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Credit Risk Management: Exploring Current Practices and Important Elements in Business Financing Decisions

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Abstract

The aim of the study is to explore the current practices and important elements in business financing decisions. To achieve this aim of the study, the study conduct in-depth interviews with selected business financing officers as to get their perceptions concerning to the issues, prospects and get some insight new Islamic elements in making business financing decisions. It is found that Islamic elements should be added in financing decisions and these as tools and guidelines for Islamic banks to refer the development of the parameter in commercial financing activities.

Keywords: Credit Risk Management, Business Financing Decisions, Islamic Banking, Islamic Elements.

Introduction

In general, financing decisions is one part of credit risk management because it comprises in the elements of risks process that influence the achievement of a bank's objectives – strategic, operational and financial – and thus will affect the profitability of a bank (Simons, 2009). Thus, in order to sustain in a stiff competitive market, banks must consider all dimensions of risk in their daily operation and business because the lack of management of risks will not only affect the banking business but will affect the whole performance of the bank (Mohamad et al., 2014).

However, for Islamic banking approach, due to the requirements of *Shariah* are exposed to unique kind of risks compared to conventional banks because Islamic banks offer different types of contract that are in line with *Shariah* rules and principles (Khan & Ahmed, 2001; Amuda, 2015). Because of this unique kind of risks offered, Islamic banks should consider different techniques and strategies of financing decisions in commercial financing activities compared to the current practices in conventional banking approach (Mohamad et al., 2015).

Additionally, the Islamic banks approach in a commercial financing activity when providing financing, they must ensure that there are no asymmetric information and moral hazard in evaluating their customer as they are practicing risks-sharing contracts (Yahia Abdul Rahman,

2010). Therefore, the practices in Islamic banks must avoid any stipulation in credit evaluation process and any claim to additional amount (interest charges) if they wish to fulfil the customer's *daruriyyah* (necessity) and *hajiyyah* (wants) as part of credit risk management (Akhtar & Ali, 2011; Ghosh, 2012).

Notwithstanding the difference in nature in different practices of banks approach, Islamic banks approach are still developing their banking and financial products, and, hence, there are still developing standards for risk management and other activities (Aver, 2008; Akkizidis & Khandelwal, 2008; Akhtar & Ali, 2011; Mohamad et al., 2018). Furthermore, the determinants of Islamic funds in Malaysia still underperform because of the higher operating cost and low returns from the commercial financing activities, which as a result affects all the risks associated and particularly credit risk (Carey, 2000; Aver, 2008; Akkizidis & Khandelwal, 2008; Karim et al., 2013). To sustain as a credit provider, banks also need to consider the issue of default payments from their customers, as these may raise the issue of high credit risk and a tendency to bankruptcy (Zuhria, 2010; Basah & Yusuf, 2013). Therefore, they need to consider all the stages in the credit process – pre- and post-approval. This study attempts to explore the current practices of the credit risk management in commercial financing approval in Islamic banking system, and, in doing so, identifying the issues in the credit evaluation process. Then, the study explores what and how Islamic elements are used in credit risk management in the evaluation process.

Literature Review

The Central Bank of Malaysia (BNM) laid down the best practice for credit risk management for the conventional banking system and Islamic banking system in 2001. The best practices are sound criteria in credit granting. Credit granting criteria is involved in the credit evaluation process, which includes the purpose of financing and the current exposure, client's source of repayment, client's repayment history and credit terms and conditions. In addition, BNM stated that an effective evaluation of credit risk is to avoid hazards in banking business and that it is important for a detailed structure of the limits of risk taken. In addition, a tried competitive banking business is developed based on how a bank manages the problematic credits, such as restructuring of bad debt issues.

To extend this further, Kahf (2006) and Shahid (2013) stated that there are two (2) main principles in Islamic financial contracts for Islamic modes of financing- The principles of consent and legal permissibility, as these are accepted between all societies and the legal system. Then, the principles of moral commitment, *Shariah* permissibility and validity of contracts included.

Therefore, before giving financing to the customers, banks should first implement these principles so that customers may know that the Islamic banking system in financing business activity is morally sound and socially responsible. Islamic banks should be more proactive in credit risk management so that banks look more at the criteria of the clients, especially for business clients that apply for credit from the business resources to support alcohol, drugs, gambling, porno industry, environmentally harmful products that are illegal in Islam, and any other business activity related to haram activity that does not comply with humanly acceptable Islamic ethical practices (Rosly & Bakar, 2003; Dali & Ahmad, 2005).

To extend this further, before giving financing to the clients, Islamic banks should be concerned with the *Shariah* permissibility to the business clients, such as evaluating the credit application and whether the client runs a business activity that involves pork and other swine products or

other meat whose animals are not slaughtered in compliance with *Shariah* principles (Rosly & Bakar, 2003).

In addition, before approving the credit applications, banks should analyze themselves and the client's performance to determine whether they are in line with the principle of balance and justice between the parties in the Islamic financial contracts, because each party is equivalent to the obligations of the other. For instance, conventional banks take interest or extra charges from the customers, and this principle is assumed that the opportunity cost of the other and this practice are unbalanced in the activity. To get a good bank customer relationship, Islamic banks should first evaluate to ensure that their systems are in line with *Shariah* principles.

According to Ali (2014), there are several Islamic elements in conducting a good practice in business as well as managing credit risk in credit evaluation process. It includes elements of '*adl*' (fair and justice), *ukhuwah* (continuous relationship), *Istiqamah* (allowing no deviation), *akhlak* (Islamic ethics), *syura'* (discussion) and *tawakkal* (put in trust to Allah).

'Adl (fair and justice)

According to Ali (2014), '*adl*' is a concept of justice and it is one part of *tauhid-ilallah* or called as belief that Allah is just. To extent this further, Allah will reward or punish any person according to his deeds and thus the notion of predestination (where all decisions are return back to Allah's hand and not any one's else) in one's deeds does not exist. Surah An-Nahl in verse 90 explained that:-

إِنَّ اللَّهَ يَأْمُرُ بِالْعَدْلِ وَالْإِحْسَانِ وَإِيتَاءِ ذِي الْقُرْبَىٰ وَيَنْهَىٰ عَنِ الْفَحْشَاءِ وَالْمُنْكَرِ وَالْبَغْيِ يَعِظُكُمْ لَعَلَّكُمْ تَذَكَّرُونَ
 “Verily, Allah commands '*Adl* (fairness, equity, justice) *Ihsan* (excellence in servitude to Allaah, benevolence towards people, graciousness in dealings) and giving to those close to you, while He forbids *Fahshaa* (lewdness, indecency, licentiousness, immorality), *Munkar* (bad actions, undesirable activities, generally unaccepted behaviour, not fulfilling one's obligations), and *Baghy* (rebellion, transgressing limits, exploiting or violating others' rights, abuse of authority or freedom). He admonishes you so that you heed the advice.”

(Al-Quran. An-Nahl, 16:90)

Therefore, the concept of '*adl*' is very comprehensive and implies fairness and equity in the whole thing that person says or does (Qutb, 2000). It covers the comments we make, the judgements we pass, the way we handle our responsibilities and obligations to others, the way we deal with people, the way we handle differences, the way we treat others whether they are members of our family, friends, relatives, strangers or enemies. Fairness, equity and justice must be a hallmark of our behavior in all of these areas. Similar with the financing decision, as one's make credit evaluation process, they should implements '*adl*' as one parts of elements in evaluating their clients.

***Ukhuwah* (Continuous Relationship)**

According to Rizvi (1996), Beekun (1997) and Ali (2014), practicing good relationship in making financing decision is vital for developing the long-term relationships as well as *ukhuwah* (continuous relationship with clients. This practice is one parts of credit evaluation process in mitigating credit risks issues. Besides, this element is strategic for banks to have a better position in the market and thus also to secure continuous banking relationships.

To extent this further, there is a positive relationship between ethics and risk management because ethical principles constitute a precondition for creating the climate of collaboration necessary for successful risk management activities (Tafri et.al, 2011). Islamic banking is created under Islamic law and is frequently considered ethical banking. To succeed in competition with conventional banks, Islamic banks should enhance Islamic elements in making financing decisions as well as in evaluating their clients differentiated by the implementation of Islamic business ethics.

***Istiqamah* (Allowing no Deviation)**

The literal meaning of *Istiqamah* is to go straight into the right direction, acting rightly, allowing no deviation (Imam Nawawi; Abbas J. Ali, 2014). It is derived from the stem *Qiyam*, which implies the continuity of doing something, following up with it and making sure that it is done in the right way and there is neither deviation nor swerving.

The term has been used by the Al-Quran in many verses. One of the verses from Surah Hud, Allah the Almighty says:-

فَاسْتَقِيمْ كَمَا أُمِرْتَ وَمَنْ تَابَ مَعَكَ وَلَا تَطْغَوْا إِنَّهُ بِمَا تَعْمَلُونَ بَصِيرٌ

“Therefore, stand firm (on the Straight Path) as you are commanded and those who turn in repentance with you. And do not transgress, for He (Allāh) sees well all that you do.”

(Al-Quran. Surah Hud, 11: 112)

To simplify, *Istiqamah* is to stand firm and steadfast to what we have been commanded by Allah, for instants to fulfill obligations and to avoid prohibitions. Correspondingly, we should not allow ourselves to follow or be misleading by desires (whether it is our desires or the desires of others) as it will cause deviation and lead us astray.

Therefore, to achieve *istiqamah* (allowing no deviation) in making financing decisions, banks must always being aware of the final destination (the Day of Judgement) and has to make a commitment that they will be steadfast and will do things in the right way and in the best way possible, and to adhere to conjunctions of Islam.

Besides that, banks should in-line with the financing decision; they have to make continuous efforts (*Mujahadah*) to bring that commitment to reality. Some Muslims dare to make the commitment, but dare not to make the effort to make the commitment a reality. The other ways is self-accountability (*Muhasabah*). This should be done twice: Firstly, before banks start doing financing decisions, ensuring that it pleases Allah, that they do it for His sake only, realizing the right way it should be done. Secondly, after the financing decisions has been done, to check whether they have achieved what they aimed for, and to check for defects and shortcomings, and that they still could have done it better in mitigating credit risks.

***Akhlak* (Islamic Ethics)**

Akhlak is an Arabic term referring to the practice of virtue, morality and good manners in Islamic theology and philosophy. It is most commonly translated in English as Islamic behavior, disposition, good conduct, nature, temper, ethics, morals or character (of a person).

To extent this further, *Akhlak* is the plural for the word *Khulq* which means disposition. Disposition is that faculty (*Malakah*) of the soul (*Nafs*) which is the source of all those actions that man performs spontaneously without thinking about them. *Malakah* is a property of the soul which

comes into existence through exercise and repetitive practice and is not easily destroyed. Based on the above explanations, the importance of *akhlak* is thus revealed. This is because of the reasons mentioned above that ethics is considered to be the most exalted and valuable of sciences. Moreover, we know that man is the noblest of creatures, the ultimate purpose of whose existence is to attain perfection; therefore, it follows that ethics is the noblest of all sciences which also includes in actions of financing decisions (Khan and Ahmed, 2001; Ali, 2014).

Syura' (Discussion)

Syura' is one of the basic fundamentals of the Islamic political system. It extended to include all the affairs of Muslims. Thus, the Islamic state might have preceded the modern democratic systems with regard to the necessity of unanimity over choosing the one who runs its affairs and cares for its interests, something which stresses the value and effectiveness of unanimity among Muslims.

Besides of the concerns on Islamic political system, Islamic banks likewise concern on *syura'* as one part of making decision in financing activities as well as in evaluation process. *Syura'*, as a principle, is rooted in the Al-Quran itself. In addition, Al-Quran has stated that the application of *Syura'* as a norm and not as a system. The distinction is important to note, since the Al-Quran in this manner has left it to successive generations of Muslims to continue to strive on the way to a more perfect realization of the *Syura'* practices in making financing decisions.

Tawakkal (Put in Trust to Allah)

Tawakkal refers to placing the trust in Allah Alone as well as to have faith in that he alone can award of the harms of this world, provide the blessings and sustenance, and to ease the challenges (Ali, 2014). Besides, *Tawakkal* is also about accepting the results that he decides regardless of how they may turn out to be.

To understand the concept of *Tawakkal*, it is important to consider how tense and worried that one's get at times about the challenges of this worldly life. Besides, *Tawakkal* should not be mistaken with giving up the efforts thinking that somehow the challenges will get resolved. Rather striving and working with the attitude that Allah s.w.t will take care of the affairs and will help in getting through the trials as part as one's have the *Tawakkal* in Allah.

Ali (2014) have stated that *Tawakkal* in reality does not deny actually working and striving for provision, for Allah s.w.t the almighty has decreed that we should work and it is from his ways that he gives people when they strive. In fact, Allah almighty ordered us to both depend on him, and to work, to take the necessary steps needed to achieve goals, and so the act of striving for the sustenance is an act of physical worship while trusting and depending upon Allah is faith in him.

To simplify, in making financing decisions as well as evaluating the clients in credit applications, Islamic banks should also combine *Tawakkal* with other means, whether they are acts of *Ibadah* (worship or supplication), *Solah* (Prayers), *Sadaqah* (voluntary charity) or maintaining the ties of kinship, or other material means which Allah has predestined (Ali, 2014).

After all of these have done in a good manners, of course both Islamic banks and the clients gets benefits from the practicing of *Tawakkal*, such as it can release from the unnecessary anxiety, worry, and resulting depression from the challenges that both of them may be facing. By believing that all their affairs are in Allah's hands and they can only do what is in their control, they leave

the results to Allah and accept his decree whatever it maybe. Ibn Rajib Al hanbali said, "*The fruit of Tawakkal is in acceptance of Allah's decree. Whoever leaves his affairs to Allah and then is accepting of what he is given has truly relied on Allah.*"

To sum up, it is important to understand the concept of *Tawakkal* and make it a part of Islamic banks belief systems in making financing decisions. Of course, they will then learn to appreciate that matters will get resolved without difficulty with the help of Allah and *Tawakkal* will also relieve them from the day-to-day concerns and worries supplementary with the challenges of this life in daily banking activities.

Research Methodology

To develop a theory from the observation, in-depth interviews will be used to gain the perceptions from the bank officers of the business financing department in Malaysia. By using the interview guide, it is expected that the person's perception of the different types of banking approach might be different. In addition, the conclusion of the study will discuss the facts, situations, experiences and thus, ultimately, will support the conclusion.

Since this study is inductive, the qualitative method is preferred because the study uses the relationship between the research and the theory, and, as there is no measurement, hypothesis testing is undertaken. This helps to answer the research questions by in-depth interviewees with the authorities concerned in the area of study, and then the outcomes from the interviews are compared in terms of their answers with the theory.

Analysis

This part will present the 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.

To extent this further, 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.

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 4.1 summarizes the business financing officer's perceptions of credit evaluation process:-

Table 4.1 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 4.1 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:-

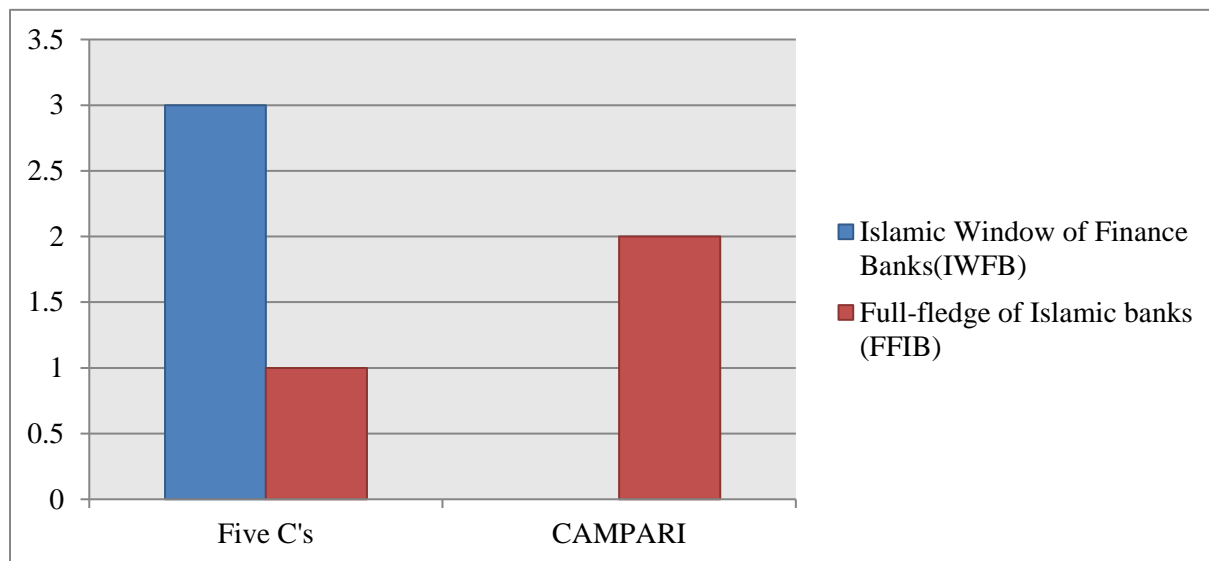
"The first most important elements that we used to evaluate our credit applicant is character. It includes of the personality, reputation of the company and history. The reason is the character comes first beforehand." (IWFB; C)

"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 4.1 below stated categories elements used by different types of banks approach.

Figure 4.1 Categories Elements used by Different Types of Banks Approach



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)

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 4.2 summarizes the business financing officer's perceptions of determinants in failure of credit evaluation process:-

Table 4.2 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

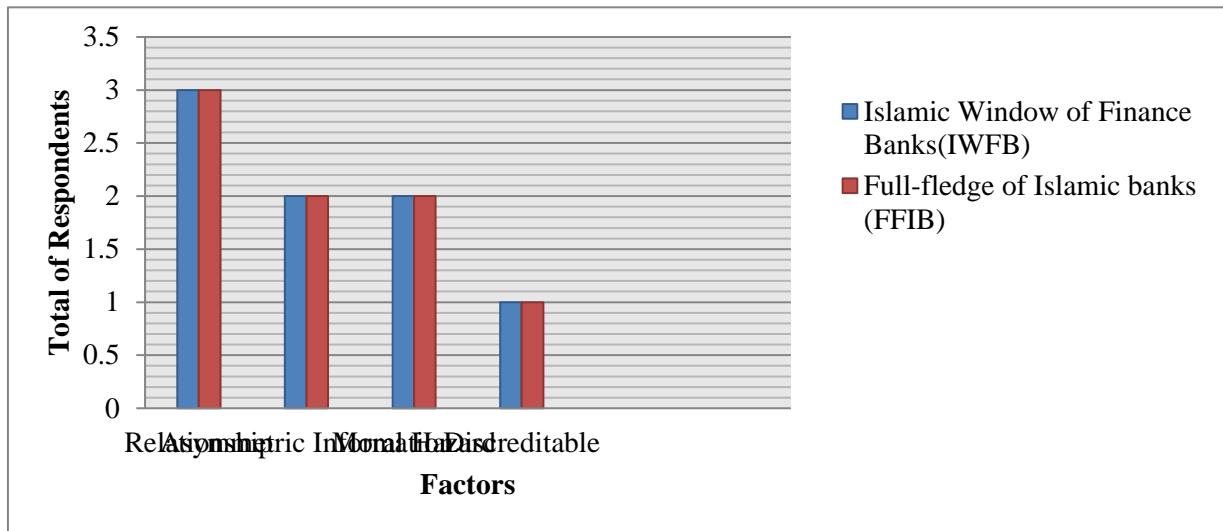
Based on table 4.2 above, the first most common word associations with Factors in Failure of Credit Evaluation Process were “relationship” by all respondents. Different types of banks approach in this sample viewed have same virtue as their number one “relationship” issues. Much effort is required in 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 4.2 below shows the factors of failure of credit evaluation process by different types of banks approach:-

Figure 4.2 Factors of Failure of Credit Evaluation Process by Different Types of



Banks Approach

To extent these further, based on figure 4.2 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.

Adl’, Ukhuwah, Istiqamah, Akhlak, Syura and Tawakkal Elements in Credit Evaluation Process

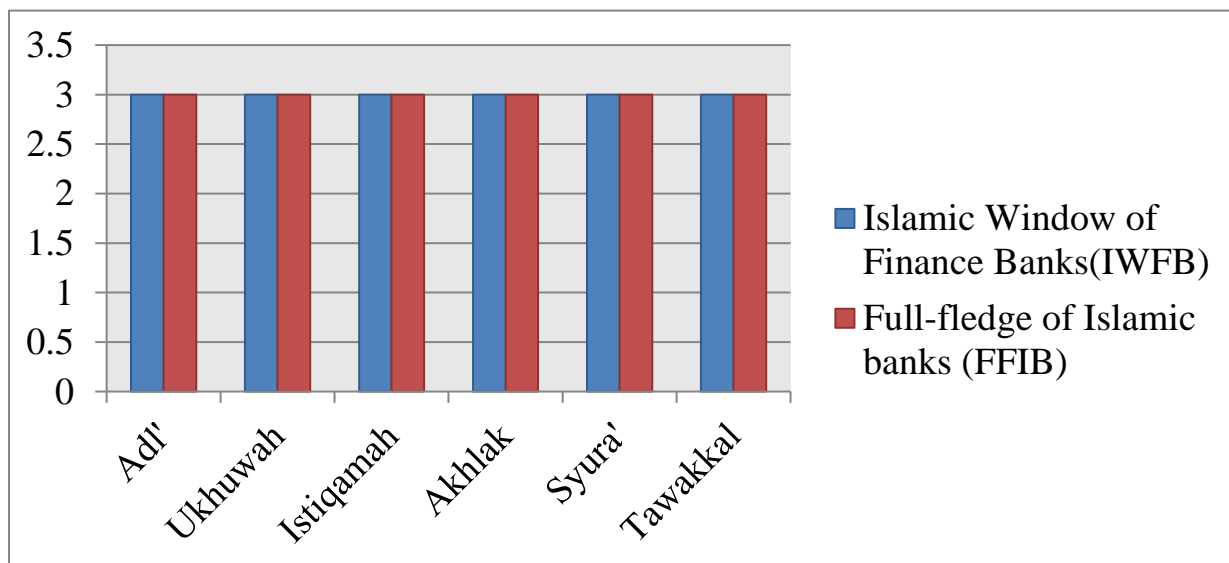
Islamic elements are important in making financing decision process. For Islamic banks approach for sure they need implements and practices Islamic elements as a tools/strategies in mitigating credit risk in pre-approval stage. There are different views and perceptions to the different types of banks 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 4.3 summarizes the business financing officer’s perceptions of Islamic elements in credit evaluation process.

Table 4.3 Words and Concepts Associated with *Adl', Ukhuwah, Istiqamah, Akhlak, Syura* and *Tawakkal* Elements in Credit Evaluation Process

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

Based on table 4.3 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 4.3 below shows the Islamic Elements that can be used in Credit Evaluation Process:-

Figure 4.3 Islamic Elements that can be used in Credit Evaluation Process



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)

Conclusions

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 bank

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