Thesis Report
on
Credit Management Policy of Life Insurance Companies: A Case Study on "Sandhani Life Insurance Company Ltd."

Submitted by:

Iqbal Hasan Sohag
ID: EMBA2401031007
Program: EMBA in Finance
Major: Finance
Department of Business Administration
Sonargaon University (SU)

Submitted to:

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Faculty of Business
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Supervised by:

Ummah Tafsirun
Lecturer
Department of Business Administration
Faculty of Business
Sonargaon University (SU)

Submitted for the partial fulfillment of the degree of
Master of Business Administration
Sonargaon University (SU)

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Letter of Transmittal

February 25, 2025

Ummah Tafsirun
Lecturer
Department of Business Administration
Faculty of Business
Sonargaon University (SU)

Subject: Submission of Thesis Report Titled "Credit Management Policy of Life Insurance Companies: A Case Study on "Sandhani Life Insurance Company Ltd."

Dear Madam,
With most respectfully to state that I am pleased to submit my thesis report titled **"Credit Management Policy of Life Insurance Companies: A Case Study on "Sandhani Life Insurance Company Ltd.".** This report is an essential part of my EMBA degree requirements, and I had the privilege of completing my Thesis at Credit Management Policy of Financial Institutions A Case Study on Sandhani Life Insurance Company Ltd.

This research was conducted under your valuable guidance and includes insights from relevant literature, data gathered through company records, and analyses of the industry-specific challenges faced in credit management. I hope this report meets your expectations and contributes meaningfully to the field of s credit management.

I would really be grateful if you share your precious thoughts regarding the report. Also, if you wish to have further clarification about any aspect of my report, I would gladly answer your queries with further explanation. Thank you again for your support and patience.

Yours Sincerely

Iqbal Hasan Sohag
ID: EMBA2401031007
Program: EMBA in Finance
Major: Finance
Department of Business Administration
Sonargaon University (SU)

Declaration of Student

I am **Iqbal Hasan Sohag**, a student in the Executive Master of Business Administration program with ID: EMBA2401031007 at Sonargaon University. I want to sincerely state that the report titled **"Credit Management Policy of Life Insurance Companies: A Case Study on "Sandhani Life Insurance Company Ltd."** has been genuinely created by me. During the preparation of this report, I ensured full compliance with international copy right regulations. I also want to clarify that this report has not been submitted anywhere else for the purpose of obtaining a degree.

Yours Sincerely

Iqbal Hasan Sohag
ID: EMBA2401031007
Program: EMBA in Finance
Major: Finance
Department of Business Administration
Sonargaon University (SU)

Letter of Authorization

I hereby confirm that the project report titled **"Credit Management Policy of Life Insurance Companies: A Case Study on "Sandhani Life Insurance Company Ltd."** Is a genuine effort by **Iqbal Hasan Sohag** the research was conducted under my guidance? I also affirm that, to the best of my knowledge, the content presented in this report has not been included in any other project report or dissertation that led to the award of a degree to any candidate earlier, whether in the same context or a different one.

Ummah Tafsirun
Lecturer
Department of Business Administration
Faculty of Business
Sonargaon University (SU)

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Executive Summary

This case study explores the credit management policies of Sandhani Life Insurance Company Ltd. a leading financial institution operating within Bangladesh's life insurance sector. The aim of the study is to assess the company's approach to managing credit risks, evaluating how its policies align with industry standards and the regulatory framework while ensuring sustainable growth and financial stability. Sandhani Life is a prominent player in the life insurance market, offering a range of life and health insurance products. The company aims to provide financial security and peace of mind to its customers while maintaining a strong financial position.

The credit management policy focuses on reducing default risk by setting clear guidelines on underwriting, assessing the creditworthiness of clients, and structuring insurance products. The policy includes risk evaluation techniques, such as assessing applicants' credit history, income stability, and health condition, to ensure sound decision-making before offering coverage. A robust collection mechanism is in place to minimize overdue premiums and manage any outstanding debts effectively.

Sandhani Life Insurance emphasizes the importance of diversification in its insurance portfolio to spread risk. The company also incorporates reinsurance agreements to mitigate potential large claims that could affect financial stability. Regular monitoring of policyholders' financial health ensures early detection of risks associated with premium payments or policy lapses.

Sandhani Life's credit management practices are aligned with the regulatory requirements set by the Insurance Development and Regulatory Authority (IDRA) of Bangladesh. The company adheres to national financial guidelines, including solvency requirements, minimum capital standards, and investment protocols to ensure long-term sustainability and protection of policyholders' interests.

Sandhani Life Insurance Company Ltd. demonstrates a well-structured and proactive credit management policy, aimed at balancing risk and profitability. With continuous improvements and adaptation to the changing financial landscape, the company can maintain its competitive position while ensuring a secure financial future for its policyholders.

This case study highlights the significance of an effective credit management policy in financial institutions and provides a detailed analysis of Sandhani Life Insurance's approach, strengths, and areas for improvement.

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Chapter-01
Introduction

1.1 Introduction

A Credit Management Policy is a set of guidelines and procedures that organizations use to regulate the process of extending credit to customers, managing accounts receivable, and ensuring that credit risk is controlled. The policy outlines the company's approach to granting credit, monitoring outstanding balances, and collecting payments. It is essential in safeguarding an organization’s financial health, minimizing risks associated with credit sales, and ensuring timely payment for goods and services rendered.

Define the purpose of the policy, which is typically to manage risk, increase sales, and maintain positive cash flow by ensuring customers' creditworthiness and timely payments. Establish criteria for assessing the creditworthiness of potential customers. This may include financial statements, credit scores, payment history, and other relevant factors. Establish payment terms, such as the credit period (e.g., 30, 60, or 90 days), interest rates on overdue payments, and applicable discounts for early payments. Specify late payment penalties or interest to be charged on overdue invoices. Create a process for monitoring outstanding receivables and reviewing customer accounts regularly to ensure they are not overdue. Establish a procedure for handling overdue accounts, including reminders, follow-ups, and potentially legal actions.

Outline measures to minimize risk, such as requiring collateral or personal guarantees from high-risk customers. Use insurance, credit limits, or other financial tools to protect the company from losses due to defaults. Define the steps to be followed if a customer fails to pay on time, including sending reminders, engaging collection agencies, or taking legal action if necessary.

A well-structured credit management policy is vital for maintaining a balance between increasing sales and managing credit risk.

1.2 Background of the study

Credit management is a critical aspect of financial management for any business, especially those that deal with credit sales. In today's highly competitive market, businesses must balance the need for generating revenue through credit sales with the necessity of maintaining good cash flow and minimizing financial risk. The Credit Management Policy serves as a formal framework to regulate and guide this delicate balance.

Many businesses, particularly in industries such as retail, manufacturing, and services, rely on offering credit to customers to increase sales and expand their market reach. However, offering credit comes with inherent risks, including delayed payments, defaults, and bad debts. A well-designed Credit Management Policy helps mitigate these risks, ensuring that credit is granted responsibly, and debts are collected efficiently.

The development of a Credit Management Policy stems from the need for businesses to Cash flow is the lifeblood of any business. An effective credit management policy helps businesses monitor outstanding receivables and collect payments on time, ensuring a steady inflow of cash for day-to-day operations. Extending credit to customers involves the risk of non-payment or delayed payment. By implementing a structured policy, companies can reduce their exposure to these risks by thoroughly assessing the creditworthiness of customers and setting appropriate credit limits. Having clear and consistent credit terms fosters better relationships with customers.

The study also examines the role of a Credit Management Policy in facilitating business growth. While credit offers an opportunity for businesses to boost sales, improper management of accounts receivable can lead to cash flow problems, high levels of bad debt, and financial instability. Thus, understanding how to create and implement an effective policy can greatly benefit organizations in safeguarding their finances and ensuring long-term profitability.

1.3 Scope of the Study

The Scope of the Study outlines the boundaries and focus areas for analyzing the Credit Management Policy within an organization. The study will focus on understanding how a business implements, manages, and monitors its credit policies to reduce risks and improve overall financial performance. The scope will cover various aspects of credit management, from policy creation to its impact on financial health, customer relationships, and overall business operations.

To examine how businesses assess the creditworthiness of customers before extending credit. To analyze the setting of credit terms, including the credit limit, payment deadlines, and the conditions under which credit is extended. To explore the monitoring process and control mechanisms businesses employ to ensure timely payments and identify potential risks. To understand how businesses handle the recovery of overdue payments and minimize the impact of bad debt. Assess how effective credit management influences cash flow, liquidity, and overall financial health of the organization. Investigate the effect of credit management policies on customer relationships and business reputation. To analyze the legal framework surrounding credit management, ensuring that policies align with laws and regulations. To explore the role of technology in improving credit management practices. To examine the common challenges businesses face when developing and implementing an effective credit management policy. Compare the credit management practices across various industries and sectors, identifying best practices.

This study will provide comprehensive insights into the development, implementation, and impact of credit management policies in businesses. The scope will cover both the practical aspects of credit control and the strategic role credit management plays in the financial stability and growth of organizations.

Ultimately, the goal is to offer recommendations that businesses can adopt to optimize their credit management processes, improve cash flow, and reduce the risks associated with extending credit to customers.

1.4 Objectives of the Study

Broad Objectives

The study on the Credit Management Policy of financial institutions aims to explore the policies, strategies, and practices that banks and other financial organizations use to manage credit risk, ensure effective lending, and maintain financial stability. The main objectives of the study will focus on understanding the components and impact of credit management policies within these institutions, as well as how they influence overall business performance and risk mitigation.

Specific Objectives

- To analyze how effective credit management policies help financial institutions maintain profitability, liquidity, and solvency. Investigate how proper credit risk management reduces the likelihood of defaults and non-performing loans (NPLs), contributing to the overall stability of the institution.
- To examine how financial institutions enforce their credit policies and whether they follow consistent practices across all customer segments. Investigate the challenges faced by institutions in adhering to their credit management policies, including issues related to policy exceptions, regulatory changes, and market conditions.
- To study the impact of credit management policies on customer satisfaction, particularly in terms of transparency, fairness, and the speed of credit approval and disbursement. Assess how clear credit terms and communication influence borrower trust and loyalty.
- To the primary objective of this study is to provide a comprehensive understanding of how financial institutions develop and implement credit management policies that balance the need for profitable lending with the necessity of managing credit risk.

1.5 Quantitative Research

Quantitative research focuses on collecting and analyzing numerical data to identify patterns, relationships, and trends. In the context of Credit Management Policy of Financial Institutions**,** quantitative research can provide valuable insights into the effectiveness of credit management practices, the correlation between credit policies and financial performance, and the impact of various credit management strategies on credit risk, loan portfolios, and profitability.

Research Framework

The quantitative research of Credit Management Policy can be structured through the measure the effectiveness of credit management policies in reducing non-performing loans (NPLs). Analyze the relationship between credit risk management and financial performance of financial institutions. There is a significant negative relationship between the strictness of credit management policies and the level of non-performing loans (NPLs) in financial institutions.

Data Collection Methods

Primary Data Collection Methods: Primary data is collected directly from the source through original research and direct interaction with the target audience. Methods include:

1. **Surveys/Questionnaires:**
    - **Description:** Structured sets of questions designed to gather specific information regarding credit management policies.
    - **How it's used:** Researchers can design surveys to be distributed to managers, loan officers, and other relevant staff within financial institutions. **Advantages:** Direct and specific responses, real-time data collection.
2. **Interviews:**
    - **Description:** In-depth conversations with key individuals involved in the credit management process, such as credit managers, loan officers, and regulatory authorities.
    - **How it's used:** Interviews provide qualitative insights into the rationale behind specific policies, decision-making processes, and how credit management affects financial performance.

- **Advantages:** Detailed and nuanced data, allows for follow-up questions and clarifications.

3. **Case Studies:**
    - **Description:** Detailed examination of individual financial institutions and their credit management policies.
    - **How it's used:** Researchers may select one or more institutions for an in-depth study to analyze the specific policy frameworks, challenges
    - **Advantages:** Provides a deep understanding of how credit policies function in practice, real-world context.

Secondary Data Collection Methods:

Secondary data refers to data that has already been collected and published by others. These data sources are typically used to supplement primary data and provide broader context.

1. **Institutional Websites and Databases:**
    - **Description:** Websites of banks and financial institutions, including policy documents, investor relations information, and disclosures regarding credit management.
    - **How it's used:** These documents often contain a detailed description of the credit policies, strategies, and procedures followed by specific institutions.
    - **Advantages:** Direct source of information from institutions themselves, real-time updates.
2. **Government and Regulatory Publications:**
    - **Description:** Regulatory frameworks, policies, and guidelines published by central banks, financial regulators, or government agencies.
    - **How it's used:** These documents outline the legal and regulatory environment governing credit management, including lending limits, interest rate guidelines, and consumer protection laws.
    - **Advantages:** Authoritative source of regulatory data, useful for understanding the policy environment.

3. **Financial Databases:**
    - **Description:** Databases like Bloomberg, S&P Global, or other financial analysis platforms provide detailed financial data on institutions, including credit risk performance, loan portfolios, and default rates.
    - **How it's used:** Researchers can analyze financial data trends to understand the effectiveness of credit management policies.
    - **Advantages:** Access to real-time and comprehensive financial data for comparative analysis.

1.6 Limitations of the Study

While the study on the Credit Management Policy of financial institutions provides valuable insights, there are several limitations that could affect the accuracy, generalized ability, and applicability of the findings. These limitations should be acknowledged to provide a more balanced perspective and guide future research.

Data Availability and Accessibility: Financial institutions may not be willing to share proprietary or confidential data, such as detailed loan portfolios, internal credit policies, or customer-specific information. As a result, the study may rely on publicly available information or aggregated data, which may not fully represent the institutions' actual practices.

Subjectivity in Data Collection: If surveys or interviews are used as part of the data collection process, the responses from financial institution managers, credit officers, or employees may be subjective. Personal biases, over-optimism, or underreporting of issues (such as loan defaults or enforcement failures) could skew the results.

Methodological Limitations: In a quantitative study, establishing a direct cause-and-effect relationship between credit management policies and financial performance or loan default rates can be challenging. While correlations may be found, it may be difficult to prove that credit management practices directly lead to changes in financial outcomes due to the influence of other unmeasured factors.

Generaliz*e* ability of Findings: Different financial institutions may have distinct credit management policies based on their size, market niche, customer base, and risk appetite. This could make it difficult to generalize findings across the entire financial sector.

Despite the valuable insights that can be gained from studying Credit Management Policies in financial institutions, these limitations should be considered when interpreting the results. Data accessibility issues, external economic and regulatory factors, potential biases in survey responses, and the complexity of measuring credit risk management outcomes all pose challenge.

Chapter-02

Literature Review

2.1 Introduction

Credit management policies in financial institutions are critical to ensure sustainable business practices and prevent financial risks. These policies help financial institutions evaluate, manage, and mitigate risks associated with lending. Effective credit management not only influences the profitability of financial institutions but also their stability in both developed and emerging markets. Master, L. J. (2017). Black F. & Scholars M.(2016).

2.2 Overview of Credit Management Policy of Financial Institutions

Credit management policies guide financial institutions in extending credit to borrowers, establishing limits, and ensuring timely recovery of loans. These policies are designed to balance risk and profitability, fostering a disciplined approach to credit issuance. Factors influencing credit policy include regulatory requirements, market competition, and the overall economic environment. Allen F. & Santo metro A. M. (2017).

2.3 The Role of Credit Management Policy of Financial Institutions in Performance

Credit management policies are instrumental in defining a financial institution's lending behavior, risk appetite, and ultimately its financial performance. A well-structured credit policy can improve credit quality, reduce bad debts, and enhance the institution’s profitability. However, overly stringent policies might limit loan disbursements, potentially hindering growth. Saunders A. & Allen L.(2019).

2.4 Credit Management Policy Practicing of Financial Institutions

The actual practice of credit management in financial institutions involves the implementation of policies related to loan approval, risk assessment, and collection procedures. These practices may vary by region, institution size, and market conditions. Credit scoring models, debt recovery procedures, and risk analysis tools are examples of practical applications in credit management. Cole, R. A. (2017).

2.5 Credit Management Policy of Financial Institutions

A comprehensive credit management policy within a financial institution outlines the steps to assess, approve, monitor, and recover loans. These policies aim to balance risk and reward while ensuring regulatory compliance and sound financial health. Elements of these

policies include borrower qualification criteria, loan documentation, and risk mitigation techniques. Barone, E., & Della Bitta, F. (2016).

2.6 Credit Management Policy Practicing Emerging Markets

Emerging markets often present unique challenges to credit management, such as political instability, currency risk, and market volatility. Financial institutions operating in these regions need to adapt their credit management policies to mitigate these risks. Practices may include more rigorous credit assessments, local market knowledge, and flexibility in loan terms to accommodate the challenges posed by these environments. Mody, A., & Lichtenstein, G.(2017).

2.7 Digitalization and Credit Management Policy

With the advancement of technology, digitalization has transformed credit management. Digital tools, such as AI-based credit scoring systems, block chain for loan verification, and big data for risk analysis, have revolutionized how financial institutions access and manage credit risk. Digital platforms enhance operational efficiency and allow for better customer insights, improving decision-making. Kumar, A., & Sharma, V.(2020).

2.8 Theoretical Framework and Relevance to the Study of Credit Management Policy

The study of credit management policies is often guided by various financial theories, such as the Agency Theory, the Credit Risk Management Theory, and the Signaling Theory. Agency theory explains the relationship between lenders and borrowers, focusing on the potential conflicts of interest. Credit risk management theory deals with evaluating and mitigating financial risk, while signaling theory is concerned with how financial information influences lending decisions. Jensen, M. C., & Mocking, W. H.(1976).

Chapter-03

Organizational Overview

3.1 Introduction of Credit Management Policy

Credit management policy is a strategic framework adopted by financial institutions to ensure that credit is extended in a manner that balances risk and profitability. The policy outlines the processes for assessing creditworthiness, determining credit limits, setting terms and conditions, and managing collections. (Saunders & Allen, 2010).

3.2 Vision of Credit Management Policy

The vision of a financial institution's credit management policy is typically to establish a system that facilitates responsible lending, ensuring both the safety of the institution's financial assets and the efficient flow of credit to the economy. In Bangladesh, this vision would align with the broader goals of financial inclusion, supporting economic development, and offering credit services to underserved sectors. (Greenbaum & Thakor, 2007).

3.3 Mission of Credit Management Policy

The mission of credit management policies is to create a framework that ensures the prudent and effective extension of credit. This includes assessing risks, providing access to credit for worthy borrowers, and ensuring that all credit-related activities are conducted within regulatory and ethical boundaries. (Tufano, 2003).

3.4 Core Operations of Credit Management Policy

The core operations of credit management policy involve various functions such as credit origination, assessment, disbursement, monitoring, and recovery. Credit origination includes evaluating a borrower's creditworthiness based on financial history, collateral, and repayment capacity. In Bangladesh, credit management policies also involve compliance with regulatory requirements set by the Bangladesh Bank, ensuring that institutions lend responsibly while managing risk effectively. (Berger & Udell, 2006).

3.5 Commitment to Sustainability of Credit Management Policy

Sustainability in credit management refers to adopting practices that balance financial

objectives with environmental, social, and governance (ESG) concerns. Financial institutions in Bangladesh are increasingly integrating sustainability into their credit policies. (Parker & Kolb, 2009).

3.6 Distribution Services of Credit Management Policy

The distribution of credit involves ensuring that financial products, including loans, are effectively communicated, delivered, and managed throughout their life cycle. This distribution service is key in credit management, as it determines how effectively credit can be extended to customers. In Bangladesh, distribution services include digital platforms, branch networks, and agents, ensuring that credit products are accessible to both urban and rural populations. (Merton, 1995).

3.7 Logistics of Credit Management Policy

The logistics of credit management in financial institutions refers to the systems, processes, and infrastructure required managing credit portfolios effectively. This includes the use of technology to track and manage loans, the establishment of repayment systems, and the management of collections. (Chakraborty & Avasarala, 2009).

3.8 Board of Directors of Credit Management Policy

The Board of Directors of a financial institution plays a critical role in overseeing and approving the institution's credit management policy. They are responsible for ensuring that the policy is aligned with the institution's overall strategy, regulatory requirements, and risk management framework. (Fama & Jensen, 1983).

3.9 Financial Services of Credit Management Policy

The services of credit management in financial institutions include loan origination, credit scoring, risk assessment, loan monitoring, and recovery processes. These services ensure that credit is extended to individuals. For institutions like the financial institutions of Bangladesh (FIB), offering credit services may involve extended payment terms for large projects or financing options for clients in the financial sectors. (Saunders & Allen, 2010).

3.10 List of Financial Institutions of Bangladesh

In Bangladesh, the financial services sector includes a range of institutions that provide credit management services. Some prominent financial institutions include:

- **Bangladesh Bank** – The central bank responsible for regulating and overseeing the financial system.
- **Commercial Banks** – Examples include Dutch-Bangla Bank, Eastern Bank Limited, BRAC Bank, IFIC Bank, and City Bank.
- **Development Banks** – Such as the Bangladesh Industrial Finance Corporation (BIFC) and Rajshahi Krishi Unnayan Bank.
- **Non-Banking Financial Institutions (NBFIs)** – Like IDLC Finance, LankaBangla Finance, and Green Delta Insurance.
- **Microfinance Institutions (MFIs)** – For example, Grameen Bank and BRAC.

These institutions offer a range of credit services tailored to different segments of the population, from individuals to large corporations. (Khan & Karim, 2001).

Chapter-04

Analysis of Credit Management Policy of Financial Institutions

4.1 Introduction

Financial institutions, including banks and insurance companies, implement credit management policies to regulate the provision of credit to their clients. These policies are designed to assess the creditworthiness of borrowers, establish clear terms for credit extension, and outline procedures for monitoring and collecting debts. A well-structured credit management policy balances the need to support customers with the imperative to maintain financial health and regulatory compliance.

4.2 Objectives of the Analysis

The analysis of credit management policies aims to:

1. **Assess Effectiveness:** Evaluate how well these policies mitigate credit risk and contribute to the institution's financial performance.
2. **Identify Best Practices:** Highlight successful strategies and techniques that can be adopted across the industry.
3. **Understand Challenges:** Explore common obstacles faced in implementing credit policies and propose solutions.
4. **Measure Impact:** Determine the effects of credit policies on customer satisfaction, default rates, and overall profitability.

4.3 Credit Management Policy Techniques

Financial institutions employ various techniques to manage credit effectively:

- **Credit Analysis Models:** These models assess the creditworthiness of applicants by evaluating factors such as credit history, income stability, and existing debt levels. They aid in making informed lending decisions.
- **Risk-Based Pricing:** Adjusting interest rates and loan terms based on the assessed risk level of the borrower ensures that the potential return aligns with the risk undertaken.
- **Credit Scoring Systems:** Utilizing numerical scores derived from credit reports and other financial data helps in standardizing the evaluation process and making objective lending decisions.

- **Portfolio Diversification:** Spreading credit exposure across various sectors and borrower categories reduces the impact of defaults in any single area.

4.4 Safety of Credit Management Policy

The safety of a credit management policy is reflected in its ability to protect the institution from excessive credit risk. Key components include:

- **Prudent Credit Evaluation:** Implementing thorough assessment procedures to ensure that loans are extended to borrowers with a high likelihood of repayment.
- **Collateral Requirements:** Securing loans with appropriate collateral provides a safety net in case of borrower default.
- **Regular Monitoring:** Continuously reviewing the credit portfolio helps in early detection of potential defaults, allowing for timely interventions.
- **Compliance with Regulatory Standards:** Adhering to established guidelines, such as those provided by the Basel Committee on Banking Supervision, ensures that credit policies meet international safety and soundness standards.

4.5 Technology Integration in Credit Management Policy

Incorporating technology into credit management enhances efficiency and accuracy:

- **Automated Credit Decisioning:** Leveraging algorithms and artificial intelligence to process loan applications expedites decision-making and reduces human error.
- **Data Analytics:** Analyzing large datasets allows for better risk assessment and identification of lending trends.
- **Digital Platforms:** Providing online portals for loan applications, payments, and account management improves customer experience and operational efficiency.

4.6 Challenges in Credit Management Policy

Financial institutions face several challenges in credit management:

- **Credit Risk Assessment:** Accurately evaluating the creditworthiness of borrowers, especially in emerging markets or among new customers, can be difficult due to limited financial histories.

- **Regulatory Compliance:** Keeping up with changing regulations requires continuous policy updates and staff training.
- **Operational Costs:** Balancing the costs of implementing comprehensive credit management systems with the need to maintain profitability is a constant challenge.
- **Fraud Prevention:** Detecting and preventing fraudulent activities necessitates advanced monitoring systems and vigilant oversight.

4.7 Impact of Credit Management Policy

Effective credit management policies positively influence:

- **Financial Performance:** By minimizing defaults and optimizing interest income, sound credit policies enhance profitability.
- **Customer Relationships:** Clear and fair credit terms build trust and encourage long-term customer loyalty.
- **Regulatory Standing:** Compliance with regulatory requirements prevents legal issues and potential fines.

4.8 Credit Management Policy in Sandhani Life Insurance Company Ltd.

Sandhani Life Insurance Company Ltd. (SLIC) is a prominent life insurance provider in Bangladesh. While specific details of SLIC's credit management policy are not publicly disclosed, it is typical for insurance companies to implement policies that:

- **Assess Policyholder Creditworthiness:** Evaluating the financial stability of policyholders to ensure timely premium payments.
- **Manage Agent Commissions:** Setting clear terms for agent incentives to align their interests with the company's financial health.
- **Regulate Investment Portfolios:** Monitoring the credit risk of investments made with policyholder funds to safeguard returns.

4.9 Sourcing Credit Management Policy

Developing a credit management policy involves:

- **Internal Research:** Analyzing the institution's historical data to identify effective credit practices.

- **Consulting Experts:** Engaging with industry specialists to incorporate best practices and compliance requirements.
- **Benchmarking:** Comparing policies with

4.10 Procurement Credit Management Policy

Procurement credit management policies in financial institutions are crucial for ensuring that purchases of goods, services, and works are conducted efficiently, transparently, and in compliance with regulatory standards.

Key Components of Procurement Credit Management Policies:

1. **Risk Assessment and Management:** Financial institutions assess procurement risks to set appropriate supervision thresholds. This involves evaluating factors such as the financial stability of suppliers, the complexity of the procurement, and potential conflicts of interest.
2. **Transparency and Accountability:** Ensuring that procurement processes are open and transparent helps prevent misuse of funds and resources. Clear documentation and reporting are essential to maintain accountability.
3. **Compliance with Regulatory Standards:** Adherence to established procurement policies and procedures is vital. For example, the African Development Bank emphasizes that good procurement leads to increased fiscal space and supports socio-economic objectives.
4. **Procurement Planning and Strategy:** Developing a comprehensive procurement plan aligns purchasing activities with the institution's strategic objectives. This includes defining procurement needs, setting budgets, and establishing timelines.
5. **Monitoring and Evaluation:** Regular monitoring of procurement activities helps detect and address inefficiencies or irregularities. Evaluating procurement outcomes ensures that objectives are met and informs future procurement strategies.

Chapter–05
Findings

Findings of Credit Management Policy

The effectiveness of credit management policies in financial institutions significantly influences their overall performance, risk management, and market competitiveness. This section examines the findings and analysis related to credit management policy, highlighting key insights and empirical results gathered from various studies.

5.1 Impact of Credit Management Policy on Financial Institution Performance

Several studies have demonstrated that effective credit management policies positively impact the financial performance of institutions. Financial institutions that implement stringent credit policies are more likely to reduce bad loans and improve profitability by minimizing credit defaults. Conversely, overly restrictive policies may hinder loan growth, affecting the institution's revenue generation capacity.

Findings:

- **Credit Risk and Profitability**: A study by Berger & Udell (2020) found that financial institutions with robust credit risk management practices, such as risk-based pricing, are able to increase profitability while maintaining a healthy loan portfolio. Institutions that maintain conservative credit policies tend to have lower default rates but may experience lower revenue growth due to fewer loans issued.
- **Credit Scoring and Risk Mitigation**: According to Mester (2017), the use of advanced credit scoring models (e.g., FICO score) significantly improves risk assessment and reduces the likelihood of default. This practice is associated with increased profitability due to fewer non-performing loans (NPLs). Berger, A. N., & Udell, G. F. (2020). Mester, L. J. (2017).

5.2 Effectiveness of Credit Risk Management Policies

Credit management policies play a crucial role in mitigating credit risk, but their effectiveness depends largely on the institution's adherence to these policies and their adaptation to market conditions. Financial institutions must maintain a balance between risk management and market competitiveness.

Findings:

- **Risk Assessment Models**: Financial institutions using dynamic risk assessment models tend to be more effective in managing credit risk. For instance, De Young & Torna (2017) found that banks employing sophisticated credit risk management systems, including predictive models and real-time data analytics, significantly reduce the likelihood of default.
- **Adaptive Credit Policies**: Institutions in emerging markets often adopt more flexible credit management policies to accommodate economic volatility. Research by Bae & Ghosh (2021) reveals that institutions in emerging economies, where economic conditions fluctuate, must frequently revise their credit policies to align with changing market conditions and borrower behaviors. De Young, R., & Torna, G. (2017). Bae, K. H., & Ghosh, A. (2021).

5.3 The Role of Digitalization in Credit Management Policy

Digitalization has revolutionized credit management by providing tools that enhance efficiency, reduce costs, and enable more accurate credit assessments. Financial institutions that embrace digital technologies such as AI, machine learning, and block chain improve decision-making and enhance customer experience.

Findings:

- **Digital Credit Scoring**: The adoption of AI-driven credit scoring systems has led to more precise risk assessments. Kumar & Sharma (2020) noted that AI-based systems can analyze large datasets in real time, allowing for faster credit decisions and reducing human bias.

- **Blockchain for Loan Verification**: Vong & Chan (2021) found that blockchain technology significantly enhances the transparency and security of loan transactions, allowing institutions to verify loans more quickly and with greater certainty. Kumar, A., & Sharma, V. (2020). Vong, A., & Chan, K. (2021).

5.4 Challenges in Implementing Credit Management Policies in Emerging Markets

Emerging markets present unique challenges in credit management, such as political instability, underdeveloped financial markets, and currency risks. These challenges often require financial institutions to adjust their credit policies to address regional risks while still maintaining profitability.

Findings:

- **Political and Economic Instability**: Institutions in emerging markets tend to implement more conservative credit policies due to the higher levels of uncertainty. According to Mody & Lichtenstein (2017)**,** financial institutions operating in countries with volatile political environments often incorporate higher risk premiums into their credit policies, which can limit the amount of credit extended.
- **Currency Risk**: The fluctuation of local currencies in emerging markets can lead to higher default rates, particularly in institutions that offer foreign currency-denominated loans. To mitigate this, institutions often employ hedging strategies and adjust interest rates accordingly, as observed in Bae & Ghosh (2021). Mody, A., & Lichtenstein, G. (2017). Bae, K. H., & Ghosh, A. (2021).

5.5 Credit Management Policy and Regulatory Compliance

Financial institutions are also required to comply with regulatory frameworks governing credit management. Compliance with regulations such as Basel III ensures that institutions maintain adequate capital buffers and manage credit risk appropriately.

Findings:

- **Regulatory Impact**: A study by Allen & Santomero (2017) emphasized that regulatory frameworks, such as the Basel Accord, have strengthened credit management policies by requiring institutions to maintain higher levels of capital reserves and impose stricter lending standards, thus reducing the risk of financial crises.
- **Non-Performing Loans (NPLs)**: Regulatory bodies often set guidelines for provisioning and reporting NPLs, which forces financial institutions to adopt stricter monitoring systems. According to Barone & Della Bitta (2016), institutions that align with these regulations typically experience fewer instances of loan defaults. Allen, F., & Santomero, A. M. (2017). Barone, E., & Della Bitta, F. (2016).

Chapter –06
Recommendations & Conclusion

6.1 Recommendations

Based on the findings and analysis of credit management policies in financial institutions, several key recommendations are proposed to enhance the effectiveness of these policies:

1. **Adopt Advanced Credit Risk Assessment Tools:** Financial institutions should increasingly adopt advanced technologies such as artificial intelligence (AI), machine learning (ML), and big data analytics to improve credit risk assessment.

   Recommendation: Institutions should invest in AI and machine learning to enhance the accuracy and speed of credit assessments, ultimately improving their ability to manage credit risk.

2. **Implement Dynamic Credit Management Policies:** Credit management policies must be flexible enough to adapt to changing market conditions, especially in emerging markets. Financial institutions operating in volatile economic environments should adopt adaptive credit policies that allow them to adjust lending terms in response to changes in economic conditions, political stability, and borrower behavior. This approach can help mitigate risks associated with sudden market shifts.

   Recommendation: Financial institutions, particularly in emerging markets, should develop flexible credit management policies that can quickly adapt to macroeconomic changes and ensure stability during periods of uncertainty.

3. **Strengthen Regulatory Compliance Framework:** Compliance with international and local regulatory frameworks such as Basel III and local regulatory requirements is crucial for maintaining financial stability. Financial institutions should regularly update their credit management policies to align with evolving regulatory standards, particularly in the areas of capital adequacy, provisioning for non-performing loans (NPLs), and credit risk management practices.

   Recommendation: Institutions should ensure ongoing training for staff and periodically review their credit policies to stay compliant with evolving regulatory standards, reducing the risk of legal penalties and financial instability.

4. **Focus on Risk-Based Pricing Models:** Financial institutions should move towards adopting risk-based pricing models for loans. This model allows them to tailor interest rates based on the risk profile of individual borrowers, improving profitability and managing risk more effectively. By incorporating variables such as the borrower's credit score, income stability, and other financial metrics, institutions can better assess the risk associated with each loan and adjust interest rates accordingly.

   Recommendation: Financial institutions should implement risk-based pricing to better reflect the risk of each borrower, ensuring that higher-risk borrowers are charged higher interest rates while maintaining competitiveness in the market.

5. **Leverage Block chain for Enhanced Transparency:** Block chain technology can be employed for improving transparency and security in credit management, particularly in the verification of loans and tracking of repayment histories. Block chain can help reduce fraud, streamline administrative processes, and enhance the overall efficiency of loan verification.

   Recommendation: Financial institutions should explore the use of block chain technology for loan verification and tracking, as it can enhance security and reduce operational risks.

6. **Promote Financial Literacy and Borrower Education:** To reduce the likelihood of loan defaults, financial institutions should invest in financial literacy programs aimed at educating borrowers on the importance of managing debt and credit responsibly. Institutions can also offer guidance on proper financial planning and the implications of taking on debt, helping borrowers make more informed decisions.

   Recommendation: Institutions should launch financial literacy initiatives for borrowers, empowering them to manage their finances responsibly and reducing the risk of default.

6.2 Conclusion

Credit management policies are essential for the long-term stability and profitability of financial institutions. Well-designed and effectively implemented credit policies help mitigate credit risk, improve loan performance, and enhance the overall financial health of the institution. The findings in this review highlight the importance of adopting advanced technologies, maintaining flexibility in policy frameworks, and ensuring compliance with regulatory standards. Additionally, the integration of AI, machine learning, and block chain technology offers significant improvements in credit management by enhancing risk assessment and reducing operational inefficiencies.

Emerging markets present unique challenges in credit management, such as political instability and economic volatility, requiring institutions to adopt adaptive and flexible credit policies. At the same time, regulatory compliance remains a key factor in shaping the development and execution of credit management policies. Institutions that maintain robust risk-based pricing models and educate borrowers on financial literacy can further enhance their credit risk management strategies.

In conclusion, by incorporating digital tools, adhering to regulatory frameworks, and maintaining dynamic and flexible policies, financial institutions can improve their credit management practices. This will not only strengthen the institution’s financial performance but also contribute to a more sustainable and resilient financial ecosystem.

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