www.revistageintec.net
ISSN: 2237-0722
revista GEINTEC
Gestão, Inovação e Tecnologias

The Impact of Credit Risk Management on the Moroccan Commercial Banking Sector

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Abstract
The study aimed to analyze the credit risk management practices that the commercial banking sector in Morocco is committed to and their impact on the banking sector.Accordingly, the study reached many conclusions about the importance of applying the mechanism of transferring risks into credit opportunities in the market, which can be achieved through diversifying the bank's revenue schemes in an optimal manner and correct compatibility with market requirements, which allows the bank to use different sources of interest and fees granted from other areas of service that provided by the Bank, rather than focusing primarily on loan portfolios. In addition, the study highlighted the importance of the relevant specialist within the Bank to deal with more macroeconomic research. Designed for market-based economies, other than adopting credit trend analysis alone, therefore, depreciation of bank assets comes from a variety of market drivers, which have a fundamental role in influencing the credit capabilities of the bank.

Key-words: Credit Risk Management, Commercial Banks, Moroccan Banks.

1. Introduction

The question exists today, as in the previous financial and banking crises and the crisis of the Covid-19 pandemic, about the adequacy of efforts and policies adopted by financial and banking institutions to deal with the risks of credit concentration and the extent to which they keep pace with international standards issued by the competent authorities to deal with the reality of these risks and other categories of risks involved in business (Banks, 2020).

At the forefront of these risks is credit-related and its concentration, whether at the banking system level or at the sectorial level, which may lead to the interaction of repercussions and their effects on the continuity capabilities of financial and banking institutions and threaten the soundness and soundness of the financial position. Therefore, the risk of credit concentration is considered one of the most important risks that financial institutions and banks may be exposed to, as the resulting losses are large, which threatens their continuity and business (Wahdan, 2017).

Banks' endeavors to rebuild thinking, evaluation, and the creation and development of mechanisms and policies to manage the concentration of risks and numerous transformations in an effective manner, keep pace with the changes. Rather, the development extended to include proactive risk management with the aim of achieving strategic goals and considering risk management an essential part of the way of doing business, which was integrated into the context of operations. The daily monitoring of risks and the policies to contain them, in a manner that enhances the integrity of financial systems, has grown (Lama, 2017).

The importance of being guided by leading practices in the field of risk management has increased, prompting the Basel Committee to recommend in decisions II and III the necessity of measuring and managing these risks and adopting methods to limit credit concentration, by setting a credit ceiling. It also called for the formation of provisions to face risks and to strengthen the financial capacity of banks, which would reduce losses during financial crises (Wahdan, 2017).

International accounting standards focused on the aspects of disclosure in a way that enables users of financial statements to judge the ability of institutions to manage risks in an effective manner, and called for clarifying all items subject to credit risk to other items outside the financial position that appear in the financial position. In addition, which does not appear in a way that contributes to fulfilling the requirements of the parties benefiting from the financial statements and enables users to predict the quantitative and qualitative risks that they may be exposed to, and the directions of investment decisions are determined in the light of them. her future enterprise (Chance, 2014).

2. Problem Statement

The problem of the study is to understand the impact of credit risk management for workers in the Moroccan commercial banking sector, by helping administrators to predict the extent of variation in profits when managing bank credit risks, considering profits as an important base for decision makers inside and outside commercial banking facilities, and since bank credit is one of the most dangerous Functions of commercial banks on which the strength of assets and the health of their financial position depends.

In order to face the failures that occurred in the economic markets, which were revealed by the global financial crisis, the Basel III Committee has presented a set of basic reforms within the international legislative frameworks, these reforms that would strengthen the level of banking commitment, detailed prudential measures, and the necessary instructions, which In turn, it will increase the flexibility of banking institutions in times of financial and economic crises (Hailu, 2015).

Accordingly, the problem of the study is summarized about the extent to which there is an impact of credit risk management on the Moroccan commercial banking sector.

3. Objectives of the Study

This study aims to analyze the credit risk management practices that commercial banking establishments in Morocco adhere to and their impact on the researched sector, through:

- A statement of the nature of credit risks in the Jordanian commercial banking sector.
- Recognize the importance and role of credit risk management in the Moroccan commercial banking sector.
- Studying whether there is an impact of credit risk management on the Moroccan commercial banking sector.

4. Importance of Study

The importance of this study stems from examining the impact of credit risk management on the Moroccan commercial banking sector because of its importance and direct impact on financial reports that play an important role in assessing the financial position of banks in Morocco.

5. The Concept of Risk

There are many definitions of risks and depend on several aspects such as the probabilities, values of expected losses from the realization of the risk, the degree of certainty of the possibility of verification and the effects of realizing the risk on the implementation of the objectives set (John, 2013).

Assuming a state of complete certainty is unrealistic and may lead to misleading and inaccurate results, and overconfidence and neglect of the risk side may lead to wrong decisions under conditions characterized by insufficient data and lack of a clear view of the future (Mošnová, 2014).

The following are some of the different opinions expressed in the literature that dealt with risks, as they differed among themselves in defining the term risks in terms of their nature, repercussions, and ways of managing them.

6. Define Risk as a Condition in which there is a Possibility of An Adverse Deviation from the Expected or Desired Desired Outcome

Risk has also been defined as the possibility of loss of financial or personal resources as a result of unforeseen factors in the short or long term (Abubakar, 2015).

Risk can be defined as a complex combination of the probability of an event occurring and its consequences. All of the tasks that you undertake include the possibility of achieving events and outcomes that may lead to the realization of positive opportunities or threats to success (Albulescu, 2015).

The risk was also defined as the deviation in the results that can occur during a limited period at a certain time, and it means the undesirable deviation or the reverse deviation from the expected results, while the desired deviation does not represent a risk (Duraj & Moci, (2015).

The Banking Regulation and Risk Management Committee in the United States of America defined banking risks as the possibility of loss occurring either directly through losses in business results or capital losses, or indirectly through the presence of restrictions that limit the bank’s ability to achieve its goals and objectives. On the one hand, such restrictions weaken the bank's ability to continue providing its business and activities, and limit its ability to exploit the opportunities available in the work environment in the required manner. These results are directly reflected in the profitability of the bank or its capital (Hailu, 2015).

7. Types of Risk

There are many types of risks; they can be divided into credit risks, market risks, risks of changing interest rates, risks of exchange rate fluctuations, liquidity risks, and non-financial risks such as operational, strategic, legal and reputational risks.

1. Credit Risk

These are the risks that arise due to the failure to pay the full financial dues on time, which results in losses for the entire value of the loan granted, and the returns on it. Credit risk in general is the possibility that the customer will not be able, according to the terms agreed upon by the borrower, to fulfill his obligations to the bank to grant credit (FDIC, 2015).

Accordingly, the credit risk is: a potential loss resulting from the borrower's inability to pay the value of the loan and its interest to the bank at the due date specified in the terms of the contract, and may include on-balance sheet items, such as loans and bonds, or off-balance sheet items, such as letters of guarantee and credits (Wahdan, 2017).

Loans are usually the largest and most significant source of credit risk. The risks of non-payment and the possibility of non-performance of obligations increase or affect the efficiency in managing these risks (Lama, 2017).

Reducing credit risk depends on how the loan process goes, represented by the extent to which prudent and balanced loan criteria are adopted. These factors combined have an impact on the quality and safety of the financial position (FDIC, 2015).

Effective loan portfolio management requires a thorough knowledge of the components of the loan portfolio and the risks inherent in that portfolio. Also, those in charge of risk management must be fully aware of the nature and determinants of the components of the portfolio, whether at the level of products, the degree of sectorial and geographic concentration, or the average rating of the portfolio, in addition to other characteristics (FDIC, 2015).

Also, the Board of Directors, when adopting policies, procedures and practices, must ensure that one of the basic objectives of those policies is to achieve adequate risk control, whether at the level of individual loans or at the level of the credit portfolio as a whole (John, 2013).

On the other hand, banks that carry out international activities may face country risks arising from the economic, social and political conditions of the host country, which could affect the ability of people to meet their obligations towards banks.

2. Market Risk

These are the risks arising from market price movements, including the risks of changing interest rates, the risks of fluctuations in exchange rates and liquidity risks.

- **Risks of Changing Interest Rates**

It arises as a result of the difference in interest rates in the market and their change, which negatively affects the returns and the value of financial assets. Therefore, the portfolio pricing process must take into account its due dates, the cost of funds, and the consistency of time periods between the bank's obligations and the expected benefits to be paid by customers. In the event that a significant portion of the portfolio is highly sensitive to the interest rate, a stress test should be carried out periodically (John, 2013).

- **Risks of Exchange Rate Fluctuations**

It arises as a result of executing transactions, whether buying or selling in foreign currencies other than the base currency, and the resulting fluctuation in their prices and affecting the items of the financial position, which calls for investigation and study of the reasons and taking precautions to reduce the losses that may result from that fluctuation (Abubakar, 2015).

- **Liquidity Risk**

It is represented in the inability to repay financial obligations when they become due and the insufficiency of short-term assets to meet the liabilities, especially when a sudden attack occurs and customers' desire for various reasons to withdraw deposits. Therefore, it must be hedging and maintaining a percentage of highly liquid assets as a source of liquidity provision due to its important role in providing the necessary funds to expand the volume when needed, adding credit without the need to borrow (lama, 2017).

3. **Non-financial Risks**

Such as operational, strategic, legal and reputational risks.

- **Operational Risks**

Operational risks arise from the practice of day-to-day operations and are related to the provision of various banking services or products. Operational risks arise due to gaps in the internal control system, or weak management control over the course of affairs in the bank, which leads to financial losses due to errors or delays in implementing decisions, or non-compliance with the rules of banking work (lama, 2017).

Operational risks include malfunctions or errors in the electronic operating system of data and information, insufficient cyber security and the occurrence of cyber-attacks on the bank's systems, and they must be hedged either by insurance or contingency planning.

- **Strategic Risks**

Strategic risks that may have a severe impact on profits and the capital itself, as a result of incorrect decisions and inappropriate strategic plans, must be reduced. Therefore, the absence of an appropriate strategy for the bank that enables it to determine its main path to achieve its objectives in light of the competition conditions and the surrounding environment, results in risks with a high impact on the practice of the activity (FDIC, 2015).

- **Legal Risks**

The bank is exposed to it due to a number of factors, including a lack of documents due to omission, omission, or failure of the bank to abide by legal procedures, such as its failure to comply with the prescribed limits for granting loans, and failure to comply with the instructions that may be issued by the supervisory authorities, or international bodies that aim to control banking operations and practices (Ganić, 2014).

- **Reputational Risk**

Reputational risk arises when the bank is faced with negative views of investors and civil society about the bank, which causes a vibration in confidence and thus negatively affects the bank's activities, knowing that customer confidence is the basis for the bank's continuity (Ganić, 2014).

8. Study Approach

The study methodology is based on analyzing the phenomenon and revealing the relationships between its various dimensions and finding a scientific explanation and conclusion in its light solving the problem.

The questionnaire that was designed by referring to previous studies and theoretical literature was used for the sub-variables included in the independent variable, which are (credit policies, credit risk rating, credit risk management policies, credit granting process management, credit maintenance and follow-up) and the dependent variable (banks). Moroccan), where 12 questionnaires were distributed, with two questionnaires for each bank, including jobs within the administrative levels, and the results of the questionnaire were analyzed using the statistical analysis package (SPSS 2 2).

9. The Results of the Test of Stability of the Study Tool for Descriptive Statistics

The (Kronach alpha) test was used to measure the stability of the measurement tool, where the value of the study variables reached $\alpha = 0.878$, which is an excellent percentage as it is higher than the accepted percentage 0.60 Also, the value of α for the study variables was higher than the accepted percentage 0.60 as shown in the table the following:

Table 1 - Study instrument stability test

Study variables	Cronbach's alpha value
credit policies	0.764
credit risk rating	0.734
Credit Risk Management Policies	0.893
Managing the credit granting process	0.742
Credit maintenance and follow-up	0.771
Study variables	0.878

Normal Distribution Test Results

The (S-K) test was used to test the extent to which the data follow the normal distribution, where the SIG value was higher than 0.05, which indicates that the data follow the normal distribution. The SIG value for the independent variables was 0.868, and this is illustrated by the following detailed table:

Table 2 - Normal Distribution Test

Study variables	SIG. value
credit policies	0.611
credit risk rating	0.352
Credit Risk Management Policies	0.888
Managing the credit granting process	0.684
Credit maintenance and follow-up	0.698
Study variables	0.868

Multiple Correlation Test Results

The VIF test was used to test the extent of interference between the independent variables with each other, as it was found that the value of VIF is less than 5, which indicates that there is no interference between the independent variables with each other, and this is what the following table shows:

Table 3 - Multicolleniarity test

Study variables	VIF value
credit policies	2.015
credit risk rating	1.251
Credit Risk Management Policies	1.978
Managing the credit granting process	2.506
Credit maintenance and follow-up	1.507

The Results of the Descriptive Statistics of the Study Variables

Table 4 - The Arithmetic Mean and Standard Deviation of the Credit Policies Variable Paragraphs

NO.	Paragraph	SMA	standard deviation	level approval
1	The management of the bank avoids inconsistency in decision-making in the bank by finding a measure from the unity of thought, coordination and common understanding between the bank and its customers	3.75	.856	High
2	The management of the bank works to rationalize the credit decision in the bank, by defining the areas in which employment is possible, and the areas in which it should not be employed, and then maintain the integrity of the credit granted, and the proper use of the funds of the bank's clients who are depositors.	4.0	.632	High
3	The bank's management ensures an appropriate return for the bank by reducing losses and increasing profits, and then maintaining its continuity in performing its mission, expanding its scope and supporting it with accumulated reserves that strengthen the soundness and strength of the banks financial and market position.	3.81	.655	High
4	There is compatibility in the credit policies with the general direction of the national economic policy maker, and the harmonization between the bank and the state in terms of the bank's adoption of the priorities set by the state in the economic development plans, and the employment of part of its resources in them.	3.50	.632	Middle
	The general mean and its standard deviation	**3.76**	**.535**	High

ISSN: 2237-0722
Vol. 11 No. 4 (2021)
Received: 17.08.2021 – Accepted: 18.09.2021

We note that the sample's trends are positive towards the above paragraphs, because its arithmetic averages are the largest cities in the mean of the measurement tool (3). We also note that the general average of 3.76 reflects the high degree of approval of the above variable. We also note that paragraph (2) is the most agreeable paragraph with an arithmetic average of 4.0 while paragraph (4) was the least compatible with a mean of 3.50.

10. Conclusions

The results of the tests used to study the impact of credit risk management on the Moroccan commercial banking sector revealed the following:

- The results of the study indicated that the management of banks within the included sample works to rationalize the credit decision of the bank in relation to credit policies, by defining the areas in which employment can be made, and the areas in which employment should not be employed, and then maintaining the integrity of the credit granted, and the proper use of the bank's clients' funds depositors.
- The results of the study indicated that the management of banks within the included sample guarantees an appropriate return by reducing losses and increasing profits, and then maintaining its continuity in performing its mission and expanding its scope and supporting it with accumulated reserves by imposing credit policies that strengthen the safety and durability The financial and market position of the bank.
- The results of the study indicated that the banks within the included sample periodically perform distributions according to credit ratings.
- The results of the study indicate that the management of banks within the included sample works on the existence of routine procedures at the bank to ensure compliance with internal procedures that depend on documentation, controls and instructions related to an orderly measure of credit risk. As part of its implementation of credit risk management policies.
- The results of the study indicated that an indicative summary is adopted for credit risk management in banks within the included sample, which explains the basic principles of the credit risk management system.

1) Recommendations

- The banks rely on self-insurance by deducting certain amounts to be placed as reserves to face losses, including bad debts, instead of buying insurance coverage.
- The bank management should take the credit decision on the basis of the conditional rejection or acceptance of the requests for loans and credit facilities provided to the bank's clients in light of the credit elements governing the credit activity.
- That banks focus on placing compliance with administrative procedures and regulations and applicable laws as a priority.
- That the bank administrations set quality control programs through which the process of entering information into the banking information systems is accurate and adheres to the required time controls.
- Banks ensure that the portfolio loans are categorized according to objective bases and criteria that take into account potential risks that may be realized, in order to ensure the continuity of the quality of their profits.
- That the banks provide the interests received on the loan portfolio at the appropriate time and quality, in order to achieve the required quality of profits.

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