CHAPTER V

ANALYSIS PHASE I

BUSINESS FINANCING OFFICER'S PERCEPTIONS

5.1 Introduction

The analysis in this study consists of respondents working in six (6) of the selected banks in Malaysia, as the purpose is to distinguish their current practices in managing credit risk in business financing approval and the differences between both banks approach in terms of credit evaluation process. These interviewees were chosen based on their job position and experience, which qualified them to give appropriate answers.

This chapter will present the first phase of analysis regarding the perceptions of business financing officers in such a way as to simplify it for the reader. A, B, C, D, E and F are used as synonyms for the respondents and the banks, respectively. The structure of the responses follows the structure of the interview guideline coherently. The responses will be given as reported speech (using the exact words of the respondents) and in some cases using his, her, us, we and they which all refer to the respondents.

Besides, this chapter begins by identifying the perceptions of selected banks interviews responses in section 5.2. There are three (3) important issues discussed under this section- section 5.2.1 discusses Five C's and CAMPARI elements in credit evaluation process, section 5.2.2 discusses factors in failure of credit evaluation process and section 5.2.3 discusses *Adl', Ukhuwah, Istiqamah, Akhlak, Syura' and*

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Tawakkal elements in credit evaluation process. Then, section 5.3 discusses findings of analysis and lastly is chapter summary.

5.2 Analysis of Selected Banks Interviews Responses

This section discusses deeply the responses from selected banks interviews responses and three (3) important issues found which includes of Five C's and CAMPARI elements in credit evaluation process, the factors in failure of credit evaluation process and lastly is *Adl', Ukhuwah, Istiqamah, Akhlak, Syura' and Tawakkal* elements in credit evaluation process.

5.2.1 Five C's and CAMPARI Elements in Credit Evaluation Process

Elements used in credit evaluation process conjure up different views and perceptions to the different types of banks approach. For some it was a normal part used as well as their current practices of credit evaluation process, whereas for others it was unacceptable because of some reasons. As seen in the interview questions in appendix, business financing officers were asked questions of what are the current practices in credit evaluation process. As the respondents may conjure up more than one image or word, Table 5.1 summarizes the business financing officer's perceptions of credit evaluation process:-

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Table 5.1 Words and Concepts Associated with Five C's and CAMPARI Elements by Selected Business Financing Officers

Words and concepts associated with Five C's and CAMPARI Elements	Islamic Window of Finance banks (IWFB)	Total	Full-Fledge of Islamic banks (FFIB)	Total
Character	3	3	2	2
Purpose	1	1	3	3
Amounts	1	1	1	1
Ability to Pay	1	1	2	2
Margin	0	0	1	1
Repayment Terms	0	0	0	0
Insurance	0	0	0	0
Capital	2	2	0	0
Capacity	2	2	0	0
Collateral	2	2	0	0
Conditions	0	0	0	0

Based on table 5.1 above, the two (2) most common word associations with Five C's and CAMPARI Elements were "character" and "capital" by respondents from Islamic window of Finance banks, as well the elements of "purpose" and "ability to pay" by respondents from Full-Fledge of Islamic banks. Different types of banks approach in this sample viewed have different virtue as their number one "character" and "purpose" issues.

Much effort is required in gathering the first utmost elements used with different types of banks approach. For Islamic window of Finance banks, "character" includes of the personality of the clients as to show a positive attitude, the reputation of the clients, the willingness to repay and repayment history. For Full-Fledge of Islamic banks, "purpose" includes of the intention (*niat*) for applying the business financing. These as experienced by respondents IWFB; C and FFIB; E:-

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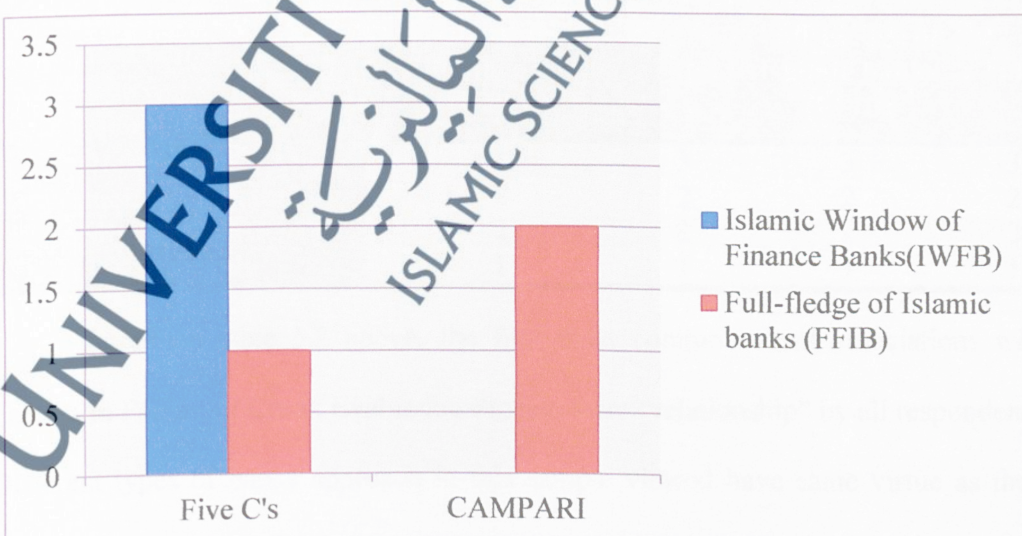
"The first most important elements that we used to evaluate our credit applicant is character. It includes of the personality, reputation of the company and history. The reason is the character comes first beforehand." (IWFB; C)

"Being prepared for credit evaluation process, to me, is that the purpose (niat) is come first, and have the intention to pay back the financing. It is about all the things that our clients need to do to first before the financing is approved then. Besides, purpose of financing must be Shariah compliant. Business financing for the purchase of alcoholic drink from the main supplier to be distributed to retail outlets is prohibited in Islamic banks as the goods are considered as illegal (Haram), and thus I have to be accountable to them." (FFIB; E)

On top of that, other common words associated with Five C's and CAMPARI Elements were "capital", "capacity" and "collateral" under respondents from Islamic Window of Finance Banks (IWFB). The three (3) top Five C's and CAMPARI Elements perceptions were related to mostly used Five C's elements. On the other hand, "ability to pay", "character" and "amounts" under respondents full-fledge of Islamic banks (FFIB) are the three (3) top elements perceptions. These mostly related to the elements of CAMPARI. To simplify, figure 5.1 below stated categories elements used by different types of banks approach.

Figure 5.1 Categories Elements used by Different Types of Banks Approach



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These as experienced by respondents IWFB; A and FFIB; F:-

"We are guided by Bank Negara Malaysia (BNM) "Credit Risk Management Process" as issued in 2001. However, mostly we used Five C's elements as our main tools in credit evaluation process." *(IWFB; A)*

"We used CAMPARI elements because one part of these elements has purpose element. So, we consistent used this in evaluating our clients as mention by Bank Negara Malaysia (BNM) guideline of "Credit Risk Management Process", there is 10 factors to be considered in credit evaluating process, and the first is purpose elements." (FFIB; F)

5.2.2 Factors in Failure of Credit Evaluation Process

Factors in failure of credit evaluation process conjure up different views and perceptions to the different types of banks approach. As seen in the interview questions in appendix, business financing officers were asked questions of the reasons of increases in credit risk in credit evaluation process. As the respondents may conjure up more than one image or word, Table 5.2 summarizes the business financing officer's perceptions of determinants in failure of credit evaluation process:-

Table 5.2 Words and Concepts Associated with Factors in Failure of Credit Evaluation Process by Selected Business Financing Officers

Words and Concepts associated with Factors in Failure of Credit Evaluation Process	Islamic Window of Finance banks (IWFB)	Total	Full-Fledge of Islamic banks (FFIB)	Total
Relationship	3	3	3	3
Asymmetric Information	2	2	2	2
Moral Hazard	2	2	2	2
Discreditable	1	1	1	1

Based on table 5.2 above, the first most common word associations with Factors in Failure of Credit Evaluation Process were "relationship" by all respondents. Different types of banks approach in this sample viewed have same virtue as their number one "relationship" issues.

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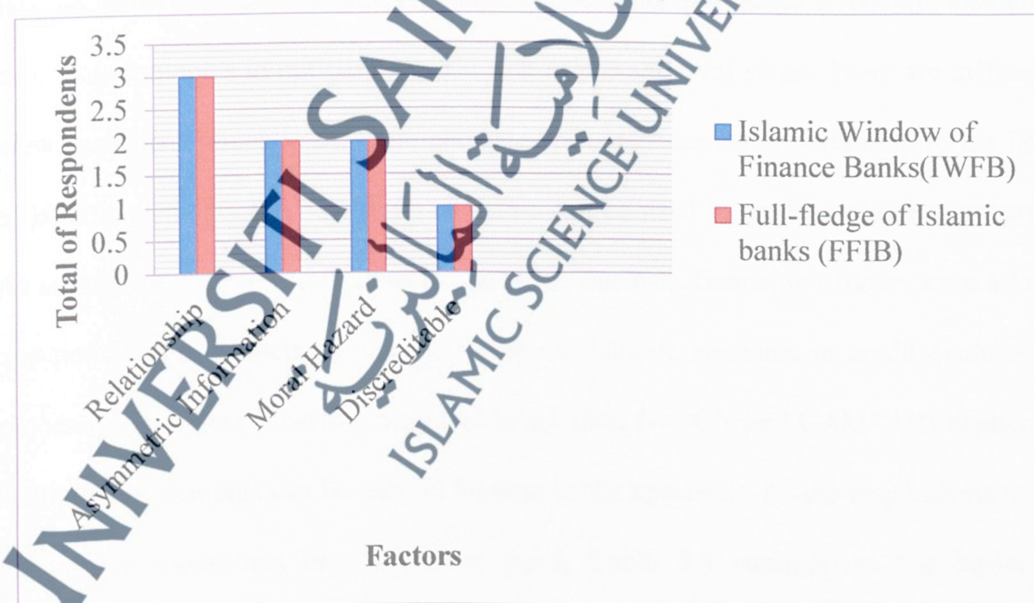
Much effort is required in gathering the first utmost reasons explained within experts in industry by different types of banks approach. Both banks approach stated that the bad relationship with customers includes of the bad relationship with new and existing customers will affect the effectiveness of good credit evaluation process. These as qualified by respondents IWFB; D and FFIB; E:-

> *"The reason of high credit risk in credit evaluation process is depends on how tight of relationship with new and existing customers. For me, good relationship is first impression of character elements and hence will mitigate default cases." (IWFB; D)*

> *"Based on my experiences, one of the reasons failures in credit evaluation process as well as in time of making financing decisions is relationship with new and existing customers. It is because continuous relationship with them will allow us to know them well and thus we ought to disclose information" (FFIB; E)*

To simplify, figure 5.2 below shows the factors of failure of credit evaluation process by different types of banks approach:-

Figure 5.2 Factors of Failure of Credit Evaluation Process by Different Types of Banks Approach



To extent these further, based on figure 5.2 above explained, other common words associated with factors in failure of credit evaluation process were "asymmetric information" and "moral hazard". Both types of banks approach have same perceptions pertaining to the factors of failure of credit evaluation process. In terms of asymmetric information, this tends to the hidden information that unknown by banks such as business profile, experience of management and cash flow of business. Most of them are under-estimated the unknown information from customers. This contributes to negatives perceptions of new customers mainly in taking business financing to the banks and thus challenges for banks in identifying them well. In regards of moral hazard factor, this can be mitigated by taking collateral or guarantee if need be to 'secure' the financing facility.

5.2.3 *Adl', Ukhuwah, Istiqamah, Akhlak, Syura* and *Tawakkal* Elements in Credit Evaluation Process

Islamic elements are important in making financing decision process. For Islamic banks approach for sure they need implements and practices Islamic elements as a tools/strategies in mitigating credit risk in pre-approval stage. There are different views and perceptions to the different types of banks approach pertaining to the lists of Islamic elements and how these elements can be used in credit evaluation process. As seen in the interview questions in appendix, business financing officers were asked questions based on their opinions of what are Islamic elements in credit evaluation process for business financing approval in addition five C's and CAMPARI elements and how the elements can be used in Islamic banks approach. As the respondents may conjure up more than one image or word, Table 5.3 summarizes the business financing officer's perceptions of Islamic elements in credit evaluation process:-

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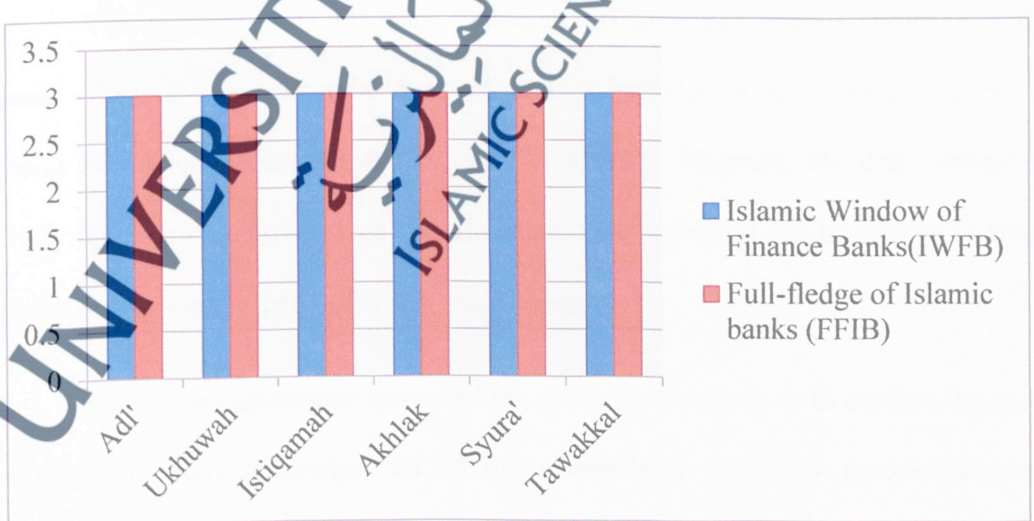
Table 5.3 Words and Concepts Associated with *Adl', Ukhuwah, Istiqamah, Akhlak, Syura* and *Tawakkal* Elements in Credit Evaluation Process

Words and concepts associated with *Adl', Ukhuwah, Istiqamah, Akhlak, Syura* and *Tawakkal* Elements in Credit Evaluation Process	Islamic Window of Finance banks (IWFB)	Total	Full-Fledge of Islamic banks (FFIB)	Total
Adl'	3	3	3	3
Ukhuwah	3	3	3	3
Istiqamah	3	3	3	3
Akhlak	3	3	3	3
Syura'	3	3	3	3
Tawakkal	3	3	3	3

Based on table 5.3 above, all of the respondents have the same views and perceptions pertaining to the Islamic elements used in credit evaluation process in addition to five C's and CAMPARI elements for Islamic banks approach. The current practices (five C's and CAMPARI) in credit evaluation process cannot be totally ignored. Therefore, Islamic elements can be used as a guide to assess the applicant from all angles which is necessary in identifying the strength and weakness of the applicants and the viability of the financing application. To simplify, figure 5.3 below shows the Islamic Elements that can be used in Credit Evaluation Process:-

Figure 5.3 Islamic Elements that can be used in Credit Evaluation Process



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These as experienced by respondents IWFB; A, IWFB; C, IWFB; D, and FFIB; F:-

> *"In addition of using five C's and CAMPARI elements, Adl', Ukhuwah, Istiqamah, Akhlak, Syura and Tawakkal Elements will add value to credit evaluation process. For instance, the transparency is good for us and our customers because of practicing these elements. Besides, the customers need to also practicing these in disclosing the information needed by us so that the credit evaluation process can be effectively performed." (IWFB; A)*

> *"For my opinions, Adl', Ukhuwah, Istiqamah, Akhlak, Syura and Tawakkal Elements can be used in addition of using Five C's and CAMPARI in credit evaluation process. It will be fair (adl') to the Islamic banks to part with depositor's fund if the financing is approved based on transparent credit evaluation process." (FFIB; C)*

> *"My view is that Adl', Ukhuwah, Istiqamah, Akhlak, Syura and Tawakkal Elements are fruitful to be fulfilled as the customer discloses the information to us under the latter's Know-Your-Customer (KYC) policy. These can be achieved by practicing continuous customer-banker relationship (ukuwah)." (IWFB; D)*

> *"My belief is that Adl', Ukhuwah, Istiqamah, Akhlak, Syura and Tawakkal Elements are needed in credit evaluation process by constantly performing transparency in risk-sharing financing. We are borne as business partners and therefore all these elements will helps us disclose all of the information to each other and maintain the ukhuwah throughout the financing lifetime (tenor)." (FFIB; F)*

5.3 Findings of Analysis

The analysis from business financing officer's perceptions comes into the sense. There are several main themes found. It includes of the current practices in credit evaluation process (five C's and CAMPARI elements), the determinants of credit risk in pre-approval stage and the Islamic elements that can be applied in credit evaluation process as parts of credit risk management.

All of the respondents answered the research questions as to achieve the goals of research study. Likewise, all of the respondents positively associated credit evaluation process with the proposed of the Islamic elements that can be used in addition to five C's and CAMPARI. Some of these perceptions were linked to the positive values of credit risk management in first dimension (pre-approval) stage for Islamic banks approach.

Furthermore, it was found that the bad relationship, asymmetric information, moral hazard and discreditable contributed to a failure in managing credit risk in credit evaluation process. Different types of banks approach in this research study showed more proficiency and confidence with their experiences in handling their customer as well as in making financing decisions compared to the full-fledge of conventional approach in present.

This research also found that a positive responses pertaining to the Islamic elements used in credit evaluation process especially for Islamic banks approach, since they are practicing *Shariah*-compliant financing and risks-sharing activities. Since the Lists of Islamic elements that proposed by them requires more efforts with the banks practitioners, the next chapter details the views and perceptions from *Shariah* advisers pertaining to the Islamic elements that can be used as parts of credit evaluation process as well as validates the proposed parameter.

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5.5 Chapter Summary

This chapter discussed furthers the analysis of phase I- Business financing officer's perceptions of a total of six (6) respondents consisting of three (3) Islamic window of finance banks and three (3) full-fledge of Islamic banks. Subsequently, field work of section discussed. The next chapter will focus more on analysis phase II- *Shariah* adviser's perceptions.

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