Analysis of Credit Culture in the Zimbabwean Banking Sector

Wellington G. Bonga*, Givemore Chirenje**, Providence Mugayi***
*PhD Economics (AIU), MCom Finance (GZU), MBA (ZOU), MSc Economics (UZ), BSc (Hons) Econ (UZ)
**MSc Finance & Investment (NUST), Hons. Business Studies – Banking & Finance (UZ)
***MSc Economics (UZ), BSc (Hons) Economics (UZ)
sirwellas@gmail.com, givychirenje@gmail.com, providencemugayi@gmail.com

Abstract: This paper is motivated by high levels of non-performing loans in the Zimbabwean banking sector since dollarization in 2009. Banks are well known for their function of providing liquidity in the economy. Normal loan awarding require credit analysis. Credit analysis is undertaken to assess the possibility of the paying back of borrowed funds by the borrowers. Despite, the condition of credit analysis in place in banks, there is continued increase in levels of non-performing loans. The study seeks to analyse the credit culture of banks in Zimbabwe. The study employs a questionnaire approach to determine the level of credit culture employed in the banking sector. Using 188 responses from an electronic survey comprising of 17 questions including demographics, the study managed to explore various issues linked to credit culture of the Zimbabwean banking sector. Credit culture has been found to be below optimal level despite the fact that many respondents indicated that credit risk management is critical. Corporate governance issues have been identified as lacking in the sector, hence aiding to poor credit culture. Internal and external factors have been identified as defining poor credit culture in the sector. Poor credit framework in banks, nepotism and insider loans, political influence are some factors leading to poor credit culture. The study concludes by suggesting proper reforms in the banking sector to grant them autonomy from politics, development of proper credit framework to be followed, effective credit analysis, ongoing lender training among other measures. Good credit culture should be promoted to ensure a viable banking sector and hence promoting economic growth. Loan default is strongly linked to poor credit analysis and improper loan allocation, and this should be dealt with by encouraging good corporate governance and maintaining a good credit culture, hence avoiding NPLs.

Key words: Banking Sector, Corporate Governance, Credit Culture, Loan Default, Non-performing Loans, Zimbabwe

JEL Codes: B26, C83, F34, G14, G21, G28, G32, G33, H81, L52, O16

1. Introduction

Banks are essential for developing countries to transform savings into new investments, without which economic growth and poverty reduction will be retarded (Boumphrey, Dickie and Tukuafu, 2005). Bonga & Mlambo (2016) narrated that banks and various financial institutions exist to offer intermediation services. Furthermore, a competitive banking system is a pre-requisite for effective intermediation between savers and investors (Sanderson & Pierre, 2016). Banks and financial institutions live on interest income and non-interest income among other sources (Bonga, 2016). Loans form a greater portion of the total assets in banks, and these assets generate huge interest income for banks which to a large extent determines the financial performance of banks (Mabvure et. al, 2012). Loans, when extended to finance deficit individuals and/or deficit institutions have terms attached for repayment of principal and interest, and this usually constitute bank earnings. Apart from the positive expectations, some of these loans extended to individuals and institutions usually fall into non-performing status and adversely affect the performance of banks. Loans that usually deviate from their expected payback pattern or fail to payback are non-performing loans. Non-performing loans are also termed “bad loans” (Basu. 1998) or impaired loans or problem loans (Berger and De Young, 1997). A substantial number of banks in Africa have failed, mainly because of non-performing loans, lending at high interest rates to borrowers in high risk segments of the credit market, the extent of imprudent management which showed deficiencies in bank regulation and supervision and poor loan quality which has its roots in the informational problems which afflict financial markets, and which are at their most acute in developing countries (Dzomira, 2014).

African banks are usually faced with a prisoner’s dilemma. The balance between the need to charge high interest rates and the restriction of the number of loans with high probability of defaulting is normally a big challenge. There is need to craft effective corparative strategies that can also cover the bank in cases of defaults. Some Zimbabwean banks joined the Deposit Protection Scheme. This protects the depositors in cases of bank failure. This is then used by banks as a marketing gimmick to attract deposits that will also be channelled towards loans.
Credit culture reflects a bank’s approach to underwriting, managing and monitoring credit risk. Strischeck (2017), indicated that credit culture is the glue that binds the credit process and forms the foundation for credit discipline. As supported by Vo (2015), credit culture is the bridge to communicate the understanding and purposes of lending policies made by the top managers to all staffs who are actual people implementing loan-granting process to customers. A bank's credit culture is, in the broadest sense, the unique combination of policies, practices, experience, and management attitudes, which defines the lending environment and determines the lending behavior acceptable to the bank (Barr and McWhorter, 1992). Every bank has a credit culture, which may be formally defined by management or evolves over time. McKinley (1990) identifies four basic types of credit cultures in banks; values driven, immediate-performance driven, production driven and unfocused. An optimal credit culture may be ideal. The optimal credit culture is not one that minimizes losses but one that provides the best credit quality consistent with management priorities within acceptable standards of performance (Strischeck, 2003).

Credit culture tightens the credit risk objectives set by the banks with the credit policies in line with the business strategy to obtain them. Credit policy designed by the banks nowadays is the formal written statements providing the regulatory framework for the credit- approval process, the loan rating system, the act to monitor and manage the loans, assess the potentially doubtful debts (Basel Committee 2000).

1.1 A Glimpse of NPLs in the Dollarisation era for the Zimbabwean banking Sector

Studies in other countries show that most of bank failures have been caused by NPLs (Brownbridge, 1998). NPLs have always been there in the Zimbabwean banking sector since 1980, however they were insignificant to cause panic in the market (Mtomba, 2014). Zimbabwe is facing a credit crunch at the moment as financial institutions are not willing to lend due to the rise in non-performing loans in the sector. When the country adopted the multi-currency in 2009 there was a huge appetite for lending and financial institutions provided loans to individuals and corporates (Mtomba, 2014). NPLs have risen from 1.6% in 2009 when the country adopted the multi-currency to over 10% from 2011 onwards, and doped slightly to 7.6% in 2016 after the interference of Zimbabwe Asset Management Corporation (ZAMCO). In 2009, some companies in the market borrowed to recapitalise, but they failed to repay the loans as the country moved from recovery to real growth. NPLs were further fuelled by the absence of the credit reference bureau which helps in tracking the creditworthiness of borrowers. As observed by Chavan and Gambacorta (2015), financial institutions tend to overstretch their lending in periods of economic upturns and restrain it during downturns; and this scenario has been observed for Zimbabwe banking institutions.

The statistics for NPLs in the banking sector for the period 2009 to 2018 are presented in Table 1 below:

<table>
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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>NPLs</td>
<td>1.8%</td>
<td>4.2%</td>
<td>7.6%</td>
<td>13.5%</td>
<td>15.9%</td>
<td>15.9%</td>
<td>10.8%</td>
<td>7.9%</td>
<td>7.1%</td>
<td>8.3%</td>
</tr>
</tbody>
</table>


The statistics shown above shows that NPLs exist in the sector with a significant trend over the period. The minimum acceptable rate has been set at 5% by the Reserve Bank, and the real statistics are above the tolerable level. Such statistics invites concern for investigations in the sector, so as to drive the sector towards the tolerable levels of NPLs.

One effort to address high levels of NPLs was done through Zimbabwe Asset Management Corporation (Private) Limited (ZAMCO) in 2014. ZAMCO was established by the Reserve Bank in July 2014 to resolve banking sector asset quality challenges through acquisition, restructuring, managing and disposal of non- performing loans (NPLs). ZAMCO started operations in October 2014. As at 31 December 2015, ZAMCO had acquired and restructured non-performing loans totaling $357 million from a number of banking institutions.

1.2 Research Objectives

The study seeks to evaluate the banking sector credit culture in Zimbabwe. The evaluation is linked to high levels of non-performing loans in the multi-currency era, even after the ZAMCO interference and the credit reference bureau. Corporate culture of banks is seen by many as a root cause of risk taking behaviors and the consequent instability in the financial system (Nguyen, Nguyen and Sila, 2016). Is the credit culture in the banking sector optimal?

1.3 Research Problem

Banking is an extremely risky business; banks accept demand deposits and with that funding, they provide credit for business financing, including longer-term project finance (Boumphrey, Dickie and Tukuafu, 2005). Successful banks have developed an internal credit culture that guides their banking operations. Loans will not be
made unless there is a demonstrated capability for repayment. For the past two decades Zimbabwe banking sector has witnessed the closure of many banks, especially local banks, with various contributing factors being cited. Corporate governance issues form part of the contributing factors to bank failures, issues of insider loans, political interference, over-lending, central bank monitoring issues among other factors have been cited. Banks’ main source of income is from loan interest among other sources. Hence there is greater need to investigate the strength of the credit culture in the loan process. NPLs are expected to be very low where optimal credit culture is being practiced. The closure of banks is a corollary of many factors such as insider loans and high levels of defaulting loans.

1.4 Significance of the study
Banks are financial intermediaries, which help by matching supply and demand of funds. They provide liquidity in the economy, and allow smooth flow of business and hence economic growth. As noted by Asfaw, Bogale and Teame (2016), a healthy economy depends heavily on efficient transfer of funds from savers to individuals, businesses, and governments who need capital. In view of the critical role banks play in an economy, it is essential to identify problems that affect the performance of these institutions. Bonga & Mlambo (2016), indicated that financial stability is very crucial in any economy which supports a growth motive. Since dollarization, level of non-performing loans has been on the rise, posing a threat to bank profitability and financial stability. The study explore the credit culture of banks, in an effort to determine the source of non-performing loans. As supported by Barth et.al., (2001), well-functioning commercial banks accelerate economic growth, while poorly functioning commercial banks are an impediment to economic progress and aggravate poverty. Lending of loans has been a traditional function of banks (Njanike, 2009), this function should be modified to efficiency through monitoring and evaluating credit culture disparities.

1.5 Scope
The paper in its quest to explore and examine credit culture in the Zimbabwean banking sector, relied on responses from an electronic survey from various individuals across the nation, who have experience and/or knowledge of the lending processes by banks.

2. Literature Review
Corporate culture of banks explains their credit decisions (Nguyen, Nguyen, Sila, 2016). Despite advances in credit scoring technology and automation of the underwriting process, credit decisions remain by and large activities that require human decision and evaluation of borrower’s soft information (Brown, Westerfeld, Schaller, & Heusler, 2012; D. Campbell, 2012; Filomeni et al., 2016). Credit activities require personal judgement of the credit officer and cannot be fully regulated ex ante (Nguyen et al, 2016). Corporate culture may become a coordination mechanism (O'Reilly, 1989) and a determinant of how credit decisions are made. The theory of asymmetric information tells us that it may be difficult to distinguish good from bad borrowers which may result into adverse selection and moral hazards problems. Asfaw, Bogale and Teame (2016) noted the effect of asymmetric information in credit market where the borrower knows the expected return and risk of his project, whereas the lender knows only the expected return and risk of the average project in the economy. A better party in terms of information has an advantage to negotiate optimal terms for the transaction than the other party. Bester (1994), indicated that adverse selection and moral hazards have led to significant accumulation of NPLs in banks. Boudriga et al. (2009), supported the facts by indicating that, problem loans are often used as an exogenous variable to explain other banking outcomes such as bank performance, failures, and bank crises. Bercoff et al (2002), in their study for Argentina banking system using survival analysis argued that NPLs are affected by both bank specific factors and macroeconomic factors.

In another class of propositions, Rajan (1994) argues that banks are rational agents driven by two short-term concerns: earnings and reputation. According to the ideology banks tend to herd their peers in terms of lending with the comfort that they would not severely under-perform even if the credit cycle busts. Due to such facts they tend to follow a more liberal credit policy by extending the terms of loans and weakening credit covenants. Four cognitive biases afflicting banks; disaster myopia, cognitive dissonance, institutional memory hypothesis and principal-agent problem. Disaster myopia or short-sightedness in underestimating the likelihood of high-loss low-probability events; banks can mitigate this risk by investing adequately in information about market conditions and borrowers, however their myopia often inhibits them from making such an investment. Cognitive dissonance, wherein banks do have the necessary information at their disposal but tend to interpret it in a biased way, reinforcing their existing beliefs about market conditions. Institutional memory hypothesis indicate that banks having fading memories of previous credit busts aggravating procyclicality in loan growth and risk-taking (Berger and Udell, 2003). Principal-agent problem between shareholders and managers, with the latter more interested in short-term gains resulting in a more procyclical risk-taking response by banks during credit upturns (Williamson, 1963; Saunders et al., 1990).
Life-cycle consumption model was examined by Lawrence (1995), introducing explicitly the probability of default. The model implies that borrowers with low incomes have higher rates of default due to increased risk of facing unemployment and being unable to settle their obligation. Furthermore, banks when in equilibrium, charge higher interest rates to riskier clients. Lawrence’s model was extended by Rinaldi and Sanchis-Arellano (2006) with assumptions that agents borrow in order to invest in real or financial assets. The probability of default depends on current income and the unemployment rate, which is linked to the uncertainty regarding future income and the lending rates. Too big to fail banks concept represents another channel relating bank-specific features with NPLs; a policy concern is that too-big-to-fail banks may resort to excessive risk taking since market discipline is not imposed by its creditors who expect government protection in case of a bank’s failure (Stern and Feldman, 2004).

5 Cs of Bad Loans. MacDonald and Timothy (2006) noted 5 Cs of bad credits that represent the issues used to guard against/prevent bad loans; complacency, carelessness, communication ineffectiveness, contingencies, and competition. The 5 Cs defines the credit culture of banks, how it is applied in the credit process determines its strength to avoid NPLs. Complacency: the tendency to assume that because things were good in the past, they will be good in the future - the previous loan repayment success will continue to dwell for new issues. Carelessness: poor underwriting typically evidenced by inadequate loan documentation, lack of current financial information or other pertinent information in the credit files, and lack of protective covenants in the loan agreement. Communication ineffectiveness: inability of management to clearly communicate the bank’s objectives and enforce loan policies. Contingencies: refers to the lenders’ tendency to play down/ignore circumstances in which a loan might in default. Competition: involves following the competitors’ action rather than monitoring the bank’s own credit standards (Gezu, 2014).

5 Cs of credit for commercial banks. The 5 Cs dictate a culture, a train of thought or a logical view of the banking profession. The 5 Cs of credit are: capacity, character, collateral, capital and conditions. 5 Cs of credit serve as a lead chapter in the industry’s banking bible. Capacity examines whether the borrower has the capacity or ability to repay. Character examines whether the borrower demonstrates a willingness, or has a track record of a willingness to repay. Collateral is the secondary source of repayment; it pledges other assets against the loan in case the primary source of repayment fails. Capital measures the risk in the credit request. Conditions measure outside forces, and the probability of whether or not repayment is going to be made.

The reviewed theories and empirics shows that credit culture exist and it plays a critical role in the loan process. Credit culture varies with institutions and is closely related to institution’s various business objectives. Corporate culture exist to define actions and routes to take on various situations to enhance success in the loan offering and loan repayment process. NPLs arise from both bank specific factors and external factors. However, bank management should be able to minimize NPLs if a good credit culture is promoted and communicated in the respective organization.

3. Methodology

The study has employed a questionnaire approach to collect responses. An electronic survey was employed through Monkey Survey, using an electronic link; [https://www.surveymonkey.com/r/RSCXYNK] that was distributed through emails and social sites to reach country population. Electronic surveys are quick to distribute to participants, and requires working with the internet. The questionnaire has seventeen questions, including demographic questions to test the reliability of responses.

3.1 Questionnaire Discussion

Demographics questions include; age, sex, education status, marital status, and work experience. Demographics are characteristics of a population.

Demographics, apart from reliability of responses help to check on quality of responses and distribution of participants. Choosing the proper demographic questions will truly give you actionable and meaningful results to assist in making better business decisions (De Franco, 2012). Demographics were Q1 – Q5 of the questionnaire.

Q6. Have you ever borrowed funds from your bank or company? The question seeks to test the experience that the respondent have on borrowing. The study assumes that respondents that have at least been involved in borrowing have a more appreciative response to credit culture of banks. The need for borrowing may arise in one’s lifetime but the move to borrow has its own determinants. Individuals tend to assess themselves well before they approach any financial institution. They consider all the parameters they think are linked to loan approval including payback terms.

Q7. Have you ever failed to pay back any loan from bank, company or friend? The question checks on loan default experience of respondents. After a loan is awarded to an individual, what is left is to payback according to the payment terms. However, various happenings may cause loan default. The study believes that some individuals who have failed to pay loan either from a financial institution or at least from a friend or neighbour have a better understanding of loan default.
Q8. In a scale of 1 (too low) - 5 (too high), how do you rate loan interest rates that prevail in the market? The question seeks to obtain the general view that people have on the prevailing interest rates in the financial sector. Respondents are given a ranking scale. Usually interest rates are deemed too high when the return on the market is not providing the much needed profits from borrowed funds. This may be due to lack of business opportunities, imperfect markets, economic pressures among other factors. Interest rates also depends on availability of funds in the market and the demand itself.

Q9. In your own opinion, do banks assess loan applications adequately? Give rank? The question seeks to explore the loan assessment process of banks before granting to their clients. In this question the views of respondents is required. Assessment of loan applications is very critical in defining the credit culture of banks. There may be various factors that hinders proper assessments, but banks should have a strong effort to address and keep such factors under control. Volume of applications may on itself affect processing time and scrutiny. Resources allocated to assessments may also define efficiency in assessments. The study proposes that better loan assessments may help in lowering loan default rate and hence defines a good credit culture for the institution.

Q10. In your own opinion, do banks perform monitoring & evaluation of projects funded by their loans on a regular basis? Rank! The level of monitoring and evaluation of projects funded by banks is being checked by this question. The question assist in determining the credit culture within the banks. Projects need to be profitable so that they can payback including the borrowed amount and interest in time and in full. Monitoring and evaluation of projects is critical to avoid or reduce loan default. Banks who have a viable department for monitoring funded projects are better to avoid loan default and hence entails o good credit culture.

Q11. What do you think of the importance of credit risk management in your bank? The concept of credit risk management is checked from the respondents. Respondents help the banking sector to identify the level of cruciality for policy implementation. Credit risk management is critical to avoid awarding loans to risky clients. Due to lack of national credit database, some risky clients are found in every bank’s borrowers.

Q12. In your own opinion, how do you rate "risk management" level of loans by banks in Zimbabwe? Rank! The risk management levels by banks is examined through this question. Risk management framework of banks also help in defining their credit culture. There are many ways that banks use to avoid or manage credit risk. Management of credit risk also helps in defining the credit culture of banks. Poor credit risk management is linked to poor credit culture because loan default rate is likely to be high in this particular scenario.

Q13. Do Zimbabwean banks exert adequate effort to enable loan repayment? Rank! Effort of banks to recover loans offered and interest is examined by the question. The study assumes that there is a minimum required level of effort that ensures loan repayment is done smoothly. The act contributes to define the credit culture of banks.

Q14. What is the level of corporate governance practice in Zimbabwean banks? Rank. The study acknowledge the link between corporate governance and credit culture. The question seeks to determine the level of corporate governance practice in Zimbabwean banks. Ranking is required for this question.

Q15. How do you rate nepotism in loan approvals in Zimbabwean banks? There are certain practices that are found in various societies that do affect credit culture of banks. Nepotism in loan disbursements is checked for the whole banking sector. A scale to check the intensity is used.

Q16. How common are "insider loans" in Zimbabwe Banks? Rank. Insider loans, just like nepotism has a bearing on the credit culture of banks. The question seeks to check on the dominance of such types of loans in the banking sector.

Q17. How do politics affect bank lending in Zimbabwe? Rank intensity! The impact of politics on bank credit culture is examined through this question. Bank autonomous to politics is checked through the question. Respondents are required to give a rank on a scale.

Examining of the credit culture of banks done using the seventeen online questions. The responses obtained will aid in understanding the credit culture of Zimbabwean banks, and the associated policy derivations from the observed responses.

4. Data Presentation and Analysis

The online survey has been open from 22nd of January 2019 up to 15 March 2019, a sufficient period to collect adequate responses for analysis. The survey was send to workmates, known scholars, public sites and probable networks to capture the Zimbabwean population. The study has capture only those respondents who work with the internet.

The study has managed to obtain responses from 188 participants. The survey questions were not too strict, to the extent that participants were able to skip some questions they feel they could not give a response. The statistics is significant enough to explore credit culture of banks in Zimbabwe and enable the study to provide answers to research questions.
The participants’ distribution is shown below;

**Distribution of Participants by Age**

![Distribution of Participants by Age](image)

The above Figure shows the composition of the participants. Majority of the participants were of the age group 25-35 years constituting about 68.89%, followed by age group 35-45 years with 18.33% of the participants. The majority of the population are mature enough to give feedback on the banking sector activities.

**Distribution of Participants by Sex**

<table>
<thead>
<tr>
<th>Sex Group</th>
<th>Participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Female</td>
<td>38.04%</td>
</tr>
<tr>
<td>Male</td>
<td>61.96%</td>
</tr>
</tbody>
</table>

Males constitute the majority with 61.96% representation as compared to their female counterparts constituting 38.04%. The study in its undertakings offered equal opportunities to both sexes, and there was no discrimination ever provided.

**Distribution of Participants by Marital Status**

<table>
<thead>
<tr>
<th>Marital Status</th>
<th>Participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>27.72%</td>
</tr>
<tr>
<td>Married</td>
<td>69.57%</td>
</tr>
<tr>
<td>Divorced/Widowed</td>
<td>2.72%</td>
</tr>
</tbody>
</table>

The study participants constituted 69.57% being married, 27.72% being single and 2.72% being divorced/widowed.

**Distribution of Participants by Academic Qualifications**

![Distribution of Participants by Academic Qualifications](image)

The majority of the participants indicated that they have at least earned a degree. 48.11% indicated having a degree and 46.49% indicated having a Masters/PhD qualification. Such distribution assures informed responses being collected for analysis.
Table above shows the distribution of participants by work experience. About 48.37% of participants being majority has a work experience of 5-10 years, 26.63% of participants have work experience of less than 5 years, and 20.65% have more than 10 years of work experience. Students constitute 2.72% and the self-employed constitute 1.63% of the participants.

Q6: Have you ever borrowed funds from your bank or company?

Many of the participants (72.83%), have an experience in loan application and have succeeded to be awarded, while 23.37% have their applications rejected. 3.80% of participants have never applied for loans.

Q7: Have you ever failed to pay back any loan from bank, company or friend?

Many of the participants are not loan defaulters (89.73%), while about 8.65% of participants have failed to payback loans.

Q8: In a scale of 1 (too low) - 5 (too high), how do you rate loan interest rates that prevail in the market?

On average participants have indicated that interest rates prevailing in the banking sector are high. An average score of 72 out of 100 (3.6/5) is closer to 5 (too high), implying that participants rate the prevailing interest rates as too high.

Q9: In your own opinion, do banks assess loan applications adequately? Give rank?

A score of 47 is below average, implying that banks are viewed as not adequately assessing loan applications. Improper assessment of loan applications defines poor credit culture of banks.

Q10: In your own opinion, do banks perform monitoring & evaluation of projects funded by their loans on a regular basis? Rank!

Participants have indicated that monitoring and evaluation of loan funded projects by banks is poor. A score of 34 is below average, implying the effort banks are putting on monitoring and evaluation is not satisfactory in the eyes of the participants.
Q11: What do you think of the importance of credit risk management in your bank?

![Importance of Credit Risk Management in Banks](image)

To check the levels of understanding on the importance of credit risk management of banks, participants have been asked the above question. Majority of participants, 61.41% have indicated that credit risk management is very important, 33.75 indicated that its quite important, while a small fraction thought otherwise (4.35% - not so important, 0.54% - not important). The noticeable response here is that credit risk management is critical to the banking sector. It define the credit culture of banks. Kihuro & Iraya (2018), indicated that it is a succinct that banks or financial institutions that need to manage and maintain acceptable levels of NPLs must invest in a robust and reliable credit risk management system.

Q12: In your own opinion, how do you rate "risk management" level of loans by banks in Zimbabwe?

<table>
<thead>
<tr>
<th>Rank</th>
<th>Average Number</th>
<th>Total Number</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>42</td>
<td>7735</td>
<td>184</td>
</tr>
</tbody>
</table>

The participants have indicated that risk management by banks is poor. A score of 4.2 out of 10 is below average. The way banks are managing risk is below expectation. This might be the source of high levels of non-performing loans. A study by Munyanyi & Mashamba (2019), concluded that banks with business models that are more inclined towards increasing financial performance and creating value positively correlate to tighter risk management systems, while those who are customer centric tend to have lighter demands in their management of risk. Therefore banks in Zimbabwe should revise their risk management policies for them to earn profit and survive in the long run. When a risk is properly managed, chances are that there would be a significant reduction on the negative effects of a risky event on the firm (Chimwai & Munyanyi, 2019).

Q13: Do Zimbabwean banks exert adequate effort to enable loan repayment? Rank!

<table>
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<tr>
<th>Rank</th>
<th>Average Number</th>
<th>Total Number</th>
<th>Responses</th>
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<tbody>
<tr>
<td>1</td>
<td>53</td>
<td>9762</td>
<td>185</td>
</tr>
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</table>

Banks should take keen interest of loan repayment to ensure that they undergo minimal losses (Migwi, 2013). The statistics 53 (or 5.3 out 10) implies that banks only apply an average effort to have loans be repaid by borrowers. There is no strong effort being seen in the sector. This might be one bank-specific factor that contributes to high loan-default in the sector and hence high levels of non-performing loans. Migwi (2013), came up with strategies to improve loan repayment for Kenyan Banks (which this study also recommends for Zimbabwean banks); securing of loans, adequate training of the relationship officers, informing customers and visiting to convince them to pay the loans, make good use of private collection agencies, and refering accounts to Credit Reference Bureaus in order to avoid long court cases, among others.

Q14: What is the level of corporate governance practice in Zimbabwean banks? Rank

![Ranking Corporate Governance in Banks (out of 10)](image)
The level of corporate governance in the Zimbabwean banks have been found to be 4.1 out of 10. The rating is below the 50% mark, implying that the participants have indicated that there exist poor corporate governance in the sector. Banks are not following proper banking ethics as they are stipulated to practice in their day-to-day operations. Corporate governance is highly expected from banks (Bonga, 2016). Madzokere, Matanda & Chikodza (2013), indicated that effective corporate governance and ethics are critical if institutions are to successfully manage risk in their desire to grow and develop.

**Q15: How do you rate nepotism in loan approvals in Zimbabwean banks?**

<table>
<thead>
<tr>
<th>RANKING NEPOTISM IN BANKS AWARDBING LOANS (OUT OF 10)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 0 1 2 3 4 5 6 7 8 9 10</td>
</tr>
<tr>
<td>5.6</td>
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</table>

A rank of 5.6 out of 10 on nepotism, implies that credit culture of banks is greatly affected. The loan awarding process is not fair and just. This might be the source of non-performing loans. Nepotism is a form of corruption and defines unhealthy institutions. Nepotism is related to favoritism and cronyism with the same social and economic effects. Favouritism, cronyism and nepotism facilitate corruption, hence adversely affect organizational and economic development (Safina, 2015). A study by Bonga (2014) on corruption, found nepotism/favouritism/cronyism as the popular form of corruption in the Zimbabwean society having ranked number 1 with an index of 1.705.

**Q16: How common are "insider loans" in Zimbabwe Banks? Rank**

<table>
<thead>
<tr>
<th>Ranking Insider Loans in Zimbabwean Banks (out of 10)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 0 1 2 3 4 5 6 7 8 9 10</td>
</tr>
<tr>
<td>5.9</td>
</tr>
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</table>

The above results of 5.9 out of 10, implies that insider loans are common in the banking sector. Insider loans compromise the credit assessment process and usually affects the loan cap awarded to individuals. There is no match in the amount of loan given to an individual and the ability to pay back. The significance of insider loans implies poor credit culture of banks.

**Q17: How do politics affect bank lending in Zimbabwe? Rank intensity!**

<table>
<thead>
<tr>
<th>IMPACT OF POLITICS ON BANKS AWARDING LOANS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 0 2 4 6 8</td>
</tr>
<tr>
<td>7.7</td>
</tr>
</tbody>
</table>

The study results have shown that banks are not autonomous from politics. The score is 7.7 out of 10, implying a severe impact of politics in the awarding of loans by banks to certain individuals or companies. Where politics takes control, it implies that credit assessment process is compromised, and hence this might be a source of loan default.

**5. Conclusion and Policy Recommendations**

The study managed to conduct an electronic survey on issues relating to credit culture of the banking sector in Zimbabwe. The study obtained responses from 188 participants. The study results help a lot in the understanding of credit culture and its components. The Zimbabwean Banking sector has been shown to have a poor credit culture, and there is greater need for banks to work towards improvement of many issues making up the credit culture. Corporate governance have been ranked average, indicating that there is no strong following of banking rules in the...
loaning process, and this translate to poor credit culture. Issues of nepotism and political interference in the loan process has been detected in the banking sector with a strong influence, and this affect loan approval process since there is no credit analysis undertaken in this case.

The study recommends that a strong credit culture should be promoted and implemented to avoid loan defaults as evidence by high levels of NPLs in the banking sector. To build a strong credit culture, some facts can be borrowed from Barr and McWhorter (1992), who indicated that a strong credit culture should be developed around the following criteria:

- Balanced growth with asset quality management.
- Approval system that delegates authority and holds lenders accountable.
- Separation of duties.
- Diversification of risk.
- Independence of loan review and the asset grading program.
- Centralization of credit policies.
- Ongoing lender training.
- Incorporation of credit quality into performance evaluations.
- Determination and enforcement of credit policy by an authority who is independent of both lending and marketing.

Worth to note is that culture cannot be changed overnight. Creating a credit culture is an ongoing, evolutionary process that requires periodic review and enforcement. Credit culture should be optimal to define a strong financial sector which as well translate to a better economy. Failure to promote good credit culture will only cause harm to the banking sector as institutions continue to lose possible earnings. Kihuro & Iraya (2018), indicated that weak credit risk management systems may lead to higher non-performing loans and ultimately negatively impact on the bank performance.

Research findings indicated that non-performing loans were caused by internal and external factors. There is greater need to work on both effects and dwell on solutions. Political interference is one external factor posing challenges in the loan process. Banks should be autonomous from politics for them to gain efficiency in their processes. Adequate reforms should grant autonomous of institutions from the politicians. Internal factors such as poor credit policy, weak credit analysis, poor credit monitoring, inadequate risk management and insider loans have been observe to exist in the banking sector and hence should be dealt with adequately to ensure optimal credit culture.

References
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