ABSTRACT

The purpose of this study was to examine risk management in import and export financing by commercial banks. The study looked at the risks involved in the financing of export and import of goods by DFCU bank, its risk management practices and challenges faced and benefits of having in place proper risk management tools. This was a non-experimental research using primary and secondary data with a target population that included all bank clients utilising import, export loans and trade finance instruments used during the period running from 2013 to 2016. Also included were DFCU staff members in the departments responsible for origination and processing of the related transactions. Out of the sixty eight questionnaires administered, sixty one were completed and returned posing an acceptable response rate of ninety percent. The collected data was presented using frequency tables which were analyzed by Pearson correlation coefficient using SPSS.

The study established that fraud was a risk banks had to mitigate when financing exports and imports through the appointment of a collateral manager to supervise the movement of the cargo that secured the loan. It also showed a positive relationship between the bank ensuring that the financed goods were insured and that this kind of risk management protected and enhanced the bank's reputation. It was further established generally that about 50% of the DFCU staff believed that information technology systems contributed to the foundation of having in place proper risk management practices. The study recommended that some of the risk management practices which are in place should be reviewed and reconfigured to support the loan approval process rather than appear to delay and cause reduction of business development for the bank. Such practices included the review of the client's past performance and request for collateral to cover the loan which increased the turnaround time and thus reduction in volume of business.