Impact of Credit Risk Management on Financial Performance of Savings and Credit Co-Operative Societies in Kitui County

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Abstract

The financial sector in any country is an important sector in the development of a country. Most failures in the financial sector have been caused by non-performing loans or bad debts which are attributed by poor or ineffective loaning policy. While the consequences of credit risk management are well understood, the direction of the effects are predicted by theory, and evidence on their magnitude are still scarce, and centered around banking sectors and insurance markets. This study focused on the credit risk management on financial performance in savings and co-operative societies in Kitui County. This study was undertaken in Kitui County, Kenya where the researcher based the research on financial performance and in specific Savings and Credit Co-operative societies (SACCOs). The research design used in this study was a descriptive research design. The data collection instruments in this case included self-administered questionnaires which were used to extract valuable primary data from the SACCOs' management. The study used quantitative method to analyze the data and examine the simultaneous impact of the independent variables on the dependent variable. The findings of the study are; there was a very strong positive relationship between credit monitoring and financial performance of SACCOs, there is a very strong positive relationship between loan policy in mitigation of risk and financial performance of SACCOs, there is a very strong positive relationship between loan defaulters and financial performance of SACCOs. The recommendations of this study are; the SACCOs should intensify, internal auditor doing verification of the loans so as to improve on the monitoring of loans, the SACCOs should continually review their loan policies so as to be up to data with the current economic trends, the SACCOs should consider not give loans without considering the retirement age.