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Examining the Impact of Loan Diversification Policy on the Operational Efficiency of Bank of Kigali and Ecobank Rwanda

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ABSTRACT

To mitigate overall loan portfolio risk, commercial banks often turn to diversification strategies. However, the impact of such diversification remains contested among scholars. This study delved into the analysis of the Loan Diversification Policy's influence on the efficiency of Bank of Kigali and Ecobank Rwanda. Employing a mixed-methods approach—both qualitative and quantitative—the study encompassed 191 employees, with a sample size of 66 managers. Data collection utilized questionnaires and annual reports from the banks. Cronbach's Alpha measured internal tool consistency, yielding a coefficient of 0.861. Analysis involved descriptive and correlational statistics, executed through Statistical Package for Social Sciences (SPSS), with findings presented via charts and tables. Regarding the first objective, among 66 respondents, reasons for risk in the loan portfolio varied: competition among banks (15.2%), global financial crisis (13.6%), currency fluctuation (9.1%), high lending rates (15.2%), loan recovery issues (13.6%), new regulations (12.1%), government policies (9.1%), and declining interest margins (12.1%). Concerning the second objective, factors influencing bank efficiency included education levels (16.7%), experience (22.7%), participation in education programs (19.7%), professional organization memberships (18.2%), training methods (21.2%), and supervision quality (1.5%). Regarding the third objective, the study revealed a significant correlation (99.3%) between the loan diversification policy and commercial bank efficiency, indicating a strong positive relationship.

Keywords: Commercial banks, Loan portfolio, Diversification policy, High correlation, Management of banking institutions.

INTRODUCTION

Generally, banks had made influential reforms after the 2001 World financial crisis. Following the crises in 2001 and the restructuring process, the banking sector showed a rapid growth performance in the 2002-2008 period. The total assets rose from USD 130 billion to USD 465 billion, and their ratio to GDP from 57 per cent to 77 per cent. The number of branches and staff rapidly increased [1]. According to [2], Italian bank's diversification reduces bank returns while producing riskier loans. However, they confirmed that German banks diversification tends to be associated with reductions in bank returns, even after controlling for risk. According to [3], German banks increased loan portfolio diversification so that their efficiency was good. [4] discussed how large banks in Sweden manage their loan portfolios and postulated the policies behind loan portfolio diversification at banks are useful in the efficiency of the banks. The efficient and effective performance of the banking industry over time in Nigeria is an index of financial stability. The extent to which Nigerian banks extend loans to the public for productive activities accelerates the pace of a nation's economic growth and its long-term sustainability [5]. The loan diversification policy of commercial banks enhances the ability of investors to exploit desired profitable ventures. Loan creation is the main income-generating activity of banks [6]. However, it exposes the banks to loans. Among other risks faced by banks, loan plays an important role in banks' profitability since a large chunk of banks' revenue accrues from loans from which interest is derived. However, interest rate risk is directly linked to loans implying that a high increment in interest rate increases the chances of loan default. According to [7], the most ranked factor contributing to non-performing loans in Africa is the allocation of funds by borrowers to businesses. The second significant factor was weak loan portfolio management especially weak credit analysis at the application stage followed by a lack of integrity of borrowers. Change in country policies, court injunction instituted when bank intends to dispose of properties, low prices fetched when disposing of mortgaged assets and business failure. [8], described loan diversification policy and management as the process that commercial banks put in place to control their financial exposures. He further stated; the process of risk management comprises the fundamental steps of risk identification, risk analysis and assessment, risk audit monitoring, and risk treatment or control. Various loan diversification policy lapses arose from the risk management orientations in Kenya since the era when commercial banks were owned by foreigners. The post-Genocide Rwanda's financial sector has changed drastically, and banks' soundness and performance have considerably improved since 2005. Yet, the collective performance of the banking sector in helping the country to achieve its economic growth objectives remains an unexamined aspect because of the high level of NPLs [9]. Commercial Bankers in Rwanda agreed that 2013 was not particularly a very good year for the banking industry. First, the ratio of non-performing loans suddenly shot-up to worrying levels of 7% – the highest in about five years and way above the central bank's benchmark of 5%. Secondly, to stem the tide of rising bad loans, commercial banks adopted a more cautious approach scaling back on new loan approvals, especially in the first half of the year. This resulted in low growth of lending to the private sector. And since lending is the core business of banks, profitability was bound to suffer as the industry managed a miserly 12.9 per cent growth in net income down from 27.8 per cent in the 2013 year [10]. Yet despite a generally bad year, Bank of Kigali, the country's biggest lender, managed to post an impressive balance sheet that will see shareholders pocket Rwf 7.4 billion in dividends. This is half of the net income of Rwf .8 billion that the bank made during the year, increasing by Rwf3 billion from the previous year. By June 2012, there were already signs that BK shareholders would still reap from their investment despite challenges when the bank net loans fell by 1.5% during the second quarter of the year compared to the same period the previous year, but the bank went ahead to post net half year profit of Frw7.3 billion [11].

To minimize the total loan portfolio risk, commercial banks need to consider diversifying their corporate loan portfolio. Yet, research indicates that the effect of such diversification has conflicting findings by various scholars. According to [12], bank failure is a problem in many countries. Establishing an understanding of and finding a solution to the problem has been the focus of a great deal of research. The years, 2007-2013, marked a new wave of bank failure in the U.S., one characterized by high unpredictability and serious consequences. Within this period, over 450 U.S. banks failed. Before this, many other such episodes have ensued, especially in the 1970s, 1980s and no less so, in the 1990s. The overall result was a series of bank failures ranging from 262 failures in 1987, 534 in 1989 and over 4000 bank failures between 1979 and 1994. According to [12] loan marketing strategies, portfolio diversification, interest rate risk, and capitalization management strategies affect the efficiency of commercial banks. Therefore, the above background shows that lending has been, and still is, the backbone of the banking business in Rwanda and other countries. Hence, as firms in Rwanda are complaining about lack of access to loan, while banks on the other hand have suffered large losses on bad loans [13], the researcher was motivated to carry out this study.

METHODOLOGY

Research Design

The study followed both descriptive and comparative design and was both qualitative [14] and quantitative. This is because the researcher quantitatively determined the relationship between variables and a correlation design was seen as the most appropriate for application in the study. The researcher was interested in using correlation design because the study was to describe the degree to which variables are related.

Study Population

This study was made to study the loan diversification policy and efficiency in commercial banks, thus the researcher focused on employees of Bank of Kigali (BK) and employees of Ecobank. The population under study was comprised of 126 managers of BK including eight boards of directors, four executives' managers, 13senior managers,24 middle management and 77 lower managers [11] and 65 employees of Ecobank work in the department related to loan and efficiency of Ecobank. The total population was 191 people. The study preferred to use managers because are the ones who set loan diversification policies in commercial Banks.

Sample Design

This part concerns the sample size and sampling procedures to be used and come up with the sample size. In practice, the sample size to be used in the study will be determined based on the expense of data collection, and the need to have sufficient statistical power. Therefore, sampling is the process of selecting elements from the total population. Sample size is respondents defined as a definite part of a statistical population whose properties are studied to gain information about the case of study. It is not possible to collect data from the whole population due to time and financial constraints.

Sample size Determination

The level of precision or sampling error was 5% and 95% confidence level, the total population(N) is 191, the sample size is selected using the Yamane formula = $\frac{N}{1+N(e)2} = \frac{191}{1+191*(0.1)^2} = 66$, and then, n= 66 respondents. The sample size of the study was 66 managers who worked in a department related to loan diversification and commercial banks' efficiency.

Sampling Techniques

The study population was stratified into strata (groups) according to the management of the selected banks. From these strata, the researcher used a systematic random sampling method as this enabled the study to select respondents who could provide him with the information needed for the study.

Table 1: Sample Frame

Category	Population	Percentage	Sample
Bank of Kigali	126	65.97	44
Ecobank	65	34.03	22
Total	**191**	**100**	**66**

Source: (Bank of Kigali and Ecobank, 2016)

Data Collection Methods

Data collection is the process of gathering and measuring information on variables of interest, in an established systematic fashion that enables one to answer stated research questions. This section focuses on data collection instruments, administration of the instruments, validity and reliability.

Data Collection Instruments

The questionnaire was used to collect data during the study. Close-ended questions were used to collect quantitative data. Documentary review also was used because it helped the researcher to know and document the kind of additional data needed in the study. The first-hand data was specifically collected from respondents, these types of data were collected by the use of questionnaires and annual reports of Bank of Kigali and Ecobank Rwanda.

Administration of Data Collection Instruments

Data were collected by the researcher himself. Confidentiality was of major concern during data entry and management. All data collected by the researcher were strictly confidential. Control of data quality was achieved through the review of data collection instruments in the field and at the end of collection daily. Correction of errors identified was made accordingly at the end of the collection process. The researcher distributed a questionnaire and got it back after four days.

Validity and Reliability of Research Instruments

Table 2: Reliability Statistics

Cronbach's Alpha	N of Items
0.861	35

Source: Researcher

Validation is the extent to which an instrument measures what it is supposed to measure and performs as it is designed to perform. As a process, validation involves the collection of data and analyzing data to assess the accuracy of instruments [2]. Therefore, for validity and reliability of this instrument were done by making pre-tested to verify the consistency of the research instruments. Cronbach's Alpha as indicated in Table 2 was used to measure the internal consistency of the research tool. Computed Cronbach's alpha coefficient was $\alpha = 0.861$ to confirm the reliability of the research instrument. This was generated after pre-tested research instruments where the pilot research was conducted. The validity of the research instrument was tested by experts (MKU lecturers) in terms of language and content.

Data Analysis Procedures

Before the data were entered into the computer for analysis and interpretation, the researcher coded and cross-checked responses. They included editing, coding and summarizing the data into frequencies and percentages using SPSS to aid the researcher in meaningfully describing the distribution of responses using a few indices. The data were further analyzed using charts and tables. The data were analyzed using correlational techniques to determine the relationship between the variables and the degree to which the independent variable explains the variation in the dependent variable.

Ethical Considerations

For data collection, Mount Kenya University provided a letter of introduction that was used to request permission from the BK and Ecobank Rwanda Human Resources Managers to have the right to collect data from selected sectors. The permission was presented to the employees, introduction arrangement and cooperation. After the introduction, arrangement was made with the selected respondents in each department. All respondents were informed that their participation was voluntary and written informed consent was given to all Respondents before their participation, so that they recognized the research purpose [15]. The confidentiality of respondents was strictly kept no personal identification information was shown on the questionnaire.

RESULTS

Demographic Characteristics of Respondents

In this part, the researcher analyses the level of education of respondents according to the degree they have. From education, accurate and useful information concerning research objectives were obtained.

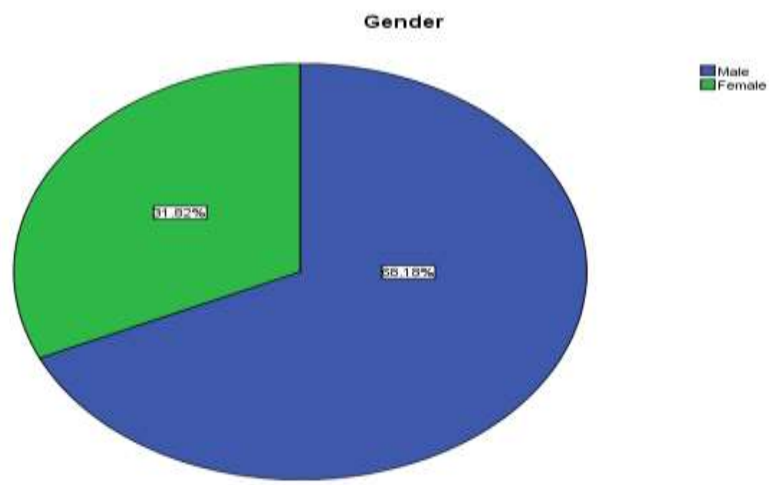

Figure 1: Distribution of Respondents by Gender
Source: Field Data

Figure 1 indicates distribution of respondents by gender, out of 66(100%) respondents 45(68.2%) respondents were male while 21(31.8) respondents were female. Based on the data in table 4.1 indicates Male are more than female in field of loan diversification in Ecobank and BK.

Table 3: Level of Education

		Frequency	Percent
	University	45	68.2
	Postgraduate	21	31.8
	Total	**66**	**100.0**

Source: Field Data

Table 3 shows perceptions of respondents on level of education out of 66(100%) respondents 45(68.2%) respondents hold a university while 21(31.8) respondents hold post graduate. means that the researcher focused on the people with enough skills in the field of loan diversification. Hence, the level of education indicates that the respondents were able to deal with loan diversification and its impact on the efficiency of Ecobank and BK, whereby they gave accurate information regarding research questions and objectives.

Table 4: Marital status

		Frequency	Percent
	Single	8	12.1
	Married	58	87.9
	Total	**66**	**100.0**

Source: Field Data

Table 4 indicates the perceptions of respondents on Marital status out of 66(100%) respondents 8(12.1%) respondents were single while 87.9(58) respondents were Married. Based on the data in Table 4 a maximum of respondents are married.

Table 5: Service department/position

		Frequency	Per cent
	Managers	44	66.7
	Recovery	13	19.7
	Risk officer	9	13.6
	Total	**66**	**100.0**

Source: Field Data

Table 5 shows perceptions of respondents on service department/ position out of 66(100%) respondents 44(66.7%) respondents were managers, 13(19.7%) respondents were recovery and 13.6(9%) respondents were risk officers. This indicates that the information received is more accurate because among the respondents we had managers who are close to loan diversification were more than recovery and risk officers.

Table 6: Year of experience working in a commercial bank

		Frequency	Percent
	1-3 Years	24	36.4
	3-5 Years	14	21.2
	5-10 Years	17	25.8
	over 10 years	11	16.7
	Total	**66**	**100.0**

Source: Field Data

Table 6 indicates the perceptions of respondents on Years of experience working in a commercial bank out of 66(100%) respondents 24(36.4%) respondents had between 1-3 years, 14(21.2%) respondents had between 3-5 years,7(25.8%) respondents had between5-10 years while 11(16.7%) respondents had over 10 years. Based on the experience of respondents the accuracy of the information from respondents is on the high level.

Presentation of Findings

This subsection focuses on the research objectives under study, such as the determinants related to loan diversification policy in the efficiency of commercial banks, the efficiency of loan diversification policy in commercial banks and the relationship between loan diversification policy and efficiency of commercial banks.

The determinants related to loan diversification policy in the efficiency of commercial banks

Table 7: Challenges

		Frequency	Per cent
	Competition among banks	10	15.2
	Global financial crisis	9	13.6
	Currency fluctuation	6	9.1
	High lending rate	10	15.2
	The Problem of Loan Recovery	9	13.6
	New regulation	8	12.1
	Government policy	6	9.1
	Declining interest margin	8	12.1
	Total	**66**	**100.0**

Source: Field Data

Table 7 shows the perceptions of respondents on challenges among the determinants related to loan diversification policy in the efficiency of commercial banks out of 66(100%) respondents 10(15.2%) respondents selected competition among banks, nine respondents selected global financial crisis, six respondents selected currency fluctuation,10(15.2%) respondents high lending rate, 9 (13.6%) respondents selected problem of loan recovery,8(12.1%) respondents selected new regulation,6 (9.1) respondents selected government policy while 8(12.1%) respondents selected declining interest margin. Hence, industrial loan diversification increases bank return while endogenously producing riskier loans for all banks in our sample; this effect is most powerful for high-risk banks. Sectorial loan diversification produces an inefficient risk-return trade-off, only for high-risk banks.

Table 8: Commercial banks affected by Currency fluctuation

		Frequency	Percent
	Directly	51	77.3
	Indirectly	15	22.7
	Total	**66**	**100.0**

Source: Field Data

Table 8 indicates the perceptions of respondents on commercial banks affected by currency fluctuation out of 66(100%) respondents 51(77.3%) respondents ticked directly while 15(22.7%) respondents ticked indirectly. Hence, the banking operation is central to the money supply mechanism in an economy as it provides the aggregate credit to the domestic economy as well as international liquidity through net foreign assets both of which are essential variables of money supply. Through the activities and policy measures on the foreign exchange market, intended to realize exchange rate policy objectives, banks' aggregate credit to the domestic economy and international liquidity have been affected with extended implications for the economy.

Table 9: Currency fluctuation affects commercial Bank performance

		Frequency	Per cent
	Foreign competition	31	47.0
	Demand for loans	19	28.8
	Other aspects of banking conditions	16	24.2
	Total	**66**	**100.0**

Source: Field Data

Table 9 shows perceptions of respondents on fluctuation affect commercial banks through the influence out of 66(100%) respondents 31(47.0%) respondents ticked foreign competition, 19(28.8) respondents selected demand for loans, 16(24.2%) respondents ticked other aspects of banking conditions,10(15.2%) respondents high lending rate nine respondents selected problem of loan recovery, eight respondents selected new regulation, six respondents selected government policy while 8(12.1%) respondents selected declining interest margin.

Table 10: Recovery rate in commercial banks related to

		Frequency	Per cent
	Default rate	24	36.4
	Loan loss	10	15.2
	The Bank of Kigali assesses the feasibility of projects before lending	32	48.5
	Total	**66**	**100.0**

Source: Field Data

Table 10 indicates the perceptions of respondents on recovery in commercial banks related to out of 66(100%) respondents 24(36.4%) respondents selected foreign default rate, 10(15.2%) respondents selected loans loss, 32(48.5%) respondents ticked bank of Kigali did assess the feasibility of projects before lending. Hence, an important component of a strong risk management system is a bank's ability to assess the potential losses on its investments. One factor that determines the extent of losses is the recovery rate on loans and bonds that are in default. The recovery rate measures the extent to which the creditor recovers the principal and accrued interest due on a defaulted debt. One reason why recovery and default rates may be inversely related is that they are both likely to be strongly influenced by the economy.

Table 11: High lending rates affect commercial bank

		Frequency	Per cent
	Reduction of borrowers	22	33.3
	Reduction of types of loans offered	24	36.4
	Formulating new policies and procedures regarding loan	20	30.3
	Total	**66**	**100.0**

Source: Field Data

Table 11 indicates the perceptions of respondents on how high lending rates affect commercial banks out of 66(100%) respondents 22(33.3%) respondents selected reduction of borrowers, 24(36.4) respondents selected reduction of types of loan offered, 20(30.3%) respondents selected formulation new policies and procedures regarding loan. Higher interest rates increase the cost of borrowing money, but they also raise the income of people who are dependent on retirement funds or bond portfolios for their income however when interest rates are increased, it costs more to borrow money. That means that businesses will not borrow as much in times of higher rates. When that happens, businesses spend less and hire less. In turn, this slows down an economy and if the economy is already slow, it can cause a recession. Raising interest rates puts the brakes on economic growth.

Table 12: New regulations cause commercial bank

		Frequency	Per cent
	Establishment new regulations to comply	10	15.2
	Change lending policies to comply	18	27.3
	Transform the Bank of Kigali into a more stable organization	27	40.9
	Compliant with the minimum capital requirement	11	16.7
	Total	**66**	**100.0**

Source: Field Data

Table 12 shows the perceptions of respondents on new regulations causing commercial banks out of 66(100%) respondents 31(47.0%) respondents selected the establishment of new regulation to comply, 18(27.3%) respondents selected change lending policies to comply 27(40.9%) respondents ticked transform bank of Kigali into the more stable organization, 11(16.7%) respondents ticked compliant with the minimum capital requirement. Hence, one advantage of new regulations is that they create a logical framework for business operations. The rule-based approach in commercial banks is often seen in the development of network and technological applications that are used for increased business efficiency and streamlined operations. The logical framework created by new regulations makes it possible for management staff to avoid having to concern itself with situational ethics or decisions. Instead, it will be constrained by its own rules, thus making the decision-making process simpler and leading to a stable organization.

Table 13: The global financial crisis affects commercial bank

		Frequency	Per cent
	Deposits mobilization	5	7.6
	Reduction in trade volume	13	19.7
	Performance of assets	13	19.7
	Reduction in bank deposits	9	13.6
	Reduction in loans given out	9	13.6
	Reduction in net profit	7	10.6
	Declining company share capital	10	15.2
	Total	**66**	**100.0**

Source: Field Data

Table 13 indicates the perceptions of respondents on the global financial crisis affecting commercial banks out of 66(100%) respondents five respondents selected deposits mobilization, 13(19.7%) respondents selected reduction in trade, 13(19.7%) respondents selected performance of assets, 9 (13.6%) respondents selected reduction in bank deposits,9(13.6%) respondents selected reduction in the loan given out,7(10.6%) respondents selected reduction in net profit,10(15.2%) respondents selected declining company share capital. Hence, Over the short term, the financial crisis affected the banking sector by causing banks to lose money on mortgage defaults, interbank lending to freeze, and credit to consumers and businesses to dry up.

Table 14: Government policy of banking sector reform (2008) affected commercial bank

		Frequency	Per cent
	Reorganize the bank's credit diversification	16	24.2
	Reduce the level of non-performance loan	16	24.2
	Regulate the process of loan recovery	14	21.2
	increase effective loan diversification management	11	16.7
	Enhance the loan recovery process	9	13.6
	Total	**66**	**100.0**

Source: Field Data

Table 14 shows the perceptions of respondents on government policy of banking sector reform (2008) affected commercial banks out of 66(100%) respondents 16(21%) respondents selected to reorganize the bank's credit diversification, 16(21%) respondents selected for reduce the level of nonperformance loan, 14(21.2%) respondents selected Regulate the process of loan recovery,11(16.7%) respondents selected increase effective loan diversification management, nine respondents selected to enhance the loan recovery process. First, we turn to one of the most government-regulated of all industries commercial banking. As bankers work to supply loans, accept deposits, and provide other financial services to their customers, they must do so within a climate of extensive federal and state rules designed primarily to protect the public interest. Although the reasons for regulation are well known, the possible impacts of regulation on the banking and financial services industry are in dispute. One of the earliest theories about regulation contends that firms in regulated industries seek out regulation because it brings benefits in the form of monopolistic rents. After all, regulations often block entry into the regulated industry. Thus, some financial firms may lose money if regulations are lifted because they will no longer enjoy protected monopoly rents that increase their earning on the other hand, contends that regulation shelters a firm from changes in demand and cost, lowering its risk. If true, this implies that lifting regulations would subject individual financial service providers to greater risk and eventually result in more failures.

Table 15: The challenges does commercial bank face in offering loan

		Frequency	Percent
	Offering short-term loan	24	36.4
	Small and insufficient collateral	24	36.4
	Risk averse	18	27.3
	Total	**66**	**100.0**

Source: Field Data

Table 15 shows the perceptions of respondents on the challenges commercial banks face in offering loans out 66 (100%) respondents 24(36.4%) respondents ticked offering short-term loans, 24(36.4%) respondents ticked for small and insufficient collateral while 18(27.4%) respondents on risk averse.

Table 16: Changes in market interest rate affect commercial bank net interest margins

	Frequency	Per cent
What Banks get from firms using bank credit	12	18.2
In what Bank pays to the depositors	9	13.6
In what Bank gives out shares	28	42.4
In the borrowing and lending operations of the bank	17	25.8
Total	**66**	**100.0**

Source: Field Data

Table 16 indicates the perceptions of respondents on changes in market interest rate affecting commercial bank net interest margins out of 66(100%) respondents 12(18.2%) respondents selected in what bank of Kigali gets from firm use bank credit, 9(13.6%) respondents selected in what bank of Kigali pays to the depositors while 28(42.4%) respondents selected in what bank of Kigali gives out as shares risk averse while 17(25.8%) respondents selected in borrowing and lending operations of the bank. Changes in market interest rates affect commercial banks and play important roles for commercial banks in different ways where low interest rates improve bank balance sheets and banks' capacity to lend. During the financial crisis, many banks, particularly some of the largest banks, were found to have too little capital, which limited their ability to make loans during the initial stages of the recovery and low interest rates that they could raise asset prices. The financial sector is also poised to benefit from rising interest rates. The financial sector, through its capacity to lend, insure and manage a growing base of assets, is in the sweet spot to benefit from a rising interest rate environment that is the product of stronger economic growth and also the financial sector is poised to benefit from rising interest rates. The financial sector, through its capacity to lend, insure and manage a growing base of assets, is in the sweet spot to benefit from a rising interest rate environment that is the product of stronger economic growth.

Table 17: The Factors for effective loan diversification management in commercial bank

	Frequency	Per cent
Strategic planning	9	13.6
Procedures	10	15.2
Lending Policy	13	19.7
Underwriting standards	8	12.1
Risk identification	6	9.1
Internal credit review	7	10.6
Internal control system	13	19.7
Total	**66**	**100.0**

Source: Field Data

Table 17 shows perceptions of respondents on the factors for effective loan diversification management in commercial Bank out 66(100%) respondents 9(13.6%) respondents selected strategic planning, 10(15.2%) respondents selected procedures,13(19.7%) respondents selected lending policy,8(12.1%) respondents selected underwriting standards,6 (9.1%) respondents selected risk identification,7(10.6%) respondents selected internal credit review while 13(19.7%) respondents selected internal control system. Hence, an Internal control system as one of the factors for effective loan diversification management in commercial banks will reduce the amount of audit work to be done in so far as the auditor will be able to use systems-based audits to apply tests which will facilitate his audit work. A strong internal control system will minimize chances of errors and fraud, and the introduction of inter-checking supervision and improved custody will in turn minimize liabilities to third parties, who would have depended on his opinion with greater surety and speed.

Table 18: Strategic planning process on effective loan diversification management

		Frequency	Per cent
	Mission statement and credit philosophy	14	21.2
	Underwriting standards and lending practices	9	13.6
	Amount of diversification risk	6	9.1
	Capability of directorate, management, and staff	16	24.2
	Internal control systems and processes	12	18.2
	Asset/liability management,	9	13.6
	Total	**66**	**100.0**

Source: Field Data

Table 18 indicates perceptions of respondents on the strategic planning process on effective loan diversification management out of 66 (100%) respondents 14(21.2%) respondents ticked mission statement and credit philosophy, 9(13.6%) respondents ticked underwriting standards and lending practices, six respondents ticked amount of diversification risk,16(24.2%) respondents selected capacity of directorate, management and staff 12(18.2%) respondents ticked internal control systems and processes while nine (13.6%) selected asset/liability management. Hence, using SWOT analysis in commercial bank is a wonderful way to prepare for developing a strategic plan and is often the primary building block of strategic plans, it plays an important role in a commercial bank as strategic thinking identifies the methods banks will take to reach their goals and also define action because all plans are useless unless followed by action. An additional side benefit of strategic planning is the natural action plan that stems from identifying banks' preferred strategy, vision, mission and dreams.

Table 19: External factors concerned in commercial bank's strategic planning process for effective loan diversification

		Frequency	Per cent
	Economic profitability of existing and potential markets	18	27.3
	Current and anticipated market interest rates	13	19.7
	World market conditions	9	13.6
	Public policy influences	12	18.2
	Government regulations	14	21.2
	Total	**66**	**100.0**

Source: Field Data

Table 19 indicates the perceptions of respondents on External factors concerned in commercial banks' strategic planning process for effective loan diversification 66(100%) respondents 18(27.3%) respondents selected Economic profitability of existing and potential market interest rates mission statement and credit philosophy, 13(19.7%) respondents selected current and anticipated market interest rates, nine respondents selected world market conditions,12(18.2%) respondents public policy influences,14(21.2%) respondents selected public policy influences while 14(21.2%) respondents selected government regulations. Hence, Consider the size, market share, branding strategy, quality, and strategy of all competitors to ensure a given organization can feasibly enter the market. Technological trajectories are also highly relevant to success. Acquiring key talent and satisfying employees is critical to success and economic recessions and booms can change spending habits drastically, though not always as one might expect. While most industries suffer during the recession, some industries thrive. It is important to know which economic factors are opportunities and which are threats.

Table 20: The goals, objectives, and strategies established

		Frequency	Per cent
	Quantifiable	18	27.3
	Consistent	18	27.3
	Reasonable	18	27.3
	Achievable	12	18.2
	Total	**66**	**100.0**

Source: Field Data

Table 20 shows the perceptions of respondents on the goals, objectives and strategies established out of 66 (100%) respondents 18(27.3%) respondents ticked Quantifiable, 18(27.3%) respondents ticked consistent 18(27.3%) respondents ticked reasonable 12 (18.2) respondents ticked on achievable. Hence, setting goals, objective and strategies play an important role in setting out banks' intentions and desires; the things they want to achieve. Its lead also to the optimum use of resources because there are never enough resources to do everything so setting goals, objectives and strategies can help banks prioritize to place their resources behind what they want to do, rather than on things they are doing by default or by deflection.

Table 21: The goals, objectives, and strategies addressed to the following key areas of lending operations

		Frequency	Per cent
	Quality of the loan diversification	8	12.1
	Profitability of the loan diversification	25	37.9
	Composition of the loan diversification;	9	13.6
	Growth and market share	24	36.4
	Total	**66**	**100.0**

Source: Field Data

Table 21 indicates the perceptions of the respondents on the goals, objectives, and strategies addressed to the following key areas of lending operations out of 66 (100%) respondents eight (12.1%) respondents selected quality of the loan diversification, 25(37.9%) respondents selected Profitability of the loan diversification, nine (13.6%) respondents selected composition of the loan diversification, 24(36.4%) respondents selected growth and market share. Like all businesses, banks profit by earning more money than what they pay in expenses. The major portion of a bank's profit comes from the fees that it charges for its services and the interest that it earns on its assets. Its major expense is the interest paid on its liabilities. The major assets of a bank are its loans to individuals, businesses, and other organizations and the securities that it holds, while its major liabilities are its deposits and the money that it borrows, either from other banks or by selling commercial paper in the money market. Loans and securities are a bank's assets and are used to provide most of a bank's income. However, to make loans and to buy securities, a bank must have money, which comes primarily from the bank's owners in the form of bank capital, from depositors, and from money that it borrows from other banks or by selling debt securities. However, increasing market share means demand will grow it might even boom, even if only in bursts. So commercial banks' internal systems, processes and customer support infrastructure can cope with the increased demand.

Table 22: Commercial bank's Management established the following lending policies

		Frequency	Per cent
	Loan analysis,	14	21.2
	Loan documentation	16	24.2
	Loan servicing requirement	13	19.7
	Collateral evaluation process	12	18.2
	Regulations	11	16.7
	Total	**66**	**100.0**

Source: Field Data

Table 22 shows perceptions of respondents on commercial bank's management established the following lending policies out of 66 (100%) respondents 14(21.2%) respondents ticked loan analysis 16(24.2%) respondents ticked loan documentation,13(19.7%) respondents ticked loan servicing requirement,12 (16.7%) respondents ticked collateral evaluation process,11(16.7%) respondents ticked regulation. Hence, loan documentation reduces negotiation time, this can potentially impact the amount that a corporate borrower will have to pay in legal fees.

Table 23: Loan underwriting standards of commercial banks address each credit factor

	Frequency	Per cent
Repayment capacity margins;	11	16.7
Solvency and liquidity positions;	12	18.2
Loan maturities and other terms	6	9.1
Loan to collateral value ratios;	16	24.2
Borrower delinquency or bankruptcy status	9	13.6
Compliance with legal requirements and Bank of Kigali lending policies	12	18.2
Total	**66**	**100.0**

Source: Field Data

Table 23 indicates the perceptions of respondents on loan underwriting standards of commercial banks address each credit factor out 66(100%) respondents 12(18.2%) respondents selected solvency and liquidity positions six respondents selected loan maturities and other terms 16(24.2%) respondents selected loan to collateral value ratios, nine (13.6%) respondents selected borrower delinquency or bankruptcy status, while12(18.2%) respondents selected compliance with the legal requirement and bank of Kigali leading policies.

Table 24: The factors in effectively using loan underwriting standards to achieve loan diversification objectives and manage risk exposure

	Frequency	Per cent
Controlling overall loan diversification quality and credit risk exposure by strategic business, capital, and loan diversification plans	8	12.1
Maintaining or controlling loan volume and quality to ensure acceptable concentrations of risk within the diversification	11	16.7
By expanding or restricting diversification growth by business needs or changing conditions, such as threats or opportunities in financed industries or commodities	9	13.6
By maximising loan diversification profitability through a close correlation of loan pricing and fees to loan quality and servicing needs as measured by loan underwriting standards	14	21.2
By loan servicing plans	24	36.4
Total	**66**	**100.0**

Source: Field Data

Table 24 shows the perceptions of the respondent on The factors in effectively using loan underwriting standards to achieve loan diversification objectives and manage risk exposure out of 66 (100%) respondents eight respondents ticked on control overall loan diversification quality and credit risk exposure by strategic business, capital, and loan diversification plans,11(16.7%) respondents ticked on maintain or control loan volume and quality to ensure acceptable concentrations of risk within the diversification, nine (13.6%) respondents ticked on expand or restrict diversification growth by business needs or changing conditions, such as threats or opportunities in financed industries or commodities14(21.2%) respondents ticked on maximize loan diversification profitability through close correlation of loan pricing and fees to loan quality and servicing needs as measured by loan underwriting standards while 24(36.4%) respondents ticked on loan servicing plans.

Table 25: The Board of Directors of commercial bank reviews lending policies with the following statement to ensure sound lending practices in

		Frequency	Per cent
	Conducting collateral evaluations	6	9.1
	Lending limits to individual borrowers	19	28.8
	Loan purchases and sales	5	7.6
	Loan terms and conditions	27	40.9
	Lending authorities	9	13.6
	Total	**66**	**100.0**

Source: Field Data

Table 25 shows perceptions of respondents on the Board of Directors of commercial bank review lending policies with the following statement to ensure sound lending practices out of 66 (100%) respondents six respondents selected Conducting collateral evaluations,19(28.8%)respondents selected Lending limits to individual borrowers, 5(7.6%) respondents selected Loan purchases and sales,27(40.9%) respondents selected Loan terms and conditions while 9(13.6%) respondents selected lending authorities.

Table 26: The areas of risk identified and reported

		Frequency	Percent
	Criticized and adversely classified assets and the basis of criticism	9	13.6
	Concentrations of credit	12	18.2
	Collateral risk	27	40.9
	Dependence upon a single or a few borrowers	18	27.3
	Total	**66**	**100.0**

Source: Field Data

Table 26 indicates the perceptions of respondents on the area of risk identified and reported by 66(100%) respondents 9(13.6%) respondents ticked on criticized and adversely classified assets and the basis of criticism, 12(18.2%) respondents ticked concentrations of credit, 27(40.9) respondents ticked collateral risk while 18(27.3%) respondents ticked on dependence upon a single or a few borrowers. Hence, adding collateral to a security can make it more desirable to own. By using a pledged asset to guarantee repayment of a security's debt, an investor does not have to lose any sleep worrying about his or her investment defaulting.

The efficiency of loan diversification policy in commercial banks

Table 27: The factors considered to evaluate the efficiency of commercial bank

		Frequency	Per cent
	Level of education	11	16.7
	Significant experience	15	22.7
	Availability and participation in continuing education programs	13	19.7
	Membership in professional organizations	12	18.2
	Training methods	14	21.2
	Level and quality of supervision	1	1.5
	Total	**66**	**100.0**

Source: Field Data

Table 27 shows the perceptions of respondents on The factors considered to evaluate the efficiency of commercial banks out 66(100%) respondents 11(16.7%) respondents selected level of education,15(22.7%) respondents selected significant experience,13 (19.7%) respondents selected availability and participation in continuing education programs,12 (18.2%) respondents selected membership in professional organizations,14(21.2%) respondents selected training methods while one (1.5%) respondents selected level and quality of supervision. Hence, for financial institutions, efficiency implies improved profitability, a greater amount of funds channelled in, better prices and service quality for consumers and greater safety in terms of improved capital buffer in absorbing risk. Bank efficiency becomes critically important in an environment of increasingly contestable international markets whereby information regarding the efficiency of banks in a particular country as compared with their counterparts in other countries is important as it enables policymakers to make better decisions regarding the direction of the industry. The level of efficiency of commercial bank operation is very important to the economy and commercial banks themselves to compete with others.

Table 28: The responsibilities of the internal control process considered during commercial bank efficiency evaluation

		Frequency	Percent
	To ensure the identification of risk	20	30.3
	To ensure that the risk has been serviced	19	28.8
	To ensure that the risk has been reported to the management	27	40.9
	Total	**66**	**100.0**

Source: Field Data

Table 28 indicates the perceptions of the respondents on the responsibilities of the internal control process considered during commercial bank efficiency evaluation out of 66(100%) respondents 20(30.3%) respondents chose to ensure the identification of risk, 19 (28.8%) respondents chose to insure that the risk has been serviced while 27(40.9%) respondents chose to insure that the risk has been reported to the management. Hence, internal control is a system structured within the corporation whose goal is to raise the efficiency and effectiveness of activities. The system assures the conformity of activities within the laws and regulations and improves the reliability of financial reporting. The internal control system is of vital importance for the institution to attain its ultimate objectives. The internal control system allows banks to foresee potential problems which may cause financial losses and thereby prevent or minimize any future losses. Research on the causes of bank failures mainly concluded that an efficient and effective internal control system might prevent financial costs. Another primary element of a good internal control system is to be able to obtain information both vertically and horizontally and ensure communication among employees. This is only possible if the management information system and its information subsystems are arranged in a disciplined and responsive manner. Effective communication should be established including all employees at all levels of the corporation. All employees should be informed regarding their positions within the internal control system.

Table 29: Internal control system of commercial bank detects loan process

	Frequency	Per cent	Valid Percent	Cumulative Percent
Lending policies,	8	12.1	12.1	12.1
Loan underwriting standards	24	36.4	36.4	48.5
Credit administration criteria	12	18.2	18.2	66.7
Loan recovery process	22	33.3	33.3	100.0
Total	**66**	**100.0**	**100.0**	

Source: Field Data

Table 29 shows the perceptions of respondents on the internal control system of commercial banks detect loan process 66(100%) respondents eight respondents selected lending policies,24(36.4%) respondents selected loan underwriting standards 22(33.3%) respondents selected loan recovery process. Hence, the lack of an internal control system whose duty is to keep the risks under control or major breakdowns within an existing internal control system poses a threat to the success of the banking sector. The main objective of an internal control system for banks is to continuously track the compatibility of all banking practices and operations with international auditing standards, banking laws, regulations and rules to solve problems that may arise where necessary. In addition to this, with an effective internal control system, erroneous, fraudulent transactions and irregularities are less likely to happen in banking.

Table 30: The loan committee meets the following function

	Frequency	Per cent
To promptly identify loans having potential credit weaknesses	12	18.2
To classify loans with well-defined credit weaknesses	13	19.7
To take actions to minimize credit losses	7	10.6
To assess the internal credit policies	8	12.1
Loan administration and procedures	11	16.7
To monitor compliance with relevant laws and regulations	7	10.6
To evaluate the activities of lending personnel	8	12.1
Total	**66**	**100.0**

Source: Field Data

Table 30 shows perceptions of respondents on the loan committee meets functions out 66(100%) respondent12(18.2%)respondents chose to promptly identify loans having potential credit weaknesses,13 (19.7%) respondents chose to classify loans with well-defined credit weakness, seven (10.6%) respondents chose to take action of minimizing credit losses, eight (12.1%) respondents chose to assess the internal credit policies,11(16.7%) respondents chose loan administration and procedures, seven respondents chose to monitor compliance with relevant laws and regulations while eight respondents to evaluate the activities of lending personnel. Hence, the lending or management committee of a bank or other lending institution analyzes and subsequently approves or rejects any loan that the initial loan officer does not have the authority to approve. First, the committee ensures that the loan meets standard lending policy. Assuming the loan meets this criteria, the committee can agree to fund and disburse the loan with a binding commitment. The loan committee is responsible for periodic credit reviews of the bank's maturing loans. It also determines what collection action should be taken on past-due loans. The loan committee is usually composed of upper-level officers of the bank or lending institution with management authority.

Table 31: The determinants of commercial banks in measuring the level of efficiency

	Frequency	Per cent
Internal variables	28	42.4
External variables	38	57.6
Total	**66**	**100.0**

Source: Field Data

Table 30 indicates the perceptions of respondents on the determinants of commercial banks in measuring the level of efficiency out of 66(100%) respondents 28(42.4%) respondents ticked on internal variables while 38(57.6%) respondents ticked on external variables. Hence, the determinants of bank efficiency are important in a few respects. First, the banks themselves can focus on the sources of efficiency in their future planning. Second, it may also strengthen their armoury that can be used against adverse situations like financial crisis accounts that are being gradually liberalized. Financial sector reforms mainly focus on the banking sector and improvement in bank efficiency is a pre-requisite for development.

Table 32: The internal variables commercial banks use to measure the level of efficiency

		Frequency	Per cent
	Return on equity	17	25.8
	Return on asset	27	40.9
	Net interest margin	22	33.3
	Interest income ratio	66	100.0

Source: Field Data

Table 32 shows the perceptions of respondents on the internal variables commercial banks use to measure the level of efficiency out of 66(100%) respondents 17(25.8%) respondents chose return on equity,27(40.9%) respondents chose return on asset while 22(33.3%) respondent chose net interest margin. Hence, a banking system which is efficiently channels financial resources to productive use is a powerful mechanism for economic growth. Efficiency measurement determines how banks provide an optimal combination of financial services with a set of inputs.

Table 33: The external variables used by commercial banks in measuring the bank efficiency

		Frequency	Per cent
	BNR interest rate	30	45.5
	Real Growth	25	37.9
	Exchange rate	11	16.7
	Total	**66**	**100.0**

Source: Field Data

Table 33 shows the perceptions of respondents on the external variables used by a commercial bank in measuring the bank's efficiency out of 66(100%) respondents 30(45.5%) respondents ticked on BNR interest rate, 25(37.9%) respondents ticked real while 11(16.7%) respondents ticked exchange rate. Commercial banking is a very difficult service industry in which to measure output, technical change, or productivity growth. First, there is disagreement over which services banks produce and over how to measure them. In addition, banking services are often priced implicitly through below-market interest rates on deposit balances, making observed revenue flows inaccurate guides to choosing the important outputs to include in the analysis. Banking also remains a highly regulated industry in which substantial inefficiencies have been shown to exist. As a result, technical improvements that increase the productivity of the most efficient firms may not be well reflected in the industry as a whole.

Relationship between loan diversification policy and efficiency of commercial banks

Table 34: Correlations

		Loan Diversification	Commercial Bank Efficiency
Loan Diversification	Pearson Correlation	1	.993**
	Sig. (2-tailed)		.000
	N	66	66
Commercial Bank Efficiency	Pearson Correlation	.993**	1
	Sig. (2-tailed)	.000	
	N	66	66
**. Correlation is significant at the 0.01 level (2-tailed).			

Source: Field Data

Table 34 indicates the relationship between loan diversification and commercial bank efficiency. The researcher used SPSS and found that the person correlation coefficient (r) equals to.993, this implies that correlation coefficient r =.993 As well as P- value equals 0.00, the correlation is significant at the 0.01 level and r is positive, this confirms that there is a significant and positive relationship between loan diversification and commercial bank efficiency. Therefore, from the above information, the researcher found that as long as loan diversification is done well, it leads to the efficiency of Ecobank and BK at the rate of 99.3%.

Analysis of Bank Efficiency Using Profitability Rations

This section focuses on the analysis of bank efficiency using profitability ratios, the study analyzed Bank of Kigali and Ecobank financial performance ratios.

Table 35: Analysis of BK financial performance ratios

	Year					
Financial Ratios	2009	2010	2011	2012	2013	2014
Return on Average Asset	3.48%	3.54%	3.58%	5.64%	3.98%	4.92%
Return on Average Equity	28.52%	24.51%	18.59%	18.90%	22.16%	22.85%
Total assets (Millions)	151.8	197.6	287.8	322.7	422.3	482,607,964
Total average assets (Millions)	151.8	174.7	242.7	208.7	372.5	372.5
Total equity (Millions)	18.5	31.8	61.5	63.1	70.7	89.5
Total average equity (Millions)	18.5	25.2	46.7	62.3	66.9	80.1
Net profit (Millions)	5.2	6.1	8.6	11.7	14.8	18.3

Source: Bank of Kigali annual reports

Table 35 illustrates that, in 2009 return on average asset was 3.48%, in the same year the return on average equity was 28.52%. In 2010, the return on average asset was 3.54%, in the same year the return on average equity was 24.51%. Concerning the year 2011, the return on average assets was 3.58%, and the return on average equity was 18.59%. In the year 2012, the return on average asset was 5.64%, in the same year the return on average equity was 18.9%. Concerning the year 2013, the return on average asset was 3.98%, return on average equity was 22.16%. While in the year 2014, the return on average assets was 4.92%, in the same year the return on average equity was 22.85%.

Table 36: Analysis of Ecobank financial performance ratios

	Year					
Efficiency indicators	2009	2010	2011	2012	2013	2014
Return on Average Asset	0.59%	0.26%	-0.88%	0.26%	-0.51%	-0.0011445
Return on Average Equity	3.95%	2.09%	-8.34%	2.36%	-4.62%	-0.0098936
Total assets	61.9	88.7	93.9	120.6	112.9	142.7
Total average assets	61.9	75.3	91.3	107.2	116.8	112.05
Total equity	9.2	9.4	9.9	13.2	12.7	13.1
Total average equity	9.2	9.3	9.6	11.6	13.01	12.9
Net profit	3.6	1.9	-8.06	2.7	-6.01	-128,251

Source: Ecobank Annual reports

Table 36 illustrates that, in 2009 return on average asset was 0.59%, in the same year the return on average equity was 3.95%. In 2010, the return on average asset was 0.26%, in the same year the return on average equity was 2.09%. Concerning, the year 2011, the return on average asset was - 0.88%, and the return on average equity was -8.34%. In the year 2012, the return on average asset was 0.26%, in the same year the return on average equity was 2.36% and then concerning the year 2013, the return on average asset was -0.51%, the return on average equity was -4.62%. While, in the year 2014, the return on average asset was -0011445%, in the same year the return on average equity was -008936%.

DISCUSSION

The determinants related to loan diversification policy in the efficiency of commercial banks

Concerning the first objective on challenges among the determinants related to loan diversification policy in the efficiency of commercial banks out of 66(100%) respondents 10 (15.2%) respondents selected competition among banks, nine respondents selected global financial crisis, six respondents selected currency fluctuation,10(15.2%) respondents high lending rate, nine respondents selected problem of loan recovery, eight respondents selected new regulation, six respondents selected government policy while eight respondents selected declining interest margin. However, on commercial banks affected by currency fluctuation out of 66(100%) respondents 51(77.3%) respondents ticked directly while 15(22.7%) respondents ticked indirectly. Although fluctuation affects commercial bank through the influence out of 66(100%) respondents 31(47.0%) respondents ticked foreign competition, 19(28.8) respondents selected demand for loans, 16(24.2%) respondents ticked other aspects of banking conditions,10 (15.2%) respondents high lending rate nine (13.6%) respondents selected problem of loan recovery eight (12.1%) respondents selected new regulation six (9.1) respondents selected government policy while eight (12.1%) respondents selected declining interest margin. Regarding recovery in commercial banks, out of 66(100%) respondents 24(36.4%) respondents selected foreign default rate, 10(15.2%) respondents selected loans loss, 32(48.5%) respondents ticked Bank of Kigali did assess the feasibility of projects before lending. But on high lending rates affect commercial banks out of 66(100%) respondents 22(33.3%) respondents selected reduction of borrowers, 24(36.4) respondents selected reduction of types of loan offered, and 20(30.3%) respondents selected formulation new policies and procedures regarding the loan. on new regulations cause commercial banks out of 66(100%) respondents 31(47.0%) respondents selected establishment of new regulation to comply, 18(27.3%) respondents selected change lending policies to comply 27(40.9%) respondents ticked transform bank of Kigali into the more stable organization,11(16.7%) respondents ticked compliant with the minimum capital requirement. Findings also indicate perceptions of respondents on the global financial crisis affect commercial banks out of 66(100%) respondents five respondents selected deposit mobilization, 13(19.7%) respondents selected reduction in trade, 13(19.7%) respondents selected performance of assets, nine respondents selected reduction in bank deposits, nine (13.6%) respondents selected reduction in loan given out, seven respondents selected reduction in net profit,10(15.2%) respondents selected declining company share capital. However, on the factors for effective loan diversification management in the commercial bank out of 66(100%) respondents, nine respondents selected strategic planning, 10(15.2%) respondents selected procedures,13(19.7%) respondents selected lending policy, eight respondents selected underwriting standards, six respondents selected risk identification seven (10.6%) respondents selected internal credit review while 13(19.7%) respondents selected internal control system. Furthermore, about effective loan diversification management out of 66(100%) respondents 14(21.2%) respondents ticked mission statement and credit philosophy, nine respondents ticked underwriting standards and lending practices, six (9.1%) respondents ticked amount of diversification six (24.2%) respondents selected capacity of directorate, management and staff 12(18.2%) respondents ticked internal control systems and processes while nine selected asset/liability management. While on external factors concerned with commercial bank's strategic planning process for effective loan diversification out of 66(100%) respondents 18(27.3%) respondents selected the Economic profitability of existing and potential market interest rates mission statement and credit philosophy, 13(19.7%) respondents selected current and anticipated market interest rates, nine (13.6%) respondents selected world market conditions,12(18.2%) respondents public policy influences,14(21.2%) respondents selected public policy influences while 14(21.2%) respondents selected government regulations. Finally, on the area of risk identified and reported out 66(100%) respondents nine (13.6%) respondents ticked on criticized and adversely classified assets and based on criticism 12 (18.2%) respondents ticked concentrations of credit,27(40.9) respondents ticked collateral risk while 18(27.3%) respondents ticked on dependence upon a single or a few borrowers.

The efficiency of loan diversification in commercial banks

About the second research objective on the policies and factors considered to evaluate the efficiency of commercial banks out of 66(100%) respondents 11(16.7%) respondents selected level of education,15(22.7%) respondents selected significant experience,13(19.7%) respondents selected Availability and participation in continuing education programs,12(18.2%) respondents selected Membership in professional organizations,14(21.2%) respondents selected training methods while one respondent selected level and quality of supervision. Although on the responsibilities of internal control process considered during commercial bank efficiency evaluation out of 66(100%) respondents 20(30.3%) respondents chose to ensure the identification of risk 19(28.8%) respondents chose to ensure that the risk has been serviced while 27(40.9%) respondents chose to insure that the risk has been reported to the management. However on the loan committee meets functions 66(100%) respondent12 (18.2%) respondents chose to promptly identify loans having potential credit weaknesses,13(19.7%) respondents chose to classify loans with well-defined credit weaknesses, seven respondents chose to take action of minimizing credit losses eight respondents chose to assess the internal credit policies,11(16.7%) respondents chose loan administration and procedures seven (10.6%) respondents chose to monitor compliance with relevant laws and regulations while eight (12.1%) respondents to evaluate the activities of lending personnel. According to the determinants of commercial banks in measuring level of efficiency out of 66(100%) respondents 28(42.4%) respondents ticked on internal variables while 38(57.6%) respondents ticked on external variables. While on the internal variables commercial banks use to measure the level of efficiency out of 66(100%) respondents 17(25.8%) respondents chose return on equity 27(40.9%) respondents chose return on asset while 22(33.3%) respondents chose net interest margin. Finally, on the external variables used by a commercial bank in measuring the bank's efficiency out of 66(100%) respondents 30(45.5%) respondents ticked on BNR interest rate, 25(37.9%) respondents ticked real while 11(16.7%) respondents ticked exchange rate.

The relationship loan diversification policy and efficiency of commercial banks

Concerning the fourth research objective, this study used a correlation coefficient through the SPSS program and found that loan diversification policy correlates to the efficiency of commercial banks son the rate of 99.3%. Hence, there is a positive and very high correlation between loan diversification policies and the efficiency of commercial banks.

CONCLUSION

Industrial loan diversification increases bank return while endogenously producing riskier loans for all banks in our sample; this effect is most powerful for high-risk banks. Sect oral loan diversification produces an inefficient risk-return trade-off only for high-risk banks. An important component of a strong risk management system is a bank's ability to assess the potential losses on its investments. One factor that determines the extent of losses is the recovery rate on loans and bonds that are in default. The recovery rate measures the extent to which the creditor recovers the principal and accrued interest due on a defaulted debt. One reason why recovery and default rates may be inversely related is that they are both likely to be strongly influenced by the economy. In financial institutions, efficiency implies improved profitability, a greater amount of funds channelled in, better prices and service quality for consumers and greater safety in terms of improved capital buffer in absorbing risk. Bank efficiency becomes critically important in an environment of increasingly contestable international markets whereby information regarding the efficiency of banks in a particular country as compared with their counterparts in other countries is important as it enables policymakers to make better decisions regarding the direction of the industry. The level of efficiency of commercial bank operation is very important to the economy and commercial banks themselves to compete with others. About the comparison study findings, the determinants of long-term loan policy and short-term loan policy in Ecobank and BK contribute positively to their efficiency. First, the selected banks themselves can focus on the sources of efficiency in their future loan planning policy. Second, it may also strengthen their armoury that can be used against adverse situations like financial crisis accounts that are being gradually liberalized. Financial sector reforms mainly focus on the banking sector and improvement in bank efficiency is a pre-requisite for development. The study also concludes that loan diversification policy leads to the efficiency of selected commercial banks at the rate of 99.3%.

Recommendations

According to the findings of this study, the study recommended that there is no reason to believe that the concentration measures about industrial and regional diversification of the loans or the diversification of bank financing sources suffer from simultaneity concerning the efficiency of banks. A merger between banks with different business lines but with similarities in the regional composition of their portfolios can result in more efficient entities. The management of commercial banks should play a critical role in delivering strategic objectives by championing best practices in loan management and diversification, objectively assessing the adequacy of effective loan portfolios and management of existing factors for effective loan portfolios. Loan officers should intensify efforts on their job, routine checks on customers and prudent approach to recover loans and advances granted to customers.

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