 Research methodology and design

3.1 introduction

This chapter in detail how the researcher carried out the research. it justifies the methods used. The study under this chapter looks at the data collection techniques, data analysis methods, research variables, research approach, sampling frame and sampling size & techniques.

3.2 Research design

A research design is a basic plan that guides the data collection and analysis phases of the research project. It provides the framework that specifies the type of information to be collected, its sources and collection procedure (Kinnear & Taylor & 2015) define research design as the blueprint that is followed to complete the study” and it “ensures that the study is relevant to the problem. The table below shows the research design.

<table>
<thead>
<tr>
<th>Research choice</th>
<th>Mono method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research strategy</td>
<td>Case study</td>
</tr>
<tr>
<td>Time horizon</td>
<td>Cross sectional</td>
</tr>
<tr>
<td>Research approach</td>
<td>Inductive approach</td>
</tr>
<tr>
<td>Data Collection</td>
<td>Interviews</td>
</tr>
</tbody>
</table>

3.3 Research Population

This research was conducted to study the debt recovery in banks and using Zanaco Bank specifically the headquarters as a case study. Population of study was limited to the staff and management of Zanaco bank headquarters, town area, Lusaka. Specifically, workforce banking and debt recovery departments.
3.4 Sampling design and Sample size

There are two methods used in sampling which are non-probability and probability sampling. Non-probability is focused on qualitative research and so it is the one that was used for this research specifically convenience sample. When it comes to a convenience sample, the researcher uses whatever individuals are available rather than selecting from the entire population. The Sample size for this research was 40 participants from Zanaco bank plc headquarters.

3.5 Data collection

(jargon, 2020) defines data collection as the process by which information is collected from all relevant sources to find answers to the research problem, test the hypothesis and evaluate the outcomes is known as data collection. The data method that was used in this research was interviews with the aid of a questionnaire for primary data and books, journals for secondary data.

3.6 Data analysis

Qualitative data analysis works a little differently from quantitative data, primarily because qualitative data is made up of words, observations, images, and even symbols. it is mostly used for exploratory research. The data analysis method used was qualitative data analysis specifically thematic data analysis. According to (Braun, 2013) Thematic data analysis is a flexible data analysis plan that qualitative researchers use to generate themes from interview data.
3.7 Study Variables

This refers to strictly defining variables into measurable factors. The table below shows the variables that play a vital role in the problems that banks face when it comes to debt recovery.

<table>
<thead>
<tr>
<th>Debt recovery Problem</th>
<th>Break down</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Customer bankruptcy</td>
<td>Once a customer declares bankruptcy the bank holds off on its debt collection efforts.</td>
</tr>
<tr>
<td>2) Delinquent borrowers</td>
<td>Banks find it difficult to recover debts from defaulting borrowers.</td>
</tr>
<tr>
<td>3) A customer falling out of business unexpectedly</td>
<td>A customer falling out of business unexpectedly makes it difficult for them to repay their loan.</td>
</tr>
<tr>
<td>4) Undertaking Several efforts for commercial collection</td>
<td>If the bank allot of correspondence to get a customer to repay a debt it might become nagging and cause the customer to default</td>
</tr>
<tr>
<td>5) Hiring a collection agency at last minute</td>
<td>Banks tend to rent commercial collection agencies, much after sinking within the sea of debtors, escalating collection efforts.</td>
</tr>
</tbody>
</table>

SOURCE: DEVELOPED FROM RESEARCH QUESTIONS
CHAPTER FOUR

4.0 Presentation and Analysis of results

4.1 Introduction

This chapter looks at data analysis, findings and interpretation. It uses tables generated by excel to interpret and analyses data that is collected with the use of charts and tables for ease of understanding. Data was collected with the use of a questionnaire.

4.2 Response Rate

Table 4.1 response rate

<table>
<thead>
<tr>
<th>Response rate</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responsive</td>
<td>34</td>
<td>85%</td>
</tr>
<tr>
<td>Non Responsive</td>
<td>6</td>
<td>15%</td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
<td>100%</td>
</tr>
</tbody>
</table>

SOURCE: RS 2020

Figure 4.1 response rate

SOURCE: TABLE

The findings in table 4.1 and figure 4.1 above, shows a responsive rate of 85% (n=34) and a none responsive rate of 15% (n=6)
SECTION A: BACKGROUND OF RESPONDENTS

4.3 Respondents Background

Table 4.2 gender of respondents

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Female</td>
<td>16</td>
<td>47%</td>
</tr>
<tr>
<td>Male</td>
<td>18</td>
<td>53%</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100%</td>
</tr>
</tbody>
</table>

SOURCE: RS 2020

The findings in table 4.2 and figure 4.2 above indicate that, from the number of total respondents which was 34, (47% n=16) were female while (53% n=18) were male.
4.4 Age of respondents

Table 4.3 age of respondents

<table>
<thead>
<tr>
<th>Range</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>20-29</td>
<td>8</td>
<td>24%</td>
</tr>
<tr>
<td>30-39</td>
<td>12</td>
<td>35%</td>
</tr>
<tr>
<td>40-49</td>
<td>9</td>
<td>26%</td>
</tr>
<tr>
<td>50 &amp; above</td>
<td>5</td>
<td>15%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>34</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

SOURCE: RS 2020

Figure 4.3 age of respondents

Table 4.3 and Figure 4.3 above, findings indicate that (24% n=8) were in the age group between 20-29, (35% n=12) were in the age group between 30-39, (26% n=9) were in the age group between 40-49 and finally (15% n=5) were in the age group of 50 & above.
4.5 Level of Education

Table 4.4 level of education

<table>
<thead>
<tr>
<th>Level of education</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diploma</td>
<td>3</td>
<td>9%</td>
</tr>
<tr>
<td>Degree</td>
<td>20</td>
<td>59%</td>
</tr>
<tr>
<td>Masters</td>
<td>11</td>
<td>32%</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100%</td>
</tr>
</tbody>
</table>

SOURCE: RS 2020

Figure 4 level of education

The findings in Table 4.4 and Figure 4.4 above, indicate that when it comes to the level of education of the respondents, (9% n=3) have attained a diploma, (59% n=20) have attained a degree and (32% n=11) have attained a masters.
SECTION B: DEBT RECOVERY PROBLEMS AND PROCEDURE

4.6 which of the following is the biggest obstacle of bank debt recovery

Table 4.5 obstacles of debt recovery

<table>
<thead>
<tr>
<th>Debt recovery obstacle</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>A customer going bankrupt</td>
<td>7</td>
<td>20%</td>
</tr>
<tr>
<td>Debtors delay in making loan repayment</td>
<td>20</td>
<td>59%</td>
</tr>
<tr>
<td>A customer falling out of business unexpectedly</td>
<td>5</td>
<td>15%</td>
</tr>
<tr>
<td>Constant phone calls to debtors without rest</td>
<td>2</td>
<td>6%</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100%</td>
</tr>
</tbody>
</table>

SOURCE: RS 2020

Figure 4.5 obstacles of debt recovery

Table 4.5 and Figure 4.5 above, the findings indicate a customer going bankrupt is one of the obstacles of debt recovery shown by (20% n=7), it also indicates that debtors delay in payment is another obstacle shown by (59% n=20). Customer falling out of business unexpectedly shown by (15% n=5) and Constant phone calls to debtors without rest shown by (6% n=2)
4.7 what debt recovery procedure is adopted to retrieve credit

Table 4.6 recovery procedure to retrieve credit

<table>
<thead>
<tr>
<th>Procedure</th>
<th>Response</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Develop a payment plan</td>
<td>6</td>
<td>18%</td>
</tr>
<tr>
<td>Reschedule the debt</td>
<td>15</td>
<td>44%</td>
</tr>
<tr>
<td>Written communication</td>
<td>13</td>
<td>38%</td>
</tr>
<tr>
<td>Offer incentive for prompt payment</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100%</td>
</tr>
</tbody>
</table>

SOURCE: RS 2020

Figure 4.6 recovery procedure to retrieve credit

The findings in Table 4.6 and Figure 4.6, indicate that, the bank can in fact develop a payment plan for its customers this is shown by (18% n=6). The table also indicates that the debt can be rescheduled shown by (44% n=15). The bank can also use written communication as a debt recovery tool shown by (38% n=13). However, it indicates that the bank does not offer incentives to its customers for prompt payment shown by (0) above.
4.8 what action is taken when a debtor defaults

Table 4.7 action taken when a debtor defaults

<table>
<thead>
<tr>
<th>Action taken</th>
<th>Response</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal warning</td>
<td>12</td>
<td>35%</td>
</tr>
<tr>
<td>Aid of private collection agencies</td>
<td>8</td>
<td>24%</td>
</tr>
<tr>
<td>Reposition of security</td>
<td>11</td>
<td>32%</td>
</tr>
<tr>
<td>Physical visit to the debtor</td>
<td>3</td>
<td>9%</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100%</td>
</tr>
</tbody>
</table>

SOURCE:RS 2020

Figure 4.7 action taken when a debtor defaults

Table 4.7 and Figure 4.7, the findings indicate that when a debtor defaults, the bank can issue a legal warning to the customer shown by (35% n=12), it also indicates that the bank can use the aid of collection agencies to recover a debt as shown by (24% n=8). For reposition of security shown by (32% n=11) and paying the debtor a physical visit shown by (9% n=3).
4.9 How effective is the debt recovery process

Table 4.8 effectiveness of debt recovery process

<table>
<thead>
<tr>
<th>Effectiveness</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excellent</td>
<td>11</td>
<td>32%</td>
</tr>
<tr>
<td>Good</td>
<td>14</td>
<td>41%</td>
</tr>
<tr>
<td>Fair</td>
<td>9</td>
<td>27%</td>
</tr>
<tr>
<td>Poor</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100%</td>
</tr>
</tbody>
</table>

SOURCE: RS 2020

Figure 4.8 effectiveness of the debt recovery process

SOURCE: TABLE

Findings in Table 4.8 and Figure 4.8 above indicate that the effectiveness of debt recovery is shown by (32% n=11) for excellent, (41% n=14) for good, (27% n=9) for fair and (0) for poor.
SECTION C: Effect of loan default on the bank and Causes of loan default

4.10 How does loan default affect the bank

Table 4.9 effect of loan default on the bank

<table>
<thead>
<tr>
<th>Effect</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher lending rates</td>
<td>10</td>
<td>29%</td>
</tr>
<tr>
<td>Capital diminishes</td>
<td>12</td>
<td>35%</td>
</tr>
<tr>
<td>Reduction of lending ability</td>
<td>9</td>
<td>27%</td>
</tr>
<tr>
<td>All of the above</td>
<td>3</td>
<td>9%</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100%</td>
</tr>
</tbody>
</table>

SOURCE: RS 2020

Figure 4.9 effect of loan default on the bank

Table 4.9 and Figure 4.9, findings indicate that when it comes to the effect of loan default on the bank the rates of loan might go up as shown by (29% n=10), Capital diminishes due to loan default is shown by (35% n=12), Reduction of lending ability due to loan default shown by (27% n=9) and all of above shown by (9% n=3).
4.11 What causes loan default in banks

Table 4.10 causes of loan default

<table>
<thead>
<tr>
<th>Cause of default</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improper selection of a borrower</td>
<td>8</td>
<td>23%</td>
</tr>
<tr>
<td>Inadequate collateral</td>
<td>7</td>
<td>21%</td>
</tr>
<tr>
<td>Lack of follow up measures</td>
<td>14</td>
<td>41%</td>
</tr>
<tr>
<td>All of the above</td>
<td>5</td>
<td>15%</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100%</td>
</tr>
</tbody>
</table>

SOURCE: RS 2020

Figure 4.10 causes of loan default

Table 4.10 and Figure 4.10 above, findings indicate that when it comes to causes of loan default, improper selection of a borrower is shown by (23% n=8), Inadequate collateral shown by (21% n=7), lack of follow up measures shown by (41% n=14) and all of the above shown by (15% n=5).
4.12 What is the biggest contributor to bank failure

Table 4.11 biggest contribution to bank failure

<table>
<thead>
<tr>
<th>Contribution to bank failure</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor management of lending</td>
<td>17</td>
<td>47%</td>
</tr>
<tr>
<td>Staff failing to analyze borrowers</td>
<td>10</td>
<td>28%</td>
</tr>
<tr>
<td>Quick approval of loans to unaqualified borrowers</td>
<td>9</td>
<td>25%</td>
</tr>
<tr>
<td>All of the above</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100%</td>
</tr>
</tbody>
</table>

SOURCE: RS 2020

Figure 4.11 biggest contribution to bank failure

Table 4.11 and Figure 4.11 above, the findings indicate that when it comes to bank failure poor management of lending is shown by (47% n=17), staff failing to analyze borrowers shown by (28% n=10), quick approval of loans to unqualified borrowers shown by (25% n=9) and all of the above shown by (0)
SECTION D: Measures to reduce loan default

4.13 What are the measures that can help reduce loan default

Table 4.12 measures that help reduce loan default

<table>
<thead>
<tr>
<th>Measure to reduce default</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flexible payment plan</td>
<td>8</td>
<td>22%</td>
</tr>
<tr>
<td>Proactively reaching customers</td>
<td>20</td>
<td>54%</td>
</tr>
<tr>
<td>Outsourcing recovery to collection agencies</td>
<td>4</td>
<td>11%</td>
</tr>
<tr>
<td>Extend or lower interest rates</td>
<td>5</td>
<td>13%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>34</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

SOURCE: RS 2020

Figure 4.12 measures that help reduce default

Table 4.12 and Figure 4.12 above, findings indicate that when it comes to the measures to reduce loan default, a flexible payment plan is shown by (22% n=8), proactively reaching customers is shown by (54% n=20), outsourcing recovery to collection agencies by (11% n=4), and extend or lower the interest rate by (13% n=5)
4.14 What measures can loan officers take to reduce default

Table 4.13 loan officer measures to reduce default

<table>
<thead>
<tr>
<th>Measure</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Visiting debtors on a regular basis</td>
<td>5</td>
<td>15%</td>
</tr>
<tr>
<td>Negotiate when customers get into difficulty paying the loan</td>
<td>8</td>
<td>23%</td>
</tr>
<tr>
<td>Make sure all loans are adequately monitored</td>
<td>15</td>
<td>44%</td>
</tr>
<tr>
<td>All of the above</td>
<td>6</td>
<td>18%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>34</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

SOURCE: RS 2020

Figure 4.13 loan officer measures to reduce default

Table 4.13 and Figure 4.13 above, the findings indicate that when it comes to loan officers reducing measures of loan default, visiting debtors on a regular basis can be one of the way to reduce loan default shown by (15% n=5), negotiating with customers when they face difficulty paying the loan shown by (23% n=8), adequate monitoring of loans shown by (44% n=15) and finally all of the above shown by (18% n=6).
4.15 Is the reduction of loan default a priority for the bank

Table 4.14 loan default reduction as a bank priority

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>34</td>
<td>100%</td>
</tr>
<tr>
<td>No</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100%</td>
</tr>
</tbody>
</table>

SOURCE: RS 2020

Figure 4.14 loan default reduction as a bank priority

Table 4.14 and Figure 4.14 above, the findings indicate that the respondents all agreed that reducing loan default is a priority for the bank, all respondents were in favor and it is shown by (100% n=34) none of the respondents were in bank, all left the number of responses rejecting shown by (0).

SOURCE: 2020
CHAPTER FIVE

5.0 Discussion and Interpretation of findings

5.1 Introduction

This chapter discusses and interprets the findings with regards to the research problem, study objectives and literature review. It aims to link the three and provide a better understanding of the study. The study sought out to assess the debt recovery in banks, tables and charts were used to summarize responses from the interviews aided by the use of a questionnaire, summary of the findings on the five research objectives is as follows:

5.2 To understand the debt recovery procedures of banks:

Per the first objective of study which was to understand the debt recovery procedures of banks, the study revealed that the rescheduling of a debt proved to be the best option for debt recovery amongst the respondents. Rescheduling of a debt is simply the bank changing the terms of a loan to suit the debtor. The study revealed that 44 percent of the respondents were in favor of debt rescheduling as a debt recovery procedure, 38 percent of the respondents in favor of written communication as a debt recovery procedure, 18 percent in favor of the bank developing a payment plan for the debt of a customer and lastly none in favor of the bank offering an incentive as bank debt recovery procedure.

When it came to the action taken by banks when a debtor defaults, the study revealed that 35 percent of the respondents were in favor of the bank issuing a legal warning when a debtor defaults, 32 percent of the respondents were in favor of reposition of security by the bank when a debtor defaults, 24 percent of the respondents were in favor of the bank getting aid from loan collection agencies to recover debt on their behalf and 9 percent of the respondents were in favor of the bank paying a physical visit to the debtor in the event that they default.

Looking at the effectiveness of the debt recovery process, the study revealed that 41 percent of the respondents were in favor of the effectiveness being good, 32 percent of the respondents were of the view that the effectiveness of debt recovery excellent, while 27 percent were of the view that
the effectiveness of debt recovery was fair. None of the respondents were of the view that the
effectiveness of debt recovery by the bank was poor.

5.3 To explain the debt recovery problems in banks

Looking at the problems of debt recovery in banks, the study revealed that 59 percent of
respondents were of the view that a delay by debtors to make loan repayments is problem to debt
recovery in the bank. While 20 percent of the respondents in favor of bankruptcy as a debt recovery
problem a customer is said to be bankrupt when a customer is unable to repay their debts.15 percent
of the respondents on favor of a customer falling out of business unexpectedly as a debt recovery
problems and 5 percent of the respondents in favor of constant phone calls as a debt recovery
problem.

5.4 To establish the effect that loan default has on commercial banks

In regards with to the effect that loan default has on commercial banks, the study revealed that 35
percent of the respondents were of the view that when a debtor or debtors default the capital of the
bank is at risk of diminishing, this is basically the capital of the bank reducing due to the number
of debtors that have not repaid their loans.29 percent of the respondents were of the view that
higher rates are an effect of loan default on banks this is simply when the bank increases its lending
rates in order to make up for the loss due to loan default.27 percent of the respondents were of the
view that reduction of ability to lend is an effect that loan default may have on the bank this is
when the bank cannot lend to the capacity they would like due to loan default.9 percent of the
respondents were of the view that all the three factors mentioned have an effect on the bank when
debtors default on their loans.

5.5 To find situations leading to bank loan default

When it came to the causes of loan default in bank the study revealed that 41 percent of the
respondents were of the view that lack of follow up measures by the bank to make sure that
borrowers repay the loan is a cause of loan default in the bank.23 percent of the respondents were
in favor of improper selection of a borrower as a cause for loan default this is simply when strict
measures are not taken to make sure that the borrower is indeed able to repay the loan. Inadequate
collateral was a cause of default based on 21 percent of the respondents and the rest of the
respondents were in favor of the above-mentioned causes at 15 percent.
When it came to the biggest contributors to bank failure which is the bank failing to meet the obligations it has to depositors and creditors as well. The study revealed that 47 percent of the respondents were of the view that poor management of loans is a cause of bank failure. 28 percent of the respondents in favor of staff failing to analyze borrowers, the rest of the 25 percent of the respondents were of the view that bank failure is caused by quick approval of loans to unqualified borrowers.

5.6 To determine the measures to help reduce default on loans

Looking at the measures to help reduce loan default, the study revealed that 54 percent of the respondents were in favor of proactively reaching customers as a measure for reducing loan default, while 22 percent of the respondents were in favor of flexible payment for a debtor as a measure to reduce loan default. 13 percent of respondents of in favor of extending or lowering interest rates and 11 percent of respondents in favor of the bank outsourcing recovery to collection agencies.

For measures that loan officers can take to reduce loan default the study revealed that, 44 percent of the respondents were in favor of all loans being adequately monitored. 23 percent of the respondents in favor of negotiating when a customer has difficulty paying the loan, 15 percent in favor of visiting the debtor on a regular basis and 18 percent of the respondents in favor of all the three above mentioned measures.

The last part of the study reveals the responses from respondents when asked if they thought that reducing loan default was a priority for the bank and all the respondents were in favor of and none against.
CHAPTER SIX

6.0 Conclusions and Recommendations

6.1 Introduction

This chapter is looks at the conclusion on the study, implications and recommendations of study which will be useful to Zanaco Bank, the banking sector at large as well as aid research on future studies on the subject matter.

6.2 Conclusions

This study was carried out to assess debt recovery in banks. The study established debt recovery procedures of banks, effects loan default has on the bank, causes of loan default as well as solutions to the problem of debt recovery. Overall, the study revealed that, despite debt recovery being inevitable banks need to put in place more strict measures in order to control the process of debt recovery.

6.3 Implications

On the basis of the research that was carried out and the findings that it yielded. Failure to improve on the debt recovery procedures may affect Zanaco Bank in the following ways:

A. Zanaco Bank will risk bank failure, the bank may fail to meet the obligations of its depositors and creditors.
B. Capital ratio of Zanaco Bank may diminish or reduce due to unpaid loans by borrowers.
C. Zanaco Bank will face a reduction in the lending ability of the bank.
D. Zanaco Bank will result to higher lending rates in order to cushion unpaid debts making it tough on borrowers.

6.4 Recommendations

Selection of borrowers

The study recommends that Zanaco bank should select borrowers carefully and making sure the information, they provide is also carefully looked at to avoid borrowers misleading loan officers on their loan applications.
Strict monitoring of loans

Zanaco should further make sure that once a loan or loans are given out, they are monitored from the beginning. This will help the bank to keep an eye on all the existing loans as well as give them a better picture of the debtors that are likely to default and those that are not.

Reminders to borrowers

Zanaco should give timely reminders to all debtors. It can greatly improve the debt recovery process as it allows the debtor or borrower to stay committed to repaying the loan.

Collection agencies

Zanaco should also hire collection agencies to help the bank with debt recovery as they are trained and can recover debt for the banks with ease.

Flexible payment Plan

When the Zanaco finds itself in a position where a debtor is unable to repay a debt, banks should sit and plan with a debtor on a better way in which they can pre pay the loan in order to avoid default and make it easier.

Suggestions for further study

The study was carried out in order to assess the debt recovery in banks, it was aimed at mainly high lighting the difficulties that banks face when it comes to debt recovery. A case study of Zanaco Bank plc.

The study recommends therefore another area of study being the effect of debt recovery procedures on debtors, in as much as the bank does face difficulty to recover debt, it’s likely that debtors also face difficulties that arise from the debt recovery procedures of banks.

The study also recommends a study area solely focusing on the problems that banks face when it comes to debt recovery. Most studies focus on the causes of default and measures and not so much on the actual problems that banks face in order to recover a debt.
References


QUESTIONNAIRE

Dear respondents,

This questionnaire is for academic purposes and will greatly assist me with collection of data. This research is a requirement for the award of a degree of bachelor of arts in banking and finance at Cavendish University. The information provided will be treated with strict confidence.

SECTION A: RESPONDENTS BACKGROUND

1) Gender
   - Female
   - Male

2) Age
   - 20-29
   - 30-39
   - 40-49
   - 50 and above

3) Level of education
   - Diploma
   - Bachelors
   - Masters
SECTION B: DEBT RECOVERY PROBLEMS AND PROCEDURE

1) Which of the following is the biggest obstacle of bank debt recovery?
   - ☐ A customer going bankrupt
   - ☐ Debtors delaying in making loan repayments
   - ☐ A customer falling out of business unexpectedly
   - ☐ Constant phone calls to debtors without rest

2) What debt recovery procedure below is adopted to retrieve credit?
   - ☐ Develop a payment guide
   - ☐ Reschedule the debt
   - ☐ Written communication
   - ☐ Offer incentive for prompt payment

3) When a debtor defaults, what action is taken?
   - ☐ Legal warning letter
   - ☐ Aid of private collection agencies
   - ☐ Reposition of security
   - ☐ Physical visit to the debtor

4) How effective is the debt recovery process?
   - ☐ Excellent
   - ☐ Good
   - ☐ Fair
   - ☐ Poor
SECTION C: EFFECT OF LOAN DEFAULT ON THE BANK AND CAUSES OF LOAN DEFAULT

1) How does loan default affect the bank?
☐ Higher lending rates
☐ Capital diminishes
☐ Reduction in lending ability
☐ All of the above

2) What causes loan default in banks?
☐ Improper selection of a borrower
☐ Inadequate collateral
☐ Lack of follow up measures
☐ All of the above

3) What is the biggest contributor to bank failure?
☐ Poor management of lending
☐ Staff failing to analyze borrowers
☐ Quick approval of loans to unqualified borrowers
☐ All of the above

SECTION D: MEASURES TO REDUCE LOAN DEFAULT

1) What are the measures that can help reduce loan default?
☐ Flexible payment plan
☐ Proactively reaching customers early
☐ Out sourcing bank recovery to collection agencies
☐ Extend or lower interest rates
2) What measures can loan officers take to reduce default?
   - Visiting debtors on a regular basis
   - Negotiate when customers get into difficulty paying the loan
   - Make sure all loans are adequately monitored
   - All of the above

3) Is the reduction of loan default a priority for the bank?
   - Yes
   - No

Thank you!