PhD Research Proposal

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Abstract

The primary aim of this thesis proposal is to identify and as such be conversant with the nature of the operational risks that are common in the banking sector. This paper has majorly focused on the banks of Jordan and analyzed how they applied reliable measures to ensure that they solve the risks in the banking system successfully. The methods used in the calculation implement the need to understand the nature of the operational risk and the method applied in the calculation of the capital requirements of the operational risks. In addition, this paper has adopted the sound practices for the management of the operational costs. In this adopted the sound practices for the management of the operational costs. In this regard, the ability of the banks in Jordan to implement the requirements of Basel 3 that are related to the operational costs and the difficulties that are faced by the banks for the purpose of calculating the capital requirements for the operational costs.

Introduction

In a country, the financial system is a crucial function that enhances the economic development of the individual nation (Abuzayed and Bana 156). In this regard, any company financial performance is regarded as the ability of a specific company to generate new resources through its regular operations that are measured for a specific period of time. A successful operation in a company is determined by the net income and the cash used in their operations as such the success determinants are categorized into the traditional and market-based measures.

According to Al-Smadi, Mohammad and Saad Al-Wabel (8), since the early 1990s, there has been a rise in the number of risks impacting the banking sec banking sector such as the credit risk, interest rate risk, liquidity risk, market risk and the foreign exchange risks. Others include the solvency risk that is the most common in most of the banks. This research is devoted to evaluating the current effects of the management of the
highlighted risks on the financial performances of the Jordanian commercial banks in the period of 2005-2013. In addition, this paper shall majorly focus on the credit risk management in the banks and its ability to regulate the profitability of the banks.

Literature Review

This section focuses on the theoretical and empirical literature on the impacts of the credit risk management to the financial performances and relates it to the Jordanian commercial banks. Generally, Duffie, Darrell, and Kenneth (23) state that risk is defined as the factors that lead to the actual returns being less than the expected returns. In this regard, the risk is the probability of losing on an investment and the overall interests accrued on the investments. In light to this, Varotto and Simone (135) explain that the credit risk is categorized as the risk that a borrower is likely to default and as such does not honor the obligations of the service debt.

According to Kolapo et al. (33), credit risk refers to the profitability associated with the loss as a result of the different cases of failure of the borrower to settle the payments

on any type of the debts they owe others.

On the other hand, Brio, Claudio and Haibin Zhu (237) opine that credit risk management is a process that involves mitigation of the losses through a common understanding of the adequacy of the bank's capital and loan loss reserves available at any given time. This process has been a challenge to most of the banking institutions, and they have been left grappling with efforts to maintain their credit risks (Eling, Martin, and Hato Schmeiser 36). In this regard, cases of the credit risks are associated with the possibilities that the borrowers will default the borrowed cash and fail to pay. According to Rötheli and Tobias (123), this eventually leads to the loss of principal and interests, disruption of the cash flows and an increased collection of the costs. Credit risk is one of the major risks that negatively impacts on the banks operations based on the nature of their diverse activities (He, Zhiguo, and Wei Xiong 394). However, through an effective management process of the credit risks by the banks, it is possible to support the viability and profitability of their individual business and also contribute to the systemic stability and contribute to an efficient allocation of the capital in the economy (Abuzayed and Bana 157).

Currently, according to Al-Smadi, Mohammad and Saad Al-Wabel (10), numerous researchers have focused on the effects of the credit risk management to the financial performances of the organization. In addition, the research has focused on the effect of the credit risk management of the financial performances of the organization and how their management can be effective in reduction of the possibility of the failures and restriction of the uncertainties of the achievement of the financial performances. Fredrick and Ogilo (16) explain that majority of the research works are however in common accord that there is a direct relationship between the effective credit risk management and the profits accrued by the banks. However, Duffie, Darrell, and Kenneth (23) state that some of the research works are in common agreement that there exists no relationship between the credit risk management and the business profitability.

The Methodology

This research proposal focuses on carrying out a candid investigation on the effects of the credit management on the performances of the banks financially. In light to this, the research focuses on the Jordanian commercial banks and how they effectively carry out the process of credit risk management effectively. In order to achieve this, data will be sourced from the annual reports available in the databases of the Jordanian commercial banks and focus on the years 2005-2013. In addition, for the purpose of estimating the effects of the credit risk management indicators, the panel regression model was effectively employed and adopted in this study (Varotto and Simone 138). In this research, some of the indicators that were majorly focused upon include the capital adequacy ratio, credit interests and facilities ration, facilities ratio and the loss of the facilities in gross. Others considered include the leverage ratio, the Non-performing loans that all focused on the banks financial performances.

Conclusion

The main objective of this paper was to investigate the effects of the credit risk management towards the banks financial performances. The process is achieved through an identification of the credit risk management and financial performance indicators. In addition, this research proposal has focused on identifying the empirical evidence of the rate in which the process of risk management impacts on the performance of the banks and the efforts that can be adopted by an organization in improving their financial ratios that rate their performances. There is, however, a continuing discussions relating to the nature and the degree of the available practical credit risk management ef management effects on the profitability of the firms. In this research, the different ratios that do not affect the profits of the Jordanian commercial banks are measured through the use of the ROE. It is worth noting that the credit risk management indicators that are considered in this research are significant variables which directly impacts on the Jordanian commercial banks. As such, it is imperative for the Jordanian commercial banks should consider improving the non-performing loans, enhancing the availability of the facilities loss and net facilities and the leverage ratios. All these factors are crucial in the determination of the credit risk management efforts and processes.

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