

Evaluation of Credit Risk and Rehabilitation Strategies for Small and Medium-Scale Commercial Loans in Sri Lanka's Tourism Industry: An Analysis of Commercial Banks Practices and Market Recapture Approaches (Reference on Bank of Ceylon-Sri Lanka)

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Abstract

The main objective of this study is to evaluate the credit risk on small and medium scale commercial loans in tourism industry within Sri Lanka, identifying how intensely most used by commercial banks while they manage these risks. The tourism industry is one of the most important contributors to Sri Lanka's economy, yet it is a primary area in which this country remains extremely vulnerable with respect to external shocks be they economic downturns or political instability [1]. Due to SMEs in this sector having little financial resources and are more highly dependent on tourism revenue [2].

The study will focus on the competitive environment, identifying key business competitors and investigate the recovery interventions masses up by commercial banks to market SMEs reclaim their markets post-crisis. This research aims to analyze practices of commercial banks, i.e., stringent processes for credit assessment; diversification strategies and customized financial solutions so as to provide conceptual framework on effective risk management and relationships of interventions in a post-conflict tourism sector [3]. The results will also assist banks to address credit risk and promote the sustainability and expansion of tourism SMEs in general, as well as under changing macro-economic changes (dynamic-chaotic) circumstances.

Keywords: Community of Practice, Life Skills, Meta-Synthesis, Project-Based Learning, Self-Directed Learning

Introduction

Global Banking Industry

The World Bank defines banking as "the business activity of accepting and safeguarding money owned by other individuals and entities, and then lending out this money in order to earn a profit" (The World Bank). According to the Federal Reserve Bank of San Francisco, "the banking industry is the backbone of the financial services sector, which provides products and services that enable individuals to store, exchange, and transfer wealth" (Federal Reserve Bank of San Francisco)

Global banking activities encompass a diverse array of financial services conducted by banks across international borders. These activities include retail banking, which offers basic financial services like savings accounts and loans to individuals and small businesses [4]. Corporate banking involves providing financial solutions such as lending and cash management to large corporations and institutions [5]. Investment banking plays a pivotal role in capital markets by underwriting securities, advising on mergers and acquisitions, and facilitating capital raising [6]. Private banking caters specifically to high-net-worth individuals

with personalized financial and investment services [7].

While asset management caters to managing investments on behalf of clients in a bid to grow their wealth, treasury services catered at treasuring bank's own funds [8]. Currency exchange and Currency risk management are all services provided to clients who trade in foreign nations, and the absence of those facets would impair any overseas firm [9]. Trade finance refers to the financing and risk protection methods which serve global commerce [10]. As mentioned above, risk management leads to the evaluation and avoidance of a specific kind of risks in banking activities [11], while regulatory compliance refers to following rules formulated locally or internationally for banks (OECD 2019). Banks are evolving worldwide by adopting technology and innovation to improve customer service, optimize operations, and introduce innovative financial products & services that drive the growth of industry as a whole [12].

Banking Industry in Sri Lanka

Sri Lanka's banking industry serves as the cornerstone of the financial sector and plays a key role in the country's economic progress [13]. This diverse industry includes commercial banks, development bank and Non-Bank Financial Institutions (NBFI), all of which are regulated by the Central Bank of Sri Lanka (CBSL) to ensure regulatory compliance and financial stability [13].

Lending activities in the Sri Lankan banking sector are divided to meet various needs. A personal loan is necessary for personal expenses such as education and medical needs. While business loans support various organizations to increase operations and invest in new ventures [14], mortgage loans facilitate the purchase of real estate and construction projects, while development finance focuses on long-term financing for infrastructure and SMEs [15].

Credit risk in this sector is high, particularly relevant to non-performing loans (NPLs), these occur when a borrower is in default for more than 90 days, often due to an economic slowdown, poor financial management, high interest rates or inadequate credit rating [13], the impact on banks is profound. Profitability decreased due to loss of interest income and the need to set up additional provisions for possible credit losses [14]. A high NPL ratio can undermine investor confidence and needs more provisions and encourages close regulatory scrutiny [5].

Mitigating credit risk is a strategic imperative for Sri Lankan banks. They use a rigorous credit assessment process to assess a borrower's creditworthiness and repayment ability [15]. Diversifying the loan portfolio across sectors and sectors. Help spread risk While a strong risk management framework and early warning system enable the timely identification of potential defaults [5], debt guarantees, and effective recovery mechanisms enhance protection. Default on payment of debt Ensuring financial stability and reduce the negative impact of NPLs [14]. In summary,

the banking industry in Sri Lanka is critical to economic stability and growth. They face credit risks, NPLs and other challenges, through careful strategy and regulatory oversight as the industry continues to evolve [13]. Flexibility and adaptability remain critical to maintaining investor confidence in financial markets and sustainable development [15].

Introduction to Bank of Ceylon

Bank of Ceylon (BOC) is Sri Lanka's biggest and oldest commercial financial institution. Established in 1939, it has grown to turn out to be a key player within the united states' economic quarter, supplying a huge range of banking and financial offerings [16]. BOC is commonly indexed in diverse rankings which includes the "Top one thousand World Banks" compiled by The Banker magazine [17].

At the end of 2023, BOC had total assets of approximately LKR 4.4 trillion. This significant asset base reflects the Bank's extensive operations and the important role the bank plays in the Sri Lankan economy [16]. BOC has total liabilities of approximately LKR 4.4 trillion including customer deposits, loans, and other financial obligations. The bank's total shareholders' equity is approximately 400 billion LKR. Equity represents the shareholder's shareholding in the bank, and is an important indicator of the bank's financial status and financial stability [16].

BOC has a significant share of the banking industry in terms of assets, Advances, Deposits and Profit Remittances which accounts for more than 22% of industry assets, 23% of industry front line and 23% of industry deposits [16]. Bank of Ceylon is the undisputed leader in the financial services industry in Sri Lanka. It has the largest portfolio of assets and deposit advances in the banking industry and largest network of customer touch-points and the rate of reaching the customer base is 64% [16].

As a 100% state-owned, systemically important national bank and widely regarded as 'the nation's bankers', BOC is an essential part of the country's financial, economic, and social landscape and has played an unprecedented role in boosting Sri Lanka's economic growth, financial inclusion, and socio-economic empowerment. The bank has expanded to foreign branches through three branches in India, Maldives, and Seychelles, and a fully owned subsidiary in London, Bank of Ceylon UK Limited [16].

BOC plays a crucial role in supporting various sectors of the Sri Lankan economy, including agriculture, tourism, manufacturing, and SMEs. The bank provides tailored financial products and services to meet the needs of these sectors [16]. This study focuses on evaluating the credit risk associated with these loans and the practices of commercial banks in Sri Lanka, with a particular emphasis on the BOC Sri Lanka.

Key highlights of Non-Performing Loans of BOC

- Gross loans and advances portfolio 2.5 trillion LKR in 2023

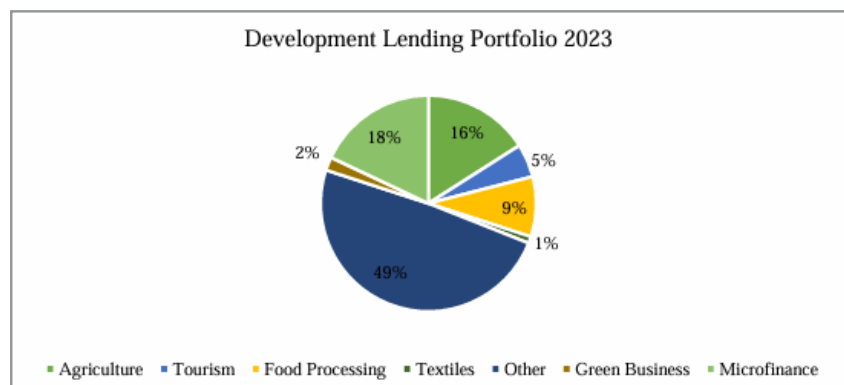


Figure 1: Development lending portfolio 2023
(Source: Bank of Ceylon Annual report 2023)

- Stage 3 Impairment is 10.1 in 2023 and 10.0 % in 2022
- Stage 3 loans and advances reduced by LKR 12.8 billion during 2023 as a result of the strategic measures taken by the Bank to revive troubled customers.
- Stage 2 loans increased by LKR 64.9 billion and provision for Stage 2 loans also increased by LKR 3.4 billion.
- The Non-Performing Asset (NPA) rates for the Bank of Ceylon (BOC) And CBSL over the past several years are as follows

Table 1: NPA Ratios BOC

Year	SL (%)	BOC(%)
2018	3.4	3.6
2019	4.7	4.8
2020	5.2	5.4
2021	4.5	6.0
2022	5.7	7.0
2023	6.2	6.3

(Source: Annual Reports BOC and CBSL)

BOC's NPL ratio has been impacted by the economic conditions, particularly due to the COVID- 19 pandemic. As of 2023, the NPL ratio was around 6.3%, reflecting the challenges in loan repayments faced by customers [16].

Tourism Sector in Sri Lanka

Sri Lanka's tourism sector is an important part of the economy, which plays an important role in GDP, employment, and foreign exchange income. The country's diverse tourist attractions include pristine beaches. Historical sites, wildlife and cultural

heritage make it a popular destination for international travelers. Tourism contributes 12% to Sri Lanka's GDP. The sector also provides direct and indirect employment to approximately 500,000 people directly and indirectly, making it an important part of the country's economy. (Central Bank of Sri Lanka). Before the COVID-19 pandemic, the number of tourists visiting Sri Lanka was constantly increasing. It reached more than 2.3 million visitors in 2018. The pandemic has led to a sharp decline in visitor numbers, but there has been a gradual recovery with targeted marketing and safety measures.

Foreign Visitors statistics

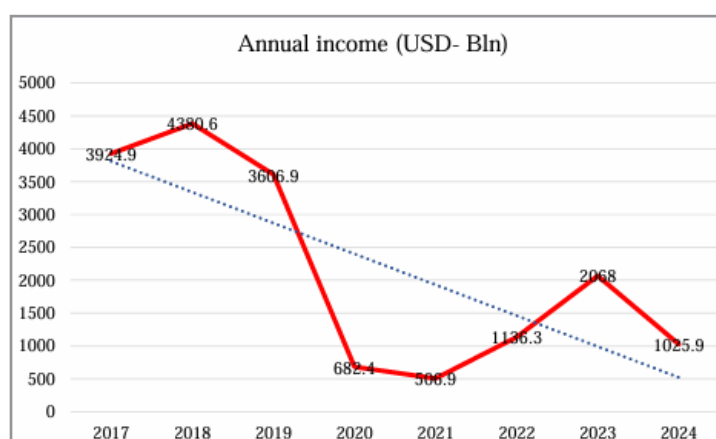


Figure 2: Visitors statistics
(Source: Annual Reports BOC and CBSL)

Sri Lanka's tourism sector has faced growth and disruption over the years. Due to the global economic situation political instability and natural disasters. Even though the tourism sector plays a vital role in the economy, they often face difficulties in accessing and managing credit. The Central Bank of Sri Lanka and the Bank of Sri Lanka are important in providing financial support and stability to these businesses. Understanding credit risk and the methods these banks use to mitigate it is essential to promoting a resilient tourism industry.

The tourism industry in Sri Lanka has been a significant contributor to the country's economy, providing employment and fostering economic growth. However, the sector has faced substantial challenges, particularly in the wake of global crises that have disrupted travel and tourism activities. Small and medium-scale enterprises (SMEs) in this industry are especially vulnerable to financial instability and credit risk, making it imperative for commercial banks to adopt effective risk management and rehabilitation strategies.

How Covid 19 Affected to the Banking Sector

- **Increased Non-Performing Loans (NPLs):** The pandemic led to an economic slowdown, which in turn increased the number of non-performing loans. Businesses and individuals faced financial difficulties, making it challenging to repay loans. This led to a rise in NPLs, with the overall rate growing from 5.4% in 2020 to 6.3% in 2023.
- **Decreased Profitability:** The profitability of banks was affected due to lower lending rates and a slowdown in economic activity. The Central Bank of Sri Lanka's measures to support the economy, including reducing interest rates and moratoriums on loan repayments, reduced interest income made a low profit for banks.
- **Loan Moratoriums and Relief Measures:** The government and the Central Bank introduced loan moratoriums and other relief measures to support businesses and individuals affected by the pandemic. While these measures provided temporary relief to borrowers, they also put pressure on banks' liquidity and capital.
- **Operational Challenges:** Banks had to adapt to new ways of working, including work from home, and increased digital banking services. This shift required investments in technology and cybersecurity to ensure smooth and secure operations in banking.
- **Capital Adequacy and Liquidity:** Maintaining capital adequacy and liquidity ratios became challenging to banks and they had to ensure enough capital buffers to withstand the increased credit risk and potential losses.

Problem Statement change

Small and medium-scale enterprises (SMEs) within Sri Lanka's tourism industry play a vital role in the economy, contributing significantly to both employment and GDP. However, these enterprises are increasingly vulnerable to credit risk, which poses a huge threat to their long-term strategies and potential for growth. The tourism sector, inherently volatile due to its sensitivity to external factors such as political instability, natural disasters, and global economic facts, exacerbates these risks for SMEs. As a result, ensuring the financial stability of these businesses is crucial for the overall health of the industry.

Although commercial banks play a crucial role in offering financial assistance to these businesses, there is still a significant lack of understanding about how they evaluate and handle the credit risks linked to small and medium-sized enterprises in the tourism industry. Efficient measures to manage risks and implement rehabilitation plans are necessary to minimize possible losses and maintain the ongoing extension of credit to these enterprises. Yet, the lack of a thorough assessment of these methods results in a lack of understanding of how well they work or what areas need to be enhanced.

While commercial banks are vital in offering crucial financial support to these businesses, there is currently a lack of thorough evaluation of these processes. This implies that there is a restricted grasp of its efficacy or regions for enhancement. The absence of comprehension hinders commercial banks from customizing their risk management strategies for the tourism sector's needs and also prevents the formation of knowledgeable policy frameworks to support SME resilience. In the absence of such structures, these companies are vulnerable to severe financial risks, causing increased default rates, limited credit availability, and ultimately, a decrease in their economic impact.

Additionally, the lack of understanding about banks' risk management practices also impacts the wider financial industry in Sri Lanka. Failure to properly evaluate and address risks may result in larger systemic problems, which could destabilize the banking industry. This emphasizes the pressing requirement for a more comprehensive examination of the current methods used by commercial banks, along with the creation of stronger strategies to assist SMEs in the tourism sector. It is crucial to tackle the credit risk that SMEs in the tourism sector of Sri Lanka encounter, as it impacts the survival and expansion of these enterprises, as well as the stability of the banking sector and the overall economy. There must be a focused attempt to assess and improve the risk management methods of commercial banks, along with the creation of specific policies and actions to assist these at-risk businesses.

Research Aim

The primary aim of this research is to comprehensively evaluate the credit risk associated with small and medium scale commercial loans in Sri Lanka's tourism industry and to identify effective rehabilitation strategies employed by commercial banks to facilitate market recapture post Economic crisis.

Research Objectives

- i. **Assess Credit Risk:** Identify and analyze the key factors influencing credit risk for small and medium scale commercial loans in Sri Lanka's tourism industry.
- ii. **Evaluate Bank Practices:** Examine the methodologies and tools used by BOC to assess and mitigate credit risk in the tourism sector.
- iii. **Analyze Competitive Landscape:** Identify major business rivals within the tourism industry and assess their impact on credit risk and market dynamics.
- iv. **Investigate Rehabilitation Strategies:** Explore the strategies implemented by BOC to rehabilitate and support medium-scale tourism businesses in recapturing market share post crisis.

- v. Propose Recommendations: Develop recommendations for improving credit risk management and enhancing the effectiveness of rehabilitation strategies.

Research Questions

Assess Credit Risk

- What are the primary factors contributing to credit risk in small and medium scale commercial loans within Sri Lanka's tourism industry?
- How do macroeconomic variables, industry specific challenges, and borrower specific characteristics impact credit risk?

Evaluate Bank Practices

- What methodologies and tools do BOC use to assess credit risk in the tourism sector?
- How effective are these methods in mitigating the risks associated with small and medium scale commercial loans?

Examine Competitive Environment

- Who are the major business rivals in Sri Lanka's tourism industry, and what is their market share?
- How does the competitive landscape influence the credit risk and market dynamics within the tourism sector?

Investigate Rehabilitation Strategies

- What rehabilitation strategies have BOC implemented to support small and medium scale tourism businesses post crisis?
- How effective have these strategies been in helping businesses recapture market share and stabilize financially?

Recommendations

- What improvements can be made to existing credit risk management practices to better support small and medium-scale tourism enterprises?
- What policy recommendations can be developed to foster a conducive environment for the sustainable recovery and growth of Sri Lanka's tourism industry?

Rationale of Research

The tourism sector in Sri Lanka is crucial for the economy, however, it poses significant financial challenges for small and medium enterprises. This study will investigate the efficiency of existing risk management and recovery approaches by analyzing the Central Bank of Sri Lanka and the Bank of Ceylon. The results will offer important understandings for policymakers, financial institutions, and business owners, aiding in the creation of strong financial support systems and strategic interventions. This study is essential for securing the sustainable revival and expansion of the tourism industry, thus aiding in the overall economic stability of Sri Lanka.

Literature Review

Introduction to Credit Risk in the Banking Sector

Credit risk is the chance that a borrower might not fulfill their responsibilities as per the agreed terms. One of the most crucial that banks and other financial institutions face is having a direct impact on their profitability and financial stability, according to the Basel Committee on Banking Supervision in 2000. Various strategies and frameworks have been created by the global bank-

ing industry to evaluate and mitigate credit risk, safeguarding the strength and durability of the financial system [18]. Banks need effective credit risk management to maintain a balance between risk and return, optimize capital allocation, and sustain economic growth.

Credit risk management includes recognizing, quantifying, overseeing, and managing credit risk exposures. Banks employ a mix of policies, procedures, and practices to accomplish this objective. The Basel Committee on Banking Supervision provides guidelines on managing credit risk, such as creating a suitable credit risk setting, following a strong credit approval process, upholding proper credit management, measuring and monitoring credit effectively, and enforcing sufficient controls on credit risk.

Basel Framework

The Basel Framework, created by the Basel Committee on Banking Supervision (BCBS), seeks to improve worldwide banking stability by implementing thorough regulations that tackle different banking risks like credit risk [19]. Basel I, which was launched in 1988, set out the basic rules for capital adequacy by requiring banks to hold at least 8% of risk-weighted assets (RWA) as capital [20]. This model mainly concentrated on credit risk by allotting varying risk weights to assets, guaranteeing that banks had enough capital to offset possible credit losses. Even though Basel I was successful in establishing uniform capital requirements, it was seen as too simple and not taking into consideration the intricate nature of risks in modern banking [21].

Basel II, which was put into effect in 2004, improved the Basel I framework by integrating a more detailed strategy to risk management with its Three Pillars system. Pillar 1 enhanced the assessment of capital needs by incorporating credit, market, and operational risks, and implemented the Internal Ratings-Based (IRB) method for credit risk [22]. Pillar 2 required a strong oversight process, where banks must evaluate their own capital sufficiency and risk management practices, while Pillar 3 improved market accountability by raising transparency and disclosure standards [22]. Basel II sought to enhance the match between a bank's capital and its real risk exposure, but it encountered difficulties due to its complexity and was partially held accountable for playing a role in the 2008 financial crisis [23].

To response to the impact of the economic downturn, Basel III was implemented from 2010 to 2017 to tackle the deficiencies of Basel II and bolster the stability of the banking industry. Basel III implemented more stringent capital requirements, focusing on Common Equity Tier 1 (CET1) capital as a fundamental indicator of financial stability and increasing overall capital ratios [24]. It also introduced additional liquidity requirements, such as the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), to ensure banks could effectively handle their short-term and long-term liquidity needs. Furthermore, Basel III implemented a leverage ratio in order to reduce risky behavior by capping the level of leverage that banks could utilize [25].

In general, the Basel Framework has continuously improved its emphasis on managing credit risk through each version. Basel I established the foundation for capital adequacy standards concerning credit risk, while Basel II introduced advanced risk management techniques and Basel III enhanced the quality of capital

and measures for liquidity significantly [19]. The goal of these regulations is to make sure that banks have enough capital and are ready to handle credit risk in order to enhance the stability and resilience of the global financial system [23].

Credit Risk Assessment and Management Practices

Banks use both quantitative and qualitative techniques to evaluate credit risk. Credit scoring models, financial statement analysis, and qualitative evaluations of management quality and market conditions are among the techniques used [26]. The objective is to assess the borrower's capability to repay the loan and predict the potential loss in the event of default [27]. By combining both techniques, banks can gain a complete insight into the creditworthiness of borrowers.

Quantitative Methods

Quantitative techniques utilize statistical and mathematical models to forecast the probability of default and the potential loss. These techniques offer unbiased and data-based analysis of credit risk. Below mentioned a few of them.

Credit Scoring Models: These models assign a score to a borrower based on various financial and non-financial factors. Higher scores indicate lower risk [28]. Credit scoring models are widely used for retail and small business lending, providing a quick and efficient way to assess credit risk.

- i. **Probability of Default (PD):** This measure predicts the chance that a borrower will fail to meet their obligations (Mays, 2001). PD models use past data and borrower attributes to forecast the likelihood of default within a set time frame.
- ii. **Loss Given Default (LGD):** This measures the amount of loss a bank expects if a borrower defaults [29]. LGD models estimate the proportion of the exposure that will be lost, taking into account recovery rates from collateral and other sources.
- iii. **Exposure to Default (EAD):** This assesses the overall risk value at the moment of default [30]. EAD models forecast the level of exposure that will remain unpaid at the time of default, taking into account variables like credit usage and upcoming drawdowns.

Quantitative techniques offer the benefit of delivering reliable and reproducible findings. They are suitable for large portfolios and helpful for regulatory reporting and capital allocation. Nevertheless, they might not completely grasp the intricacies of each credit exposure and are frequently supplemented by qualitative assessments.

Qualitative Methods

Qualitative approaches entail subjective evaluations of aspects that are difficult to measure numerically. These evaluations offer a detailed comprehension of credit risk and can enhance quantitative models. Important qualitative factors to consider are:

- i. **Management Quality:** The expertise, capabilities, and honesty of the borrower's leadership group [26]. Evaluating management quality includes reviewing the management team's past performance, their strategic plans, and their responsiveness to market changes.

- ii. **Industry Conditions:** The overall health and prospects of the industry in which the borrower operates [18]. Industry analysis includes examining factors such as market demand, competitive landscape, regulatory environment, and technological trends.
- iii. **Macroeconomic Environment:** Factors like inflation rates, interest rates, and economic growth can have an influence on the financial stability of the borrower [27]. The examination of economic factors in macroeconomics includes GDP growth, unemployment rates, and fiscal and monetary policies.

Qualitative evaluations are especially crucial for substantial corporate and project finance loans, given the intricate and diverse credit risk profile. Experienced professionals analyze these factors using their expertise and predictions to offer a comprehensive assessment of credit risk.

Five Pillars

Character

Character pertains to the borrower's credibility and history of fulfilling financial obligations. This encompasses the borrower's credit record, honesty, willingness to repay and dependability. Lenders assess the trustworthiness of borrowers by examining their credit reports, previous loan history, and references.

Capacity

The borrower's capacity refers to their capability to repay the loan. The process includes assessing the borrower's income, employment situation, and current debts to establish if they can fulfill their payment responsibilities. Lenders review income statements, employment record, and debt-to-income ratio to confirm borrower's ability to repay the loan.

Capital

Capital is the amount of the borrower's own capital invested in the project or purpose they are seeking a loan for. This may involve savings, possessions, or ownership. Lenders take into account the borrower's financial reserves and their own investment amount. A greater personal stake results in reduced risk for the lender.

Collateral

Collateral is a possession or asset provided by the borrower as a guarantee for the loan. It offers lenders a type of safeguard in case the borrower fails to meet their obligations. Lenders assess the worth and ease of selling the collateral to decide the potential amount they can recoup in case of loan default.

Conditions

Conditions are defined as the terms of the loan and external influences that may impact the borrower's repayment capacity, including interest rates, economic circumstances, and the loan's intended use. Lenders evaluate the risks related to factors such as the economic environment, industry trends, and loan purpose.

The five fundamentals of credit provide a solid base for responsible lending, guaranteeing that choices are made with a comprehensive and equitable knowledge of every borrower's individual situation. This structure serves to safeguard financial institutions from potential losses while also promoting responsible borrowing and lending in the broader economy.

Credit Risk Information Bureau (CRIB)

In Sri Lanka, banks use multiple techniques to evaluate credit risk, with the CRIB being one of the tools for credit analysis. The CRIB offers banks important credit information for assessing borrowers' creditworthiness. Here is an overview of how CRIB is utilized by banks in Sri Lanka for credit analysis. The CRIB is a bureau that gathers and keeps records on the credit backgrounds and loan repayment track records of both individuals and companies. Operated by the Central Bank of Sri Lanka, it offers a centralized credit information database.

Data Collection and Reporting

CRIB collects detailed credit information from banks, financial institutions, and other credit providers. This consists of details about the types of loans, payment records, failures to repay, and remaining debts. Banks obtain in-depth credit reports from CRIB, containing past credit activities and current credit standing. These reports assist banks in comprehending their customers' credit profiles.

Risk Assessment

- **Credit Scoring:** CRIB's data is utilized by banks to create credit scores for borrowers. A credit score is a number that shows how reliable a person or company is with borrowing money, determined by their past borrowing behavior and current financial status.
- **Risk Profiling:** Banks can profile the credit risk of a borrower by examining CRIB reports. This involves evaluating the probability of not meeting repayment obligations and assessing the borrower's ability to pay back borrowed money.

Loan Approval and Monitoring

Data from the Credit Reference Bureau (CRIB) helps banks make well-informed decisions regarding loans. An in-depth credit report aids in assessing the lending risk for a specific borrower and determining whether to approve or deny the loan request. Continuous tracking: Banks consistently oversee borrowers' credit status through CRIB information. This continuous evaluation assists in overseeing current loans and catching any potential problems at an early stage.

Credit Risk Mitigation

Loan conditions: Banks can modify interest rates, repayment periods, and collateral requirements to reduce risk based on credit analysis by CRIB and information aids banks in determining suitable credit limits for borrowers, ensuring that the credit risk is controlled and kept at acceptable levels.

Impact of Non-Performing Loans

Non-performing loans (NPLs) are loans where the borrower has not paid the scheduled payments for a set period, usually 90 days or longer [31]. Elevated levels of non-performing loans can have a substantial impact on a bank's financial performance and ability to maintain sufficient capital [32]. Banks are required to reserve funds for potential loan defaults, which hampers their ability to lend and invest in new ventures [33].

NPLs have several adverse effects on banks and the broader economy.

- Decrease in profitability:** Elevated levels of non-performing loans reduce a bank's interest revenue and raise its provisioning costs, resulting in reduced profitability. This can impact the bank's capacity to produce internal funds and pursue growth prospects.
- Loss of capital:** Setting aside funds for non-performing loans diminishes a bank's capital reserves, impacting its capital adequacy ratios and constraining its lending capacity. This could impact economic growth, as credit access is limited.
- Lack of liquidity** can be caused by non-performing assets, which do not produce any cash flow and can restrict a bank's ability to access funds. This may result in liquidity imbalances and higher funding expenses.
- Elevated Risk Profile:** Elevated levels of non-performing loans can result in doubts regarding a bank's risk management strategies and financial well-being, resulting in elevated risk premiums and borrowing expenses.

NPLs have a major effect on both a nation's credit scores and its financial system. Elevated levels of NPLs cause concerns for credit rating agencies, frequently resulting in downgrades for the country and its banks. This results in higher borrowing costs because investors require greater returns to offset higher risk [34]. The banking sector's stability declines due to NPLs affecting profits, leading banks to implement stricter lending criteria. This financial crisis limits businesses and consumers' ability to obtain capital, hindering economic growth and possibly causing a recession [35].

Moreover, NPLs are a result of fundamental economic issues such as elevated unemployment and reduced consumer expenditures, causing a further drag on economic growth [36]. Interventions by governments, such as recapitalizing banks or taking on impaired loans, may be necessary to ensure stability in the banking sector, despite the strain it puts on public finances and debt levels [32]. This could result in increased taxes or decreased government spending, worsening the economic downturn. If not handled correctly, elevated NPLs have the potential to cause systemic risks, resulting in financial crises characterized by bank collapses [37]. Therefore, NPLs significantly impact both a country's financial stability and its ability to borrow.

Managing NPLs requires effective loan recovery and restructuring strategies. Banks may employ various measures, such as loan workouts, asset sales, and legal actions, to recover value from non-performing assets. Regulatory authorities also play a crucial role in monitoring NPL levels and ensuring that banks maintain adequate provisions.

Credit Risk in Sri Lanka's Banking Sector

The banking sector in Sri Lanka, just like in other countries around the world, encounters substantial credit risk obstacles [38]. The sector is overseen by the Central Bank of Sri Lanka (CBSL) to maintain stability and adhere to global standards [13]. Primary concerns consist of elevated levels of non-performing loans, economic instability, and industry-specific risks [39].

Sri Lanka's banking sector has experienced various credit risk challenges, including

- i. **Economic Volatility:** The economy of Sri Lanka is exposed to external shocks, like changes in commodity prices, global economic circumstances, and geopolitical risks. Fluctuations in the economy can affect the ability of borrowers to repay loans and raise the level of credit risk.
- ii. **Sectoral Risks:** Various industries in Sri Lanka are exposed to different degrees of credit risk. For instance, economic downturns and external shocks can greatly impact the tourism industry, which in turn can affect how well borrowers in this sector are able to repay their debts [40]. Likewise, the agricultural industry is exposed to threats coming from fluctuating weather conditions and worldwide market rates [2].
- iii. **Regulatory Environment:** The CBSL has implemented effect different regulatory actions to enhance credit risk management in the banking industry. These measures consist of instructions for evaluating credit risk, maintaining sufficient capital, and categorizing loans while setting aside funds. Nevertheless, banks may face difficulties due to regulatory compliance, which necessitates investments in systems and processes.

The Role of Bank of Ceylon (BOC) in Credit Risk Management
BOC plays a crucial role as a financial institution in Sri Lanka, making a substantial impact on the economic progress of the country. Since its founding in 1939, BOC has expanded to become the biggest commercial bank in Sri Lanka, providing a wide range of banking and financial services. BOC uses a multifaceted method for managing credit risks, which includes strict credit assessment procedures, spreading out loans across different portfolios, and implementing strong risk management structures. Maintaining the stability of the bank and ensuring the health of its lending operations, these tactics are crucial (Bank of Ceylon, 2020) [3].

Credit Assessment Processes

BOC uses a combination of quantitative and qualitative techniques to assess borrowers' creditworthiness, ensuring a thorough evaluation of possible risks. The evaluation system at BOC is carefully crafted to assess and reduce risks linked to lending, safeguarding the bank's interests and ensuring financial stability (Bank of Ceylon, 2020) [3].

Initial Screening

The first step in credit risk management is the initial screening process, which acts as the primary form of protection. BOC reviews loan requests to assess if the borrower meets the necessary qualifications, including credit history, income, and loan amount. This preliminary filtration process assists in pinpointing high-risk applications that do not satisfy the minimum criteria, thus decreasing the chances of defaults right from the beginning (Bank of Ceylon, 2020).

Financial Analysis

The borrower's financial statements, such as income statements, balance sheets, and cash flow statements, undergo a thorough financial analysis. This examination offers information on the financial status, profitability, ability to meet debt obligations, and liquidity of the borrower. BOC can evaluate the borrower's ca-

capacity to repay the loan in different economic situations through a detailed analysis of these financial records (Bank of Ceylon, 2020).

Credit Scoring

BOC employs advanced credit scoring models to give borrowers a numerical score. These models take into account various financial and non-financial factors, including payment history, current debt levels, income stability, and economic conditions. A lower risk is indicated by a higher credit score, offering an unbiased evaluation of the borrower's creditworthiness. This scoring method helps speed up and make well-informed lending choices, particularly for retail and small business loans where fast evaluation is important [3].

Qualitative Assessment

Besides quantitative metrics, BOC also performs qualitative evaluations to obtain a comprehensive understanding of the borrower's risk profile. This includes assessing the borrower's management quality, the industry's competitive landscape, and current macroeconomic conditions. Taking these qualitative aspects into consideration can greatly affect the borrower's capacity to repay the loan and including them in the evaluation process leads to a more thorough assessment of risk (Bank of Ceylon, 2020) [3].

Diversification Strategies

BOC utilizes diversification as a crucial strategy in effectively managing credit risk. By diversifying its loan risks among different sectors, areas, and customer groups, BOC minimizes the effect of defaults in a single category. This strategy not only reduces risk but also guarantees a steady and varied source of income [3].

Sectoral Diversification

BOC makes sure to have a variety of loans in different sectors like agriculture, manufacturing, services, and tourism. Each sector demonstrates unique risk attributes and economic trends. For instance, agriculture may be greatly impacted by weather conditions, whereas the manufacturing industry could be more vulnerable to disruptions in global supply chains. BOC reduces the impact of sector-specific downturns on its overall portfolio performance by spreading its investments across different sectors [3].

Geographical Diversification

BOC makes sure that its loans are spread out among various industries like agriculture, manufacturing, services, and tourism. Every sector demonstrates unique risk profiles and economic patterns. For instance, although agriculture may be greatly impacted by weather conditions, the manufacturing industry could face more challenges due to disruptions in global supply chains. BOC reduces the impact of sector-specific downturns on its overall portfolio performance by spreading investments across different sectors [3].

Customer Diversification

By catering to a wide range of customers - from individual retail clients to small and medium enterprises to large corporations - BOC is able to mitigate concentration risk. Every type of customer group has their own unique risk profiles and financial

requirements. Individual retail clients may need personal loans and mortgages, while small and medium-sized enterprises may require working capital and loans for expanding their businesses. Big companies usually require significant funding for major initiatives or global business transactions. By serving a wide range of customers, BOC guarantees a varied source of income and minimizes the danger of depending on just one customer group (Bank of Ceylon, 2020).

Robust Risk Management Frameworks

BOC's risk management frameworks are essential for its credit risk management strategy. These structures consist of policies, procedures, and practices created to recognize, evaluate, oversee, and manage credit risk (Bank of Ceylon, 2020).

Credit Risk Policies

BOC has put in place detailed credit risk policies that outline the parameters for loaning operations. These policies establish the standards for loan approval, credit limits, collateral requirements, and risk acceptance. Following these policies guarantees that all lending activities are carried out in line with the bank's specified risk tolerance (Bank of Ceylon, 2020).

Risk Monitoring and Reporting

Regularly observing the loan portfolio is crucial for promptly recognizing possible risks. BOC uses strong risk monitoring systems to monitor loan performance and identify signs of trouble early on.

Consistent risk reporting to senior leaders and the board guarantees that any new risks are quickly dealt with, and necessary actions are implemented to reduce their impact [3].

Stress Testing

Stress testing assesses how adverse economic scenarios affect the loan portfolio. BOC regularly performs stress tests to evaluate how well its loan portfolio can withstand various stress scenarios like economic downturns, higher interest rates, and sector-specific declines. These exams assist in recognizing the possible consequences of severe occurrences and creating back-up strategies (Bank of Ceylon, 2020).

Credit Risk Mitigation Techniques

BOC utilizes different methods to minimize credit risk and decrease potential damages. These consist of providing collateral, offering guarantees, acquiring credit insurance, and restructuring loans. Collateralization involves using assets like property, equipment, or receivables to secure loans, allowing them to be sold in case of default. Guarantees and credit insurance offer extra protection by shifting some of the risk to external parties. Loan restructuring assists in handling troubled loans by adjusting the conditions to make it easier for borrowers to repay [3].

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troubled loans by adjusting the conditions to make it easier for borrowers to repay [3].

Rehabilitation Strategies for Troubled Loans

Rehabilitation plans play a vital role in handling Non-Performing Loans (NPLs) and helping borrowers recover financial stability. Efficient rehabilitation not only assists borrowers in overcoming short-term financial challenges but also lowers the overall risk for banks, preserving the stability of the financial system [41, 42]. Typically, these tactics include restructuring loans, rescheduling payments, and offering more assistance to struggling borrowers.

Loan Restructuring

Loan restructuring is a key strategy employed to help borrowers facing financial troubles to handle loan terms more easily. This strategy may involve prolonging the repayment timeframe, decreasing the interest rate, or changing debt to ownership shares, all with the goal of reducing the repayment strain and increasing the chances of recovering the loan [43].

There are a few restructuring methods used by banks.

Repayment Period Extension

Extending the repayment timeframe is a frequently used restructuring tactic, results in a lower monthly payment amount. This could greatly reduce the financial strain on the borrower, enabling them to fulfill repayment responsibilities without defaulting. For example, BOC might lengthen a loan planned for five years to ten years, consequently lowering monthly payments and providing the borrower with additional time to stabilize their finances (Bank of Ceylon, 2020).

Interest Rate Reduction

Reducing the interest rate on a nonperforming loan can effectively decrease the financial pressure on the borrower. This decrease in the overall interest cost of the loan results in more manageable monthly payments [42]. For instance, BOC could decrease the interest rate from 12% to 8%, resulting in a decrease in the interest portion of each payment, assisting the borrower in better managing their cash flow [3].

Equity Conversion

Converting a portion of the loan to equity can, in certain situations, align the interests of the borrower and the lender. This change has the potential to improve the borrower's financial situation by lowering debt and possibly giving the bank ownership to the borrower's company. This type of agreement can be advantageous if the company rebounds and expands, as both sides have the potential to benefit from prosperity [43]. BOC might opt for an ownership share in a company rather than demanding full repayment of the loan, which could motivate improved business results and raise the chances of recovering the entire loan amount in the future (Bank of Ceylon, 2020).

Payment Rescheduling

Payment rescheduling offers borrowers the flexibility to delay or reduce payments for a certain period, providing them with temporary relief as they work to stabilize their financial situation [33].

There are few methods of Rescheduling which are used by banks.

Payment Holidays

Allowing borrowers to take payment breaks permits them to temporarily stop making repayment on their loans. This pause can offer essential assistance, particularly for individuals experiencing temporary financial difficulties. By temporarily halting payments, borrowers can use their money for other important expenses, assisting them in recovering with less stress about upcoming loan payments [33]. For instance, BOC could provide a borrower affected by a natural disaster with a six-month payment break, giving them the opportunity to recover without having to make loan payments right away [3].

Reduced Payments

Enabling borrowers to make smaller payments for a specific period can also prove to be a successful tactic. This setup assists borrowers in effectively handling their finances by reducing the payments needed during difficult times, preventing default, and ensuring a consistent, albeit lower, cash flow to the bank [33]. For example, BOC could halve the monthly payments for one year to assist a struggling company in recovering stability (Bank of Ceylon, 2020).

Deferred Payments

Delaying some of the loan payments to a future date can offer instant assistance without impacting the overall repayment plan. This tactic includes delaying some of the payment responsibilities, which is especially beneficial for borrowers anticipating an upcoming enhancement in their economic status [33]. BOC could postpone three months of payments until the loan term ends, allowing the borrower to recuperate while also preparing for repayment in the future [3].

Additional Support

Offering extra assistance, like guidance services and help with financial planning, plays a key role in aiding borrowers to enhance their financial control and decrease the chances of potential defaults [44].

Advisory Services

BOC provides guidance to borrowers to assist them in improving their financial management techniques. These services might involve advice on restructuring finances, managing costs, and developing business strategies. BOC assists borrowers in overcoming financial difficulties more efficiently through the provision of professional guidance (Bank of Ceylon, 2020). BOC advisors could assist a borrower in simplifying operations and cutting unnecessary costs, which would enhance their capacity to fulfill loan responsibilities [3].

Financial Planning Assistance

Helping borrowers with their financial planning can enhance their future financial well-being and ability to repay loans. BOC assists borrowers in creating detailed financial plans, which involve budgeting, managing cash flow, and developing investment strategies. These strategies are personalized to stabilize and improve the borrower's financial condition, ultimately decreasing the potential for future defaults [41]. BOC could assist a borrower in developing a comprehensive cash flow projection

to effectively control their assets and guarantee punctual loan repayments (Bank of Ceylon, 2020).

Training and Capacity Building

BOC provides training programs and capacity-building initiatives to assist borrowers in improving their skills and knowledge. These programs aim to enhance business performance, boost productivity, and promote long-term growth. BOC helps their borrowers succeed and reduces the risk of non-payment by investing in their advancement. As an example, BOC could organize sessions about understanding finances and managing businesses for SME borrowers, guiding them in making well-informed choices and enhancing their financial security [3].

Credit Risk in the Tourism Sector

The tourism industry in Sri Lanka plays a major role in the country's economy, yet it is vulnerable to changes caused by global economic conditions, political turmoil, and natural calamities [45]. Small and medium-sized enterprises in this industry are at a greater risk of credit due to their restricted finances and strong dependence on income from tourism [2].

Economic Sensitivity

The tourism industry's susceptibility to economic circumstances leaves it especially prone to downturns. Economic elements like lower consumer spending, travel limitations, and geopolitical conflicts can have a major impact on tourism income and, in turn, the ability of borrowers in this industry to make repayments. During events such as worldwide economic downturns or health crises like COVID-19, the tourism industry experiences significant drops, resulting in reduced income for businesses relying on tourist expenditures [40]. Therefore, it is essential for banks to thoroughly evaluate economic risks before providing credit to businesses in the tourism industry and to put in place strong risk management measures, including allocating more funds for potential loan defaults and carrying out stress tests to measure how economic downturns may affect borrowers' repayment capabilities [2].

Political Instability and Natural Disasters

Instability in politics and natural calamities pose major risks for the tourism industry. Occurrences like the Easter Sunday attacks in 2019 and the Indian Ocean tsunami in 2004 significantly influenced the number of tourists visiting Sri Lanka and the income derived from tourism [1]. Such interruptions may cause a significant decrease in revenue for companies in this industry, hindering their capability to pay off their debts. As a result, banks must take into account these risks when evaluating the creditworthiness of borrowers in the tourism industry and create plans to handle these potential losses. This could involve expanding their loan portfolios to prevent over-reliance on the tourism industry and mandating that borrowers have backup plans to address any disruptions [2].

Limited Financial Resources of SMEs

Small and medium-sized enterprises in the tourism industry frequently work with restricted funds and rely heavily on the consistent income from tourism activities. This dependency makes them especially susceptible to economic downturns. Small and medium-sized enterprises typically do not have the financial strength to endure long periods of decreased income, leading to

higher credit risk. Banks must offer customized financial assistance and help to assist these small and medium-sized enterprises in handling their financial difficulties. This may involve giving flexible loan terms, issuing working capital loans for short-term liquidity needs, and helping SMEs improve their financial management practices. In addition, banks could provide financial advice services for these companies to diversify their income sources and enhance their overall financial well-being [3].

Banks must prioritize effective credit risk management to maintain stability and profitability. The Bank of Ceylon (BOC) has a thorough strategy for evaluating and reducing credit risk, especially in high-risk areas like tourism [3]. Comprehending and applying successful rehabilitation methods can assist in handling non-performing loans (NPLs) and aiding the recovery of distressed borrowers, ultimately ensuring a strong banking industry and sustainable economic development in Sri Lanka [42].

BOC employs thorough credit evaluation procedures, diversification tactics, and strong risk management frameworks in its extensive credit risk management practices. These strategies assist the bank in managing the intricacies of credit risk and upholding financial stability. BOC can aid economic growth and maintain financial resilience by enhancing its credit risk management and adjusting to market changes. Effectively handling credit risk involves using both quantitative and qualitative approaches, analyzing specific sectors, and implementing customized recovery plans. The banking industry can benefit from the advice and techniques offered in this literature review to effectively handle credit risk and maintain a strong financial system. By implementing these tactics, banks can improve their ability to manage risks, safeguard their loan portfolios, and support the economy's overall stability and growth.

Research Gap

Lack of Focus on Tourism Sector Post-COVID-19

The global tourism industry, including Sri Lanka's, faced significant disruptions due to the COVID-19 pandemic, causing unprecedented challenges for businesses in this sector. The sudden stop in travel and tourism caused significant financial problems and higher chances of not being able to pay debts for small and medium-sized businesses (SMEs) that depend on this sector. Although there has been a lot of research on the general economic impact of the pandemic, there is a lack of studies focusing on how it has affected credit risk and loan rehabilitation in the tourism sector in Sri Lanka. This highlights a notable gap in research since the specific obstacles encountered by this industry after the pandemic have not been fully examined, particularly in terms of loan administration by commercial banks such as the Bank of Ceylon. It is important to comprehend how the pandemic has changed the risk scenario for these loans in order to create successful risk management and recovery plans [3, 46].

Insufficient Focus on SMEs in Tourism

Small and medium enterprises are the main players in the tourism sector in Sri Lanka, making them highly susceptible to market disturbances and economic declines. Smaller companies frequently have minimal financial reserves and encounter greater credit risks in comparison to bigger corporations. Although SMEs play a crucial role in the economy, current studies on credit risk management mainly concentrate on big businesses

or common strategies, neglecting the specific challenges faced by SMEs in the tourism industry. Research is required to study how commercial banks customize their credit risk management practices to suit the requirements of smaller, more fragile businesses. This deficiency in research is crucial because it fails to address the particular difficulties and advantages related to handling credit risk for small and medium enterprises in a fluctuating sector such as tourism [47, 48].

Limited Studies on Rehabilitation Strategies

Although there is a significant amount of research on evaluating credit risk, there is a clear absence in the literature regarding the precise methods that banks employ to manage troubled loans within the tourism industry. Methods for helping people recover, like adjusting loans, pausing payments, and offering assistance, are key for banks to handle and reduce credit risk, particularly in sectors heavily impacted by economic slumps such as tourism. Nevertheless, research investigating the efficacy of these approaches, especially for small and medium-sized enterprises, is scarce. This discrepancy is important as it obstructs a full comprehension of how banks can successfully regain market share and guarantee loan repayment in the vital tourism sector for economic stability and expansion [49, 50].

Bank-Specific Case Studies (BOC)

The Bank of Ceylon (BOC) is a major and influential commercial bank in Sri Lanka, with a significant role in the nation's financial system. Yet, there is a shortage of comprehensive case studies or assessments of BOC's methods in overseeing credit risk and implementing recovery plans for the tourism industry. This serves as a notable research deficiency as case studies provide important understanding of how theoretical ideas are put into practice in real-life situations. Not having these studies on BOC hinders the comprehension of the response of major banks in Sri Lanka to credit risk management challenges in the tourism sector, especially after COVID-19. It is crucial to address this gap in order to recognize the most effective methods and opportunities for enhancing the bank's risk management strategies [51].

Limited Application of Advanced Risk Management Tools

With quick progress in technology, tools such as artificial intelligence (AI), machine learning, and big data analytics have become crucial helpers in credit risk management. By analyzing large amounts of data, these tools can greatly improve the accuracy and efficiency of risk assessments by identifying patterns and predicting potential defaults. Nevertheless, there is a clear lack of investigation into the utilization (or lack thereof) of these sophisticated instruments by commercial banks in Sri Lanka, specifically in the handling of credit risk for SMEs in the tourism industry. This space is crucial as incorporating modern technologies into risk management strategies could transform how banks handle credit risk, enhancing their ability to withstand economic shocks. If banks do not comprehend how to use these tools effectively, they could fail to maximize their risk management strategies [52, 53].

Conceptual Framework

A conceptual framework is a written or visual representation of an expected relationship between variables. Variables are simply the characteristics or properties that you want to study. The

conceptual framework is generally developed based on a literature review of existing studies and theories about the topic. (Scibber 2015).

According to the literature review, the researcher has identified the Credit Risk as the dependent variable and Banking Practices

and Credit Assessment Methods, Economic Conditions, Industry- Specific Challenges Credit Risk, Borrower-Specific Characteristics and Rehabilitation Strategies are independent variables. The Credit Risk is the Dependent variable. The conceptual framework is given below for further identification.

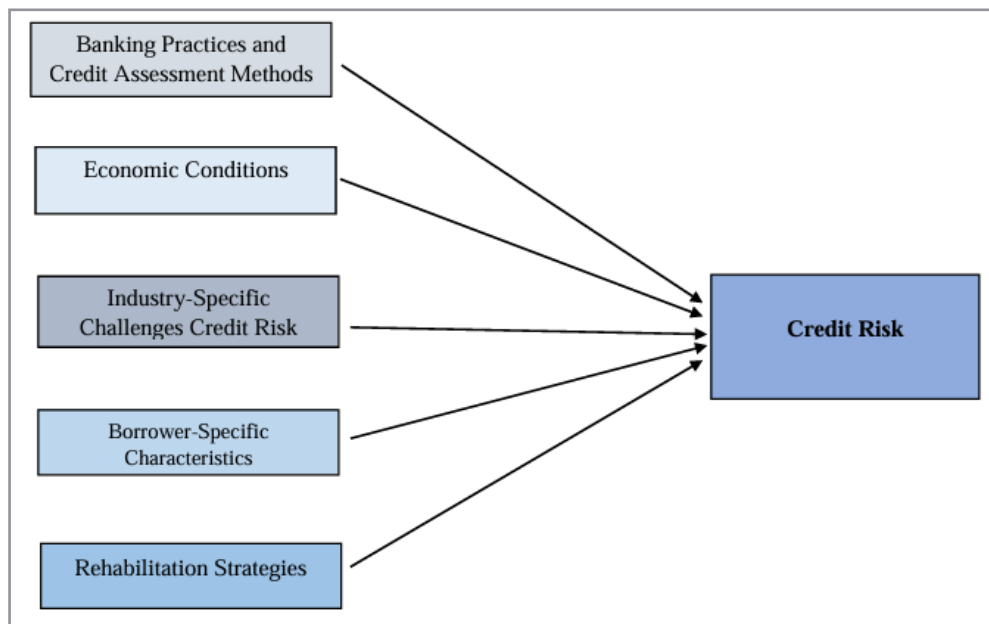


Figure 3: Conceptual framework
(Source: Developed by the researcher)

Methodology

Introduction

The section on methodology details the research design, sampling methods, data collection techniques, and data analysis approach. This research employs a quantitative approach, gathering data through a structured questionnaire given to bank recovery and credit officers at the BOC. The main concentration is on comprehending the credit risk and rehabilitation plans used for small and medium enterprises in the tourism industry of Sri Lanka.

Research Design

This research utilizes a descriptive and correlational approach to investigate the current methods and success of credit risk management tactics at BOC. A quantitative method is appropriate because it enables the systematic gathering and examination of information, giving an understanding of the connections among different factors like credit risk, recovery plans, and results [54].

Population and Sampling

Population

The population for this research includes recovery and credit officers at BOC who are involved in credit decisions and managing NPLs and implementing rehabilitation strategies for SMEs in the tourism sector. These officers are tasked with assessing the creditworthiness of borrowers, monitoring loan performance, and devising strategies to mitigate risks [55].

Sampling Method

A purposive sampling technique is employed for this study. Purposive sampling is particularly effective in selecting individuals who possess specific characteristics or expertise necessary for the research [56]. In this case, credit and recovery officers at BOC are selected because of their direct involvement and experience with NPLs in the tourism sector.

Sample Size

Determining the appropriate sample size is crucial to ensure the statistical validity of the findings. According to Morgan's table, even though, the sample size should be 367 (Number of employers are 8448 as at 31st of March 2024) But according to the limitations of collecting data the sample size is limited by 100 respondents. Based on the scope of the research and the expected availability of respondents, a sample size of at least 100 recovery officers is targeted [57]. This sample size is considered adequate to provide meaningful insights while maintaining the feasibility of data collection.

Data Collection Methods

Instrumentation

The primary data collection instrument is a structured questionnaire, which is designed to capture comprehensive information on the practices of credit risk assessment and the effectiveness of rehabilitation strategies employed by BOC (De Vaus, 2013). The questionnaire includes closed ended questions, allowing for quantitative analysis while also providing the opportunity for respondents to elaborate on their experiences.

Questionnaire Development

The questionnaire is divided into several sections to ensure thorough data collection:

Section 1: General Information

This section collects demographic information and fundamental professional information from participants, including their gender, job title, years of experience, and level of education. It also asks about the particular credit risk management training they have received to give context to their answers.

Section 2: Banking Practices and Credit Assessment

This part analyzes the current credit evaluation techniques utilized by the BOC for the tourism industry. This examines how often these methods are updated, the incorporation of qualitative factors, and the conformity of banking practices to the sector's specific requirements.

Section 3: Economic Conditions

This part evaluates how Sri Lanka's economic situation affects credit risk evaluation in the tourism industry. It examines how variables such as inflation, currency fluctuations, and economic uncertainty impact loan conditions, interest rates, and overall creditworthiness.

Section 4: Industry Specific Challenges

This part outlines the distinctive hazards and difficulties encountered by the tourism sector in regard to credit risk. It examines how credit risk assessments take into account factors like seasonal variations, regulatory alterations, and environmental hazards.

Section 5: Borrower Specific Characteristics

This part assesses the significance of borrower specific factors in credit assessments. It includes topics such as leadership abilities, financial strategies, value of assets, and impact of prior interactions with the bank on loan approval.

Section 6: Rehabilitation Strategies

This part investigates how effective different loan rehabilitation methods are for the tourism industry. It scrutinizes the standards for modifying loans, the significance of extra credit options, and the importance of overseeing and subsequent actions in the recovery procedure.

Section 7: Credit Risk

This concluding part evaluates the overall efficiency of credit risk evaluation techniques and recovery plans in the tourism industry. It also assesses the adequacy of current risk management frameworks in Sri Lankan commercial banks in addressing the difficulties brought by NPLs.

Pilot Testing

Before the final administration, the questionnaire undergoes pilot testing with a small group of credit and recovery officers to ensure the clarity and relevance of the questions. Pilot testing is a crucial step in refining the questionnaire to improve its validity and reliability [58].

Data Collection Procedure

The data collection process involves distributing the questionnaire to selected officers in BOC branches who handling credit

and recovery through a google sheet. Respondents are given a one- week period to complete the questionnaires, ensuring they have sufficient time to provide thoughtful responses.

Data Analysis

Quantitative Analysis

Data collected from the questionnaires will be analyzed using statistical software of SPSS. Descriptive statistics, including frequencies, means, and standard deviations, will be used to summarize the demographic data and responses to questionnaire items [59]. Inferential statistics, such as correlation and regression analysis, will be employed to explore the relationships between variables and test the research hypotheses [60].

Descriptive Statistics: This analysis provides an overview of the data, identifying common patterns and trends within the responses (Sekaran & Bougie, 2016).

Inferential Statistics: Techniques such as Pearson correlation and multiple regression analysis are used to identify the strength and direction of relationships between variables, such as the impact of rehabilitation strategies on NPL recovery rates (Tabachnick & Fidell, 2019).

Reliability and Validity

Ensuring the reliability and validity of the data collection instrument is essential for the credibility of the research findings. The reliability of the questionnaire is measured using Cronbach's Alpha, with a value above 0.7 considered acceptable (Tavakol & Dennick, 2011). Content validity is ensured through expert review and alignment with established theoretical frameworks [61].

Ethical Considerations

Ethical considerations are integral to the research process. All participants will be provided with detailed information about the study, including its purpose, the voluntary nature of participation, and assurances of confidentiality. Informed consent will be obtained before data collection begins [62]. The data will be anonymized to protect the identities of the respondents, and all procedures will adhere to the ethical guidelines set by the research institution [63].

The respondents assured on the confidentiality of the information were gathered and claimed that the information gathered will not be used for any other purpose other than the current research. Further, no one has been forced to respond in the research process and the participants have been completely voluntary. Furthermore, the researcher refrained from requesting for personal details and the collected data will be protected in password protected Excel workbook. Similarly, the gathered data presented in full within the findings and analysis and these not destroyed by any means. Likewise, to ensure ethicality the researcher used Harvard referencing to acknowledge the sources used.

Limitations

This research has multiple constraints that need to be recognized. The utilization of purposive sampling might restrict the generalizability of the results to all recovery officers or to different financial institutions outside of BOC. One constraint of this study is the researcher's inability to directly gather data from

loan customers due to being situated overseas. The sample may not accurately reflect the viewpoints of every recovery officer or financial institution in Sri Lanka. Furthermore, the study's concentration on one bank could limit the relevance of the findings to different banks or industries. Because the researcher was situated overseas, it was not possible to collect data directly from loan customers. This limitation in geography restricted the study to secondary data and input from bank officers, possibly missing out on important perspectives from borrowers. This restriction could have limited the comprehension of the unique challenges faced by borrowers and how they affect credit risk.

Empirical Findings and Analysis

In this fourth chapter, the research results are presented after examining the data. Thus, this section reviews data description, hypothesis testing, and analysis. The researcher handed out a survey to 100 Credit and Recovery officers at BOC and participants responded successfully using Google Sheet. The statistical analysis was performed using the IBM SPSS software. De-

scriptive statistics were used to explain the data, which included determining the average, most frequently occurring value, and the measure of variability. Pearson correlations were computed to determine the level of correlation between each independent variable and the dependent variable. A cutoff point of 0.30 or higher was seen as indicating correlations that are practically significant, according to Hair, Black & Anderson. The chi-square test was used to test the hypotheses, with significance levels set at 0.05 or higher. Thus, null hypotheses with values above 0.05 were accepted, while those with values below 0.05 were rejected. Later, the results and findings were analyzed by combining the current literature.

Reliability and Validity statistics

The researcher has selected 100 responses for this research & some were analyzed through SPSS software. Firstly, the reliability of the data was checked.

Scale: all variables

Table 2: Reliability statistics

(Source: Developed by researcher)

Case Processing Summary			
		N	%
Cases	Valid	100	100.0
	Excluded ^a	0	.0
	Total	100	100.0
a. Listwise deletion based on all variables in the procedure.			

Reliability Statistics	
Cronbach's Alpha	N of Items
.915	32

ANOVA					
		Sum of Squares	df	Mean Square	F
Between People		427.750	99	4.321	
Within People	Between Items	147.035	31	4.743	12.892
	Residual	1129.090	3069	.368	
	Total	1276.125	3100	.412	
Total		1703.875	3199	.533	
Grand Mean = 4.09					

For this instrument, Cronbach's Alpha was 0.915 with a significance of $P < 0.005$. So, the internal consistency was good and the research tool was reliable and will give credible results. A Cronbach's Alpha value of 0.915 is considered excellent and indicates a high level of internal consistency among the items within the instrument. Internal consistency refers to the extent to which all the items or questions in the research tool measure the same underlying concept. In this case, the high Cronbach's Alpha suggests that the items on your questionnaire are closely related to each other and reliably capture the constructs being studied such as credit risk management practices, rehabilitation

strategies, and other related factors within Sri Lanka's tourism industry.

The significance level of $P < 0.005$ further reinforces the reliability of the instrument. This indicates that the probability of the observed level of internal consistency occurring by chance is less than 0.5%, which is statistically significant. Such a low p-value suggests that the results obtained from the instrument are not only reliable but also statistically robust, meaning that the findings can be confidently attributed to the instrument's design rather than random variability.

Normality Test

Table 3: Normality test

(Source: Developed by the researcher)

		Statistics					
		Credit Risk	Banking Practices and Credit Assessment Methods	Economic Conditions	Industry-Specific Challenge	Borrower-Specific Characteristics	Rehabilitation Strategies
N	Valid	100	100	100	100	100	100
	Missing	0	0	0	0	0	0
Skewness		.363	.257	.381	.512	-.175	.089
Std. Error of Skewness		.241	.241	.241	.241	.241	.241
Kurtosis		-.015	1.109	-.193	-.487	-.272	-.303
Std. Error of Kurtosis		.478	.478	.478	.478	.478	.478

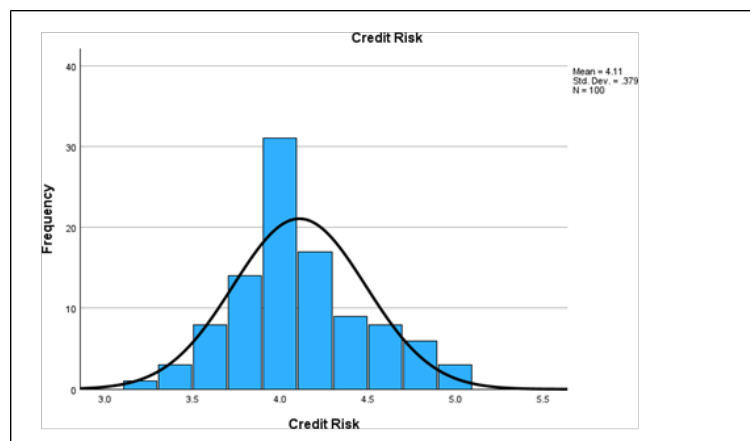


Figure 4: Histogram for Normality test- credit risk
(Source: Developed by the researcher)

Credit Risk (Skewness = 0.363): This slight positive skewness indicates that most respondents rated credit risk slightly lower than the mean, with a longer tail extending to higher ratings.

Credit Risk (Kurtosis = -0.015): Close to zero, suggesting a distribution that is similar to a normal distribution with neither heavy nor light tails.

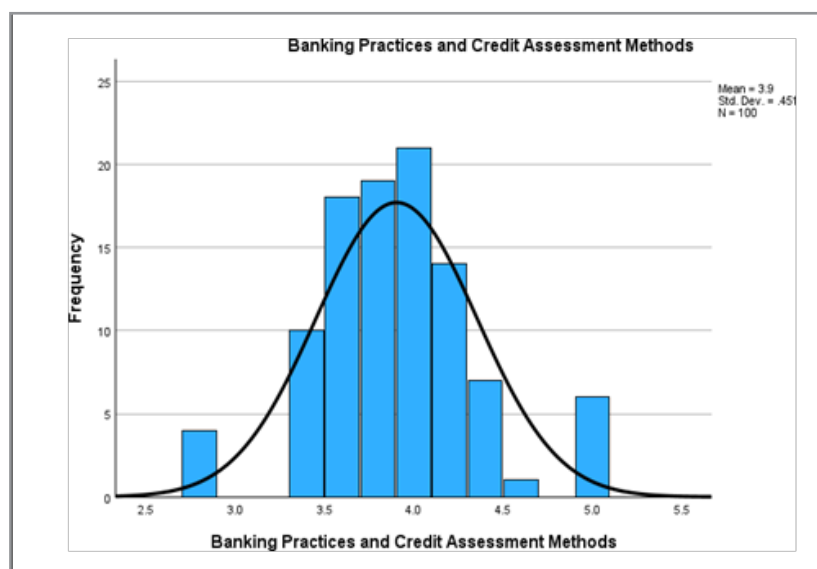


Figure 5: Histogram for Normality test- banking practices and credit assessment methods
(Source: Developed by the researcher)

Banking Practices and Credit Assessment Methods (Skewness = 0.257): Also positively skewed, but closer to zero, suggesting a near-normal distribution with a slight tendency towards lower ratings.

Banking Practices and Credit Assessment Methods (Kurtosis = 1.109): A positive kurtosis indicates a leptokurtic distribution,

with more data in the tails and a sharper peak around the mean. This suggests that respondents' ratings may cluster more tightly around certain values, with extreme values occurring more frequently than in a normal distribution.

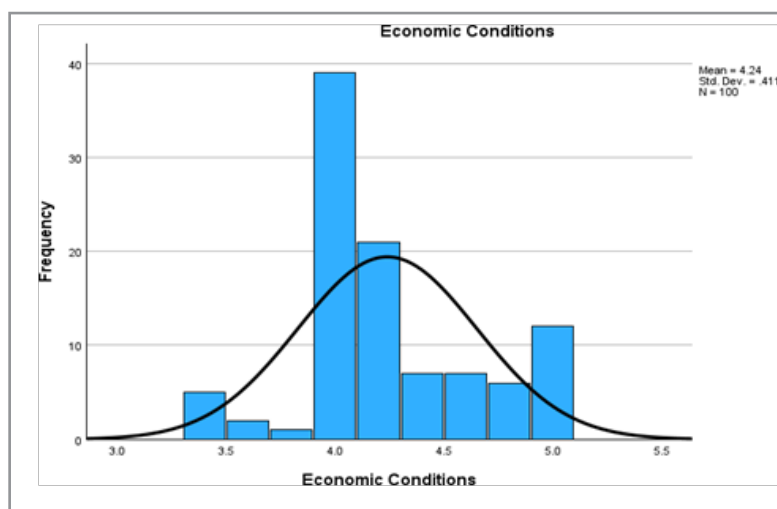


Figure 6: Histogram for Normality test- Economic conditions
(Source: Developed by the researcher)

Economic Conditions (Skewness = 0.381): This indicates a moderate positive skew, suggesting that economic conditions were perceived somewhat unfavorably by most respondents, with a few respondents rating them more positively.

Economic Conditions (Kurtosis = -0.193): Slightly negative kurtosis indicates a distribution with lighter tails (platykurtic) and a flatter peak, meaning respondents' ratings are more spread out.

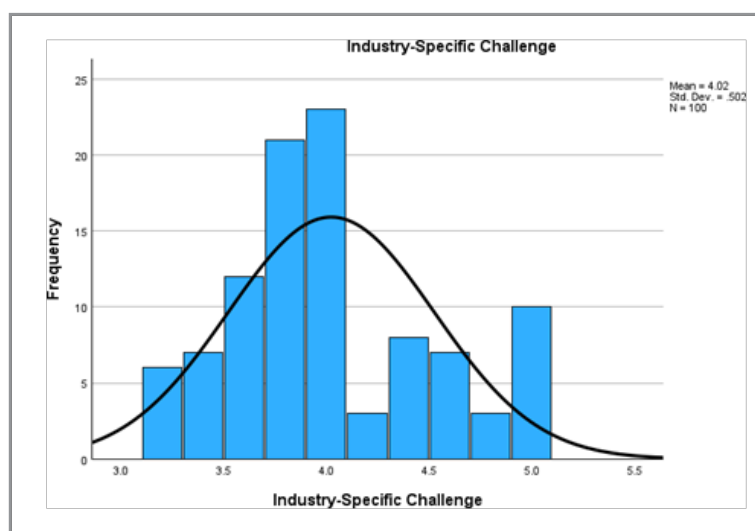


Figure 7: Histogram for Normality test- Industry specific challenges
(Source: Developed by the researcher)

Industry-Specific Challenges (Skewness = 0.512): A more noticeable positive skewness suggests that respondents generally perceive industry-specific challenges more negatively, with few reporting lesser challenges.

Industry-Specific Challenges (Kurtosis = -0.487): Similarly, this negative kurtosis suggests a flatter distribution, with ratings more dispersed across the scale.

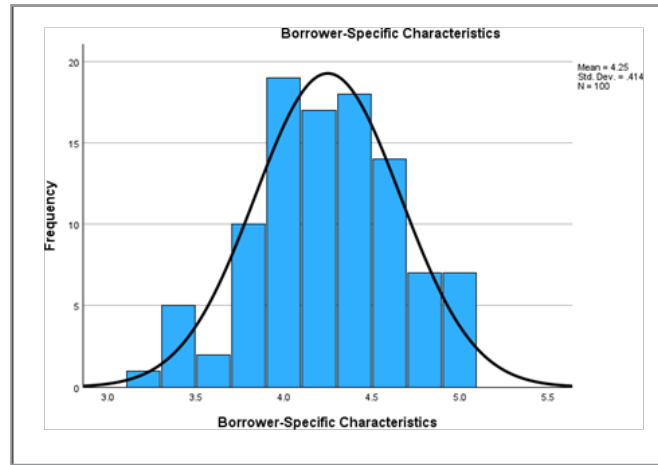


Figure 8: Histogram for Normality test- Borrower specific characters
(Source: Developed by the researcher)

Borrower-Specific Characteristics (Skewness = -0.175): The slight negative skewness suggests that respondents generally rated borrower-specific characteristics slightly above average, with a longer tail toward lower ratings.

Borrower Specific Characteristics (Kurtosis = -0.272) also suggests a flatter, more evenly spread distribution.

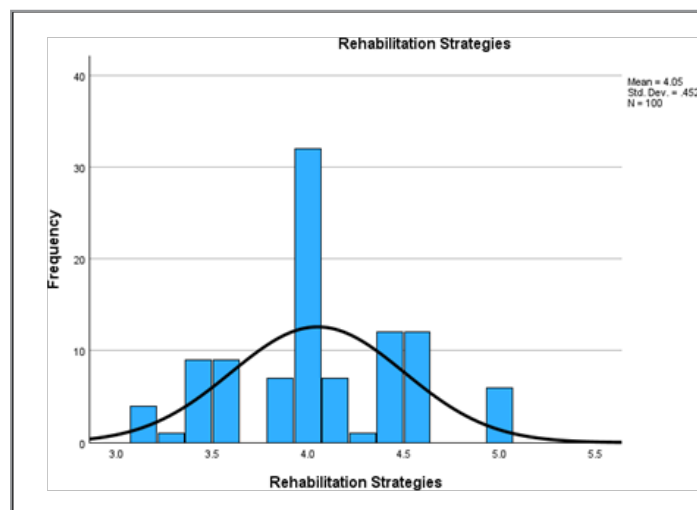


Figure 9: Histogram for Normality test- Rehabilitation strategies
(Source: Developed by the researcher)

Rehabilitation Strategies (Skewness = 0.089): This value is very close to zero, indicating that the distribution of responses for rehabilitation strategies is nearly symmetrical, with no significant skew.

consistently rated than others (e.g., Industry-Specific Challenges). Since most skewness and kurtosis values are close to zero, data does not deviate significantly from a normal distribution.

Rehabilitation Strategies (Kurtosis = -0.303): The distributions for most of variables are relatively symmetrical with skewness values close to zero, except for Industry-Specific Challenges, which shows more noticeable skewness. That means the data are approximately normally distributed.

Analysis of General Information

This analysis provides an overview of the general information of the participants. Such aspect includes variables such as gender, education level, Designation, and awareness of credit risk.

The variations in kurtosis suggest that while some variables like Banking Practices have responses tightly clustered around central values, others like Economic Conditions and Industry Specific Challenges are more dispersed. These patterns can indicate differences in how uniformly respondents perceive these variables, with some factors (e.g., Banking Practices) being more

This approach helps researchers and organizations to better comprehend how variables such as educational background and designation influence perspectives, behaviors, and decisions. By segmenting survey data based on these demographic factors, analysts can uncover patterns that might not be apparent in a more generalized analysis, leading to more nuanced interpretations and more informed decision making [57].

Table 4: Gender statistics
(Source: Developed by the researcher)

Statistics						
		Gender	Designation	Experience	Education	Trainings
N	Valid	100	100	100	100	100
	Missing	0	0	0	0	0

Gender		
	N	%
Male	46	46.0%
Female	54	54.0%

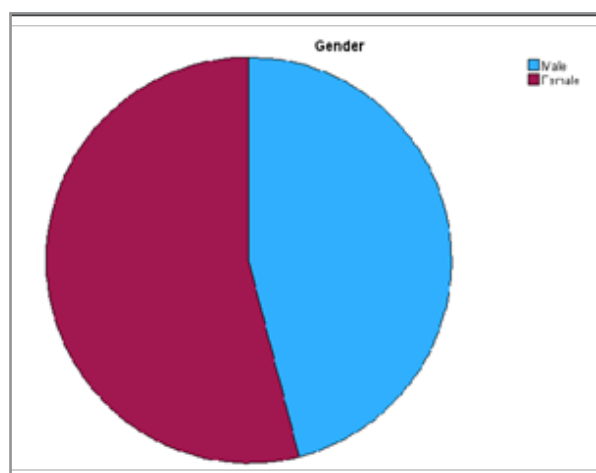


Figure 10: Gender
(Source: Developed by researcher)

The survey included 100 participants, with a small majority being women (54%) and the rest being men (46%). This fairly even ratio of men and women indicates that both male and female viewpoints are equally reflected in your research. Gender diversity within the Bank of Ceylon can offer a more holistic perspective on credit risk assessment and recovery techniques

by including perspectives from various demographic groups. Since gender diversity can impact decision-making processes, having a balanced representation ensures that the results of your research are not biased towards a mostly male or female viewpoint.

Table 5: Designation statistics
(Source: Developed by researcher)

Designation		
	N	%
Credit Officer	78	78.0%
Recovery Officer	22	22.0%

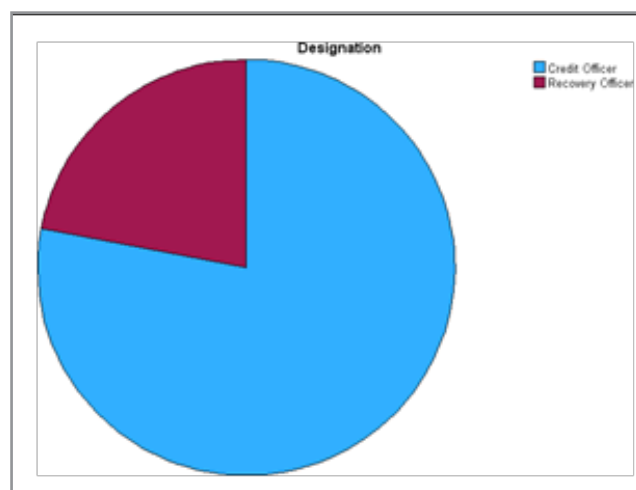


Figure 11: Designation
(Source: Developed by researcher)

78% of the participants are Credit Officers, while 22% are Recovery Officers. This data distribution shows that a majority of the data comes from professionals who are directly engaged in the beginning phases of the credit process, like approving loans and evaluating credit risks. Having Recovery Officers, even in

limited quantity, is essential because they offer perspectives on the difficulties and tactics involved in recovering and rehabilitating loans, especially within the tourism industry's non-performing loans. Both groups' viewpoints are crucial for a comprehensive assessment of the Bank of Ceylon's credit cycle.

Table 6: Experience statistics
(Source: Developed by researcher)

Experience		
	N	%
Less than 1 year	20	20.0%
1-3 years	22	22.0%
3-5 years	17	17.0%
More than 5 years	41	41.0%

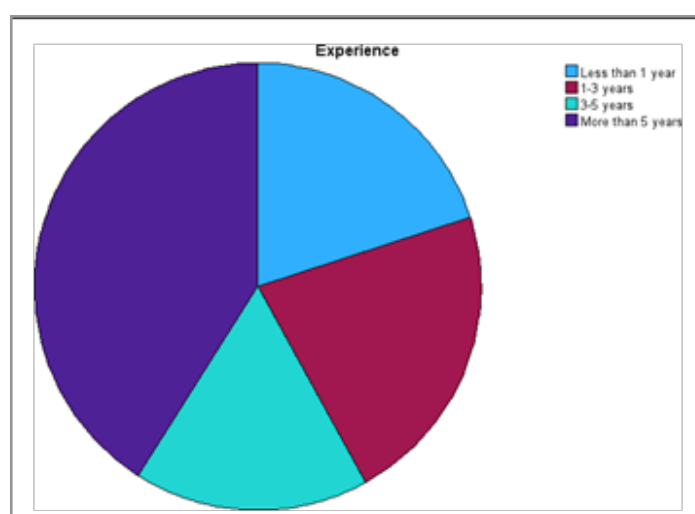


Figure 12: Working experience
(Source: Developed by researcher)

Out of the respondents, 41% have over 5 years of experience, 22% have 1-3 years, 20% have less than 1 year, and 17% have 3-5 years of experience, showing a variety in experience levels. 41% of seasoned professionals indicate that their perspectives are based on a strong grasp of the credit risk landscape and the unique difficulties encountered by the tourism sector in

Sri Lanka. The inclusion of participants with different levels of expertise enhances the study by incorporating viewpoints from both experienced individuals in the field and those with novel perspectives and modern methods in credit risk management and recovery strategies.

Table 7: Education statistics
(Source: Developed by researcher)

Education		
	N	%
Advance Level/Diploma	49	49.0%
Bachelor's Degree	29	29.0%
Master's Degree	22	22.0%

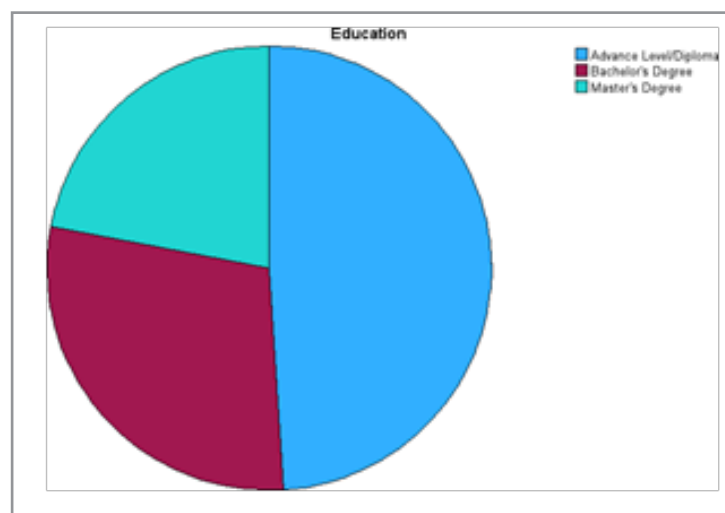


Figure 13: Education level
(Source: Developed by researcher)

The distribution of educational qualifications among your respondents is as follows: 49% have finished Advanced Level or have a Diploma, 29% hold a bachelor's degree, and 22% have earned a master's degree. This breakdown indicates that a substantial number of your survey participants (51%) hold

advanced educational backgrounds (bachelor's and master's degrees), which probably

provides them with the required theoretical knowledge and analytical abilities for assessing credit risk and implementing recovery plans.

Table 8: Trainings statistics
(Source: Developed by researcher)

Trainings		
	N	%
Yes	78	78.0%
No	22	22.0%

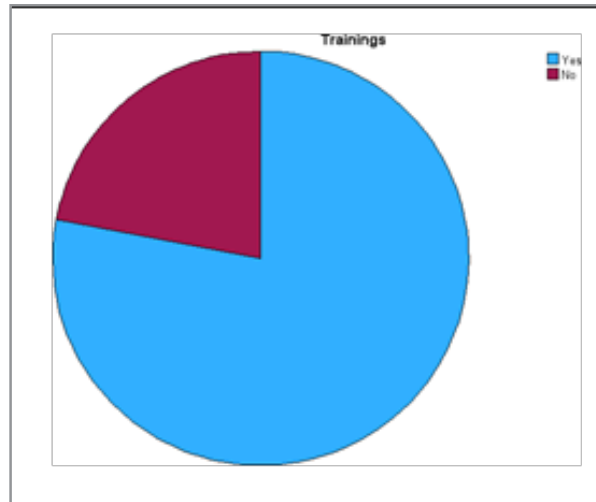


Figure 14: Trainings
(Source: Developed by researcher)

78% of the respondents have received training in credit risk management, with 22% not having received such training. This shows that most of your sample is knowledgeable about credit risk management principles and practices, which is important for your research on assessing credit risk and rehabilitation strategies.

Analysis of Independent Variables and the Dependent variable According to this research, independent variables are Banking Practices and Credit Assessment Methods, Economic Conditions, Industry Specific challenges, Borrower Specific Characters and Rehabilitation Strategies. All Tables and histogram were presented mean, median, mode, Std. Deviation values of above categories.

Table 9: Credit risk
(Source: Developed by researcher)

Statistics		
Credit Risk		
N	Valid	100
	Missing	0
	Std. Error of Mean	.044
	Std. Deviation	.442
	Minimum	3
	Maximum	5

Credit Risk		
	N	%
Neutral	4	4.0%
Agree	79	79.0%
Strongly Agree	17	17.0%

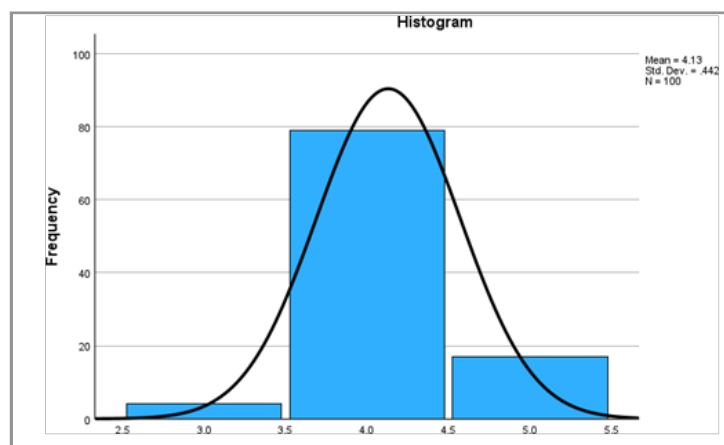


Figure 15: Credit risk
(Source: Developed by researcher)

The SEM values vary between 0.044 and 0.057. The sample means are likely accurate estimates of the population means due to the low standard errors of the means. In Credit Risk, SEM of 0.044 shows high precision in the mean estimate. Credit Risk Showing a standard deviation of 0.442 and a variance of 0.195, this variable demonstrates the least amount of variability compared to the other constructs. This implies that the majority of participants share similar opinions on credit risk, demonstrating a consensus. Industry-Specific Challenge and Rehabilitation Strategies displayed slightly higher standard deviations (0.573 and 0.567, respectively), suggesting greater variability in responses compared to other variables. This may imply that respondents have varying experiences or perceptions regarding these factors.

Every variable range from a minimum of 2 to a maximum of 5. This means that although no participant gave a rating of "Strongly Disagree" (1), opinions varied from "Disagree" (2) to "Strongly Agree" (5) among respondents. The lack of overwhelmingly negative reactions could indicate a generally positive or at least impartial view among participants. 79% of respondents believe that credit risk practices are effective, while an extra 17% strongly agree. This shows widespread agreement among participants that the bank's credit risk management strategies are highly respected. Just 4% of participants stayed impartial, not showing any disagreement. This further highlights the overall positive view of credit risk procedures in the bank.

Table 10: Banking practices and credit assessment methods
(Source: Developed by researcher)

Statistics		
Banking Practices and Credit Assessment Methods		
N	Valid	100
	Missing	0
Std. Error of Mean		.049
Std. Deviation		.486
Minimum		2
Maximum		5

Banking Practices and Credit Assessment Methods		
	N	%
Disagree	1	1.0%
Neutral	13	13.0%
Agree	79	79.0%
Strongly Agree	7	7.0%

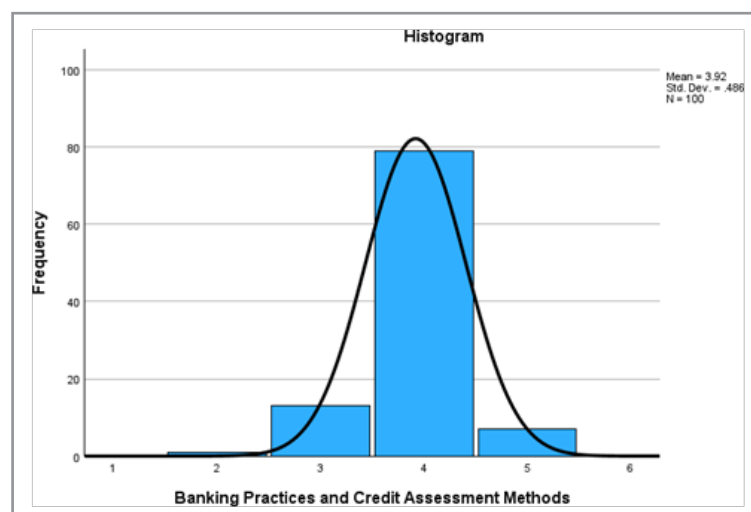


Figure 16: Banking practices and credit assessment methods
(Source: Developed by the researcher)

The majority of respondents (79%) indicated agreement with the effectiveness of the banking practices and credit assessment methods used by the Bank of Ceylon, as shown in the distribution. Furthermore, 7% of individuals strongly expressed agreement with this statement.

Just 1.0% of survey participants did not agree, while 13% stayed neutral. This shows that most respondents agree that the bank's practices in these areas are acceptable, with very little dissatisfaction. The small number of neutral responses (13.0%) indicates that the majority of respondents have a distinct opinion, with most leaning towards a positive stance on the issue.

Table 11: Economic Conditions
(Source: Developed by the researcher)

Statistics		
Economic Conditions		
N	Valid	100
	Missing	0
Std. Error of Mean		.051
Std. Deviation		.512
Minimum		3
Maximum		5

Economic Conditions		
	N	%
Neutral	5	5.0%
Agree	70	70.0%
Strongly Agree	25	25.0%

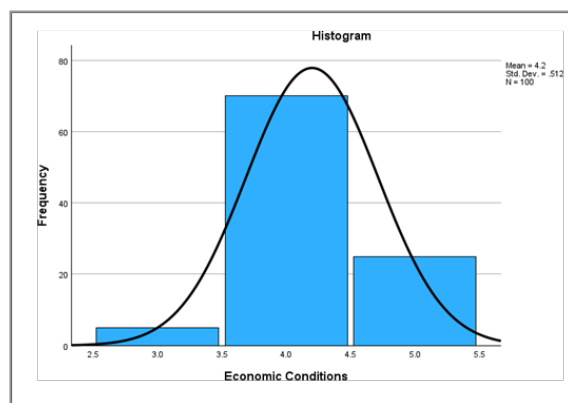


Figure 17: Economic conditions
(Source: Developed by researcher)

A large majority of participants (95%) either agree (70%) or strongly agree (25%) that the Bank of Ceylon's credit risk assessment and management practices are heavily influenced by economic conditions. This shows that people generally under-

stand the significance of economic factors in impacting credit risk, especially in the context of Sri Lanka's tourism sector, which is very susceptible to economic changes.

Table 12: Industry specific challenges
(Source: Developed by researcher)

Statistics		
Industry-Specific Challenge		
N	Valid	100
	Missing	0
Std. Error of Mean		.057
Std. Deviation		.573
Minimum		3
Maximum		5

Industry-Specific Challenge		
	N	%
Neutral	13	13.0%
Agree	67	67.0%
Strongly Agree	20	20.0%

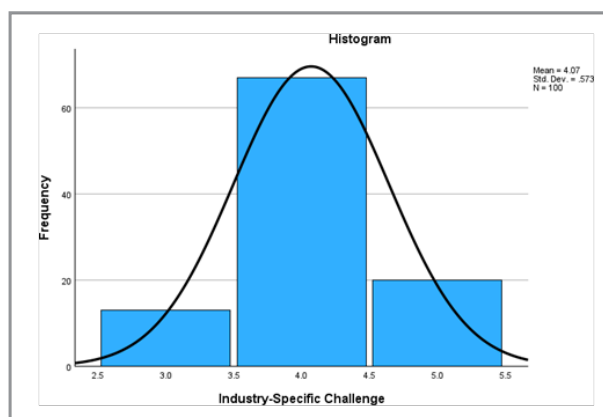


Figure 18: Industry specific challenges
(Source: Developed by the researcher)

Most respondents (87%) believe that industry-specific challenges are important in credit risk assessment and management, especially in Sri Lanka's tourism sector, with 67% agreeing and

20% strongly agreeing. This shows that credit and recovery officers recognize the significance of the specific difficulties encountered by the tourism sector in their job.

Table 13: Borrower specific characteristic
(Source: Developed by the researcher)

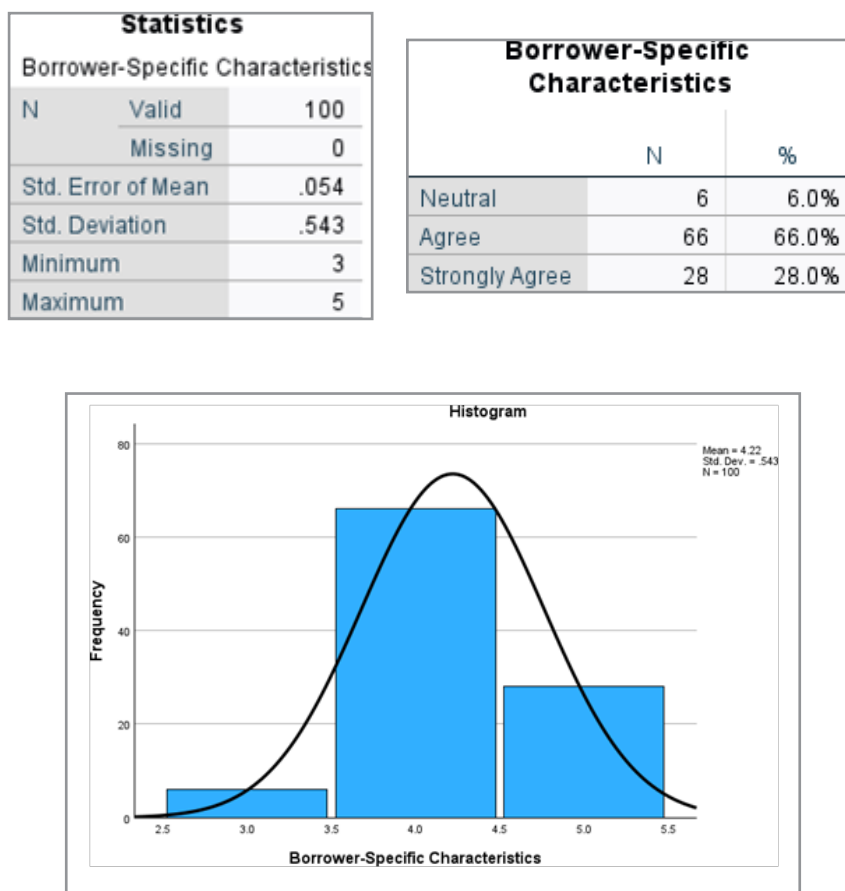


Figure 19: Borrower specific characteristics
(Source: Developed by the researcher)

Most respondents (96%) believe that borrower-specific characteristics are important in credit risk assessment and management, especially in Sri Lanka's tourism sector, with 66% agreeing and 28% strongly agreeing. This shows that the particular trait of

the borrower being evaluated could greatly benefit credit risk, as a more uniform and positive borrower background typically corresponds to decreased credit risk.

Table 13: Borrower specific characteristic
(Source: Developed by the researcher)

Statistics		
Rehabilitation Strategies		
N	Valid	100
	Missing	0
Std. Error of Mean		.057
Std. Deviation		.567
Minimum		3
Maximum		5

Rehabilitation Strategies		
	N	%
Neutral	14	14.0%
Agree	68	68.0%
Strongly Agree	18	18.0%

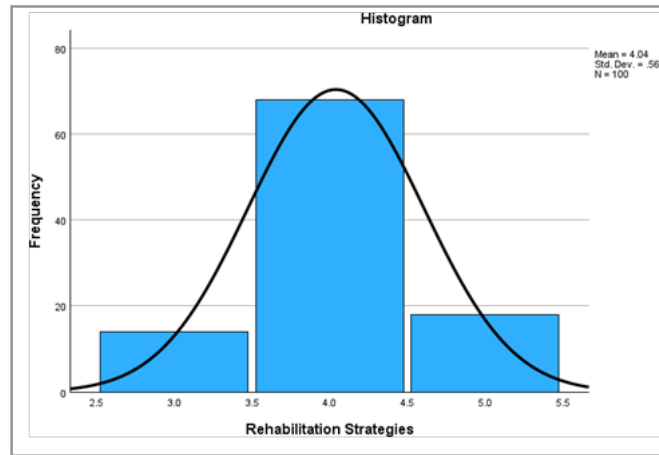


Figure 20: Rehabilitation strategies
(Source: Developed by the researcher)

Most of the participants (86%) either "Agree" (68%) or "Strongly Agree" (18%) that the rehabilitation methods under examination are successful. This indicates widespread agreement among participants on the significance or success of these methods in handling or reducing problems linked to your study's circum-

stances. A minority (14%) of participants are neutral, potentially due to limited exposure to the strategies or doubts about their efficacy. This could indicate the need for additional education or clarification to enhance confidence in these strategies.

Coefficient Test

Table 15: Coefficient model summary
(Source: Developed by the researcher)

Variables Entered/Removed ^a			
Model	Variables Entered	Variables Removed	Method
1	Rehabilitation Strategies, Economic Conditions, Banking Practices and Credit Assessment Methods, Industry-Specific Challenge, Borrower-Specific Characteristics ^b		Enter
a. Dependent Variable: Credit Risk			
b. All requested variables entered.			

Model Summary ^b									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change
1	.826 ^a	.682	.665	.219	.682	40.350	5	94	<.001
a. Predictors: (Constant), Rehabilitation Strategies, Economic Conditions, Banking Practices and Credit Assessment Methods, Industry-Specific Challenge, Borrower-Specific Characteristics									
b. Dependent Variable: Credit Risk									

Table 16: ANOVA Table for coefficient
(Source: Developed by the researcher)

ANOVA ^a					
Model		Sum of Squares	df	Mean Square	Sig.
1	Regression	9.680	5	1.936	40.350
	Residual	4.510	94	.048	<.001 ^b
	Total	14.190	99		

a. Dependent Variable: Credit Risk

b. Predictors: (Constant), Rehabilitation Strategies, Economic Conditions, Banking Practices and Credit Assessment Methods, Industry-Specific Challenge, Borrower-Specific Characteristics

Table 17: Coefficient Table
(Source: Developed by the researcher)

Coefficients ^a						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	1.050	.255		4.124	<.001
	Banking Practices and Credit Assessment Methods	.017	.073	.020	.230	.818
	Economic Conditions	.213	.076	.231	2.796	.006
	Industry-Specific Challenge	.429	.071	.568	6.049	<.001
	Borrower-Specific Characteristics	.211	.089	.231	2.365	.020
	Rehabilitation Strategies	-.132	.080	-.157	-1.647	.103
	a. Dependent Variable: Credit Risk					

Table 18: Residual statistics
(Source: Developed by the researcher)

Residuals Statistics ^a					
	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	3.53	4.74	4.11	.313	100
Residual	-.524	.588	.000	.213	100
Std. Predicted Value	-1.864	2.023	.000	1.000	100
Std. Residual	-2.391	2.682	.000	.974	100

a. Dependent Variable: Credit Risk

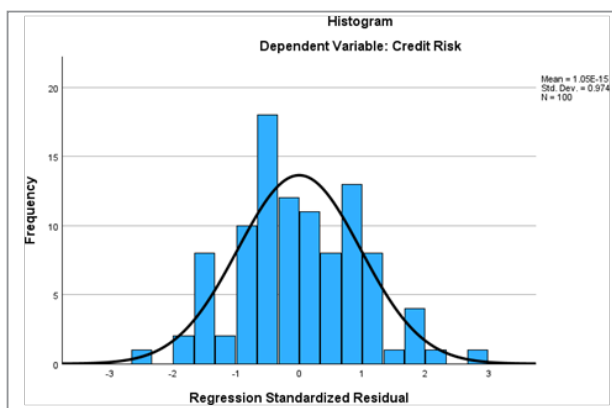


Figure 21: Regression standardized Residual
(Source: Developed by the researcher)

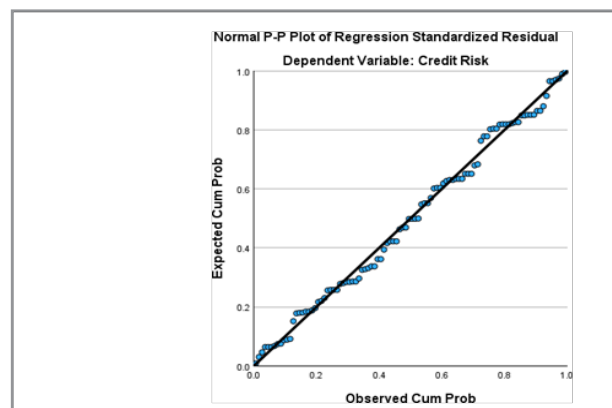


Figure 22: Normal P-P Plot of Regression
(Source: Developed by the researcher)

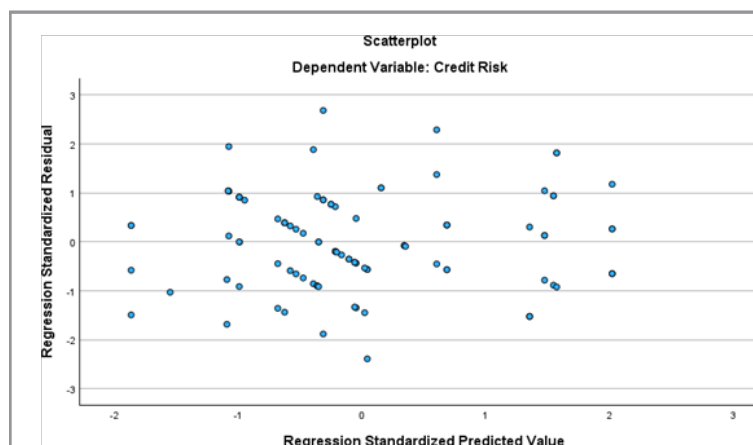


Figure 23: Scatterplot chart
(Source: Developed by the researcher)

This regression analysis offers a thorough model for forecasting Credit Risk by considering five predictors: Rehabilitation Strategies, Economic Conditions, Banking Practices and Credit Assessment Methods, Industry-Specific Challenges, and Borrower-Specific Characteristics.

Model Summary

The model demonstrates a high correlation of $R = 0.826$, suggesting a robust link between the predictors and Credit Risk. R Square of 0.682 indicates that 68.2% of the Credit Risk variance is accounted for by this model, representing a noteworthy advancement from the prior model. The Adjusted R Square value of 0.665 indicates that approximately 66.5% of the variation is accounted for even after adjusting for the number of predictors, which confirms the strength of the model. The Standard Error of the Estimate is 0.219, showing the typical distance of the observed values from the regression line, which is quite small, indicating accurate predictions. The Durbin-Watson statistic of 1.880 is close to 2, showing minimal autocorrelation in the residuals, indicating no violation of model assumptions.

ANOVA Table

The results from ANOVA show a strong significance for the overall regression model ($F(5, 94) = 40.350, p < .001$), indicating that the predictors together are a good fit for predicting Credit Risk.

Table of Coefficients

Industry-Specific Challenges have the largest standardized coefficient ($Beta = 0.568, p < .001$), suggesting a significant positive influence on Credit Risk.

The study found that both Economic Conditions ($Beta = 0.231, p = .006$) and Borrower Specific Characteristics ($Beta = 0.231, p = .020$) are important indicators of Credit Risk, indicating that both the overall economy and individual borrower traits play a significant role.

In this model, it is found that Banking Practices and Credit Assessment Methods ($Beta = 0.020, p = .818$) as well as Rehabilitation Strategies ($Beta = -0.157, p = .103$) do not have a significant impact on predicting Credit Risk. The negative beta value of Rehabilitation Strategies indicates an inverse correlation, although it is not deemed statistically relevant.

Residuals Statistics

The residual statistics show that the model's predictions have a uniform distribution, with predicted values spread between 3.53 and 4.74 and a standard deviation of 0.313. The residuals, which are the discrepancies between actual and forecasted values, fall within the range of -0.524 to 0.588, showing that there are no significant anomalies, and the residuals are comparatively minor.

The model shows no outliers or anomalies, as the standardized residuals fall within the acceptable range of -2.391 to 2.682. This regression model makes a big difference in explaining Credit Risk, as 68.2% of the variability is accounted for by the predictors.

Challenges specific to the industry are the most prominent factor, with economic conditions and borrower-specific traits following closely behind. Although Banking Practices and Rehabilitation Strategies are part of the model, they do not play a major role in predicting Credit Risk. The entire model is highly reliable from a statistical standpoint and offers important information on the factors that have the most impact on Credit Risk, suggesting that risk management should prioritize addressing challenges specific to industries and borrowers.

Correlation Test

This research involved utilizing correlation analysis to examine the connection between independent variables and dependent variables, as well as exploring the factors influencing behavioral intentions. Correlation was employed to determine the relationship between two variables. Correlation analysis was employed to determine the connection between important research variables. The findings are demonstrated in the table below.

Table 19: Correlation statistics
(Source: Developed by the researcher)

		Correlations					
		Credit Risk	Banking Practices and Credit Assessment Methods	Economic Conditions	Industry-Specific Challenge	Borrower-Specific Characteristics	Rehabilitation Strategies
Credit Risk	Pearson Correlation	1	.538**	.670**	.784**	.683**	.553**
	Sig. (2-tailed)		<.001	<.001	<.001	<.001	<.001
	N	100	100	100	100	100	100
Banking Practices and Credit Assessment Methods	Pearson Correlation	.538**	1	.547**	.605**	.673**	.684**
	Sig. (2-tailed)	<.001		<.001	<.001	<.001	<.001
	N	100	100	100	100	100	100
Economic Conditions	Pearson Correlation	.670**	.547**	1	.652**	.648**	.588**
	Sig. (2-tailed)	<.001	<.001		<.001	<.001	<.001
	N	100	100	100	100	100	100
Industry-Specific Challenge	Pearson Correlation	.784**	.605**	.652**	1	.704**	.699**
	Sig. (2-tailed)	<.001	<.001	<.001		<.001	<.001
	N	100	100	100	100	100	100
Borrower-Specific Characteristics	Pearson Correlation	.683**	.673**	.648**	.704**	1	.707**
	Sig. (2-tailed)	<.001	<.001	<.001	<.001		<.001
	N	100	100	100	100	100	100
Rehabilitation Strategies	Pearson Correlation	.553**	.684**	.588**	.699**	.707**	1
	Sig. (2-tailed)	<.001	<.001	<.001	<.001	<.001	
	N	100	100	100	100	100	100
** Correlation is significant at the 0.01 level (2-tailed).							

** Correlation is significant at the 0.01 level (2-tailed).

The correlation table demonstrates important connections among six variables: Credit Risk, Banking Practices and Credit Assessment Methods, Economic Conditions, Industry-Specific Challenges, Borrower-Specific Characteristics, and Rehabilitation Strategies. The statistical significance of all correlations is at the 0.01 level, indicating strong relationships between the variables. The correlation between Credit Risk and Industry Specific Challenges is strongest at 0.784, showing that challenges specific to an industry greatly affect credit risk. Strong correlations between Economic Conditions (0.670) and Borrower-Specific Characteristics (0.683) indicate that both macroeconomic factors and individual borrower traits play a significant role in determining credit risk.

Banking practices and credit assessment methods are closely linked to borrower-specific traits and rehabilitation strategies, with correlations of 0.673 and 0.684, respectively. This suggests that banks heavily consider individual borrower characteristics and strategies for distressed credits when assessing credit. Industry-Specific Challenges (0.605) also show a significant connection, suggesting that banking practices are influenced by industry conditions. Economic conditions have a strong connection with industry-specific challenges (0.652) and borrower-specific characteristics (0.648), showing how broader economic factors impact industry challenges and individual borrower profiles. The correlation of 0.588 between Rehabilitation Strategies and economic conditions indicates that the methods for handling distressed credits are influenced by economic factors.

Industry-specific difficulties are closely related to borrower-specific traits and rehabilitation methods, with a strong correlation of 0.704 and 0.699, respectively. This suggests that challenges within particular sectors are strongly influenced by the characteristics of borrowers in those sectors and the strategies implemented to manage credit risk. The correlation between Borrower-Specific Characteristics and Rehabilitation Strategies is strong at 0.707, emphasizing the need to customize rehabilitation approaches based on the unique attributes of borrowers. This variable has significant correlations with Industry-Specific Challenges (0.704) and Economic Conditions (0.648), highlighting how borrower traits are interconnected with industry and economic factors.

Rehabilitation Strategies show significant connections overall, especially with Borrower-Specific Characteristics (0.707) and Industry-Specific Challenges (0.699). This implies that successful rehabilitation plans need to take into account the distinct attributes of borrowers and the particular obstacles encountered in their respective industries. The connections highlight the complex links between credit risk and different factors, where Industry Specific Challenges are identified as a highly significant factor. The importance of considering borrower-specific attributes, industry difficulties, and economic situations stresses the importance of a holistic method to evaluate and manage credit risk. Individualized recovery plans are crucial to support borrowers in diverse industries and economic environments.

Conclusion and Recommendations

Table 20: Correlation between Credit risk and Banking practices
(Source: Developed by the researcher)

Correlations			
		Credit Risk	Banking Practices and Credit Assessment Methods
Pearson Correlation	Credit Risk	1.000	.538
	Banking Practices and Credit Assessment Methods	.538	1.000
Sig. (1-tailed)	Credit Risk	.	<.001
	Banking Practices and Credit Assessment Methods	.000	.
N	Credit Risk	100	100
	Banking Practices and Credit Assessment Methods	100	100

The Pearson Correlation Coefficient for Credit Risk and Banking Practices and Credit Assessment Methods is 0.538. This shows a moderate positive relationship, with enhancements in Banking Practices and Credit Assessment Methods linked to a rise in Credit Risk. This relationship is moderate, indicating a meaningful yet not dominant association between the two variables. The correlation is statistically significant because the P-value linked to it is less than .001. This indicates that the correlation between these variables is likely not a result of random occurrence.

The correlation is calculated using a sample size of 100 for each of the variables. A sample of this magnitude offers a trustworthy

approximation of the correlation and guarantees the resilience and applicability of the findings. The substantial impact of Banking Practices and Credit Assessment

Methods on Credit Risk is implied by the moderate positive correlation of 0.538 and the highly significant p-value. This discovery suggests that modifications in banking operations and credit assessment methods could result in alterations in credit risk levels, an important factor for financial institutions to incorporate into their risk management strategies.

Table 21: Correlation between Credit risk and economic conditions
(Source: Developed by the researcher)

Correlations			
		Credit Risk	Economic Conditions
Pearson Correlation	Credit Risk	1.000	.670
	Economic Conditions	.670	1.000
Sig. (1-tailed)	Credit Risk	.	<.001
	Economic Conditions	.000	.
N	Credit Risk	100	100
	Economic Conditions	100	100

This table displays the correlation between Credit Risk and Economic Conditions. The correlation coefficient of 0.670 indicates the relationship between Credit Risk and Economic Conditions in terms of Pearson Correlation. This shows a significant positive relationship, indicating that when Economic Conditions get better, Credit Risk also tends to rise. This relationship is quite robust, showing that economic factors heavily influence credit risk levels.

Statistical Significance (Sig.) refers to the level of confidence in the results of a study. The correlation's p-value is less than .001, indicating high significance. This suggests that the noted correlation is statistically significant and unlikely to be a result of random chance. The correlation is calculated from a sample size of 100 for each variable. This sample size is sufficient for generating dependable estimates and guarantees the statistical robustness of the results.

The high correlation of 0.670 between Credit Risk and Economic Conditions indicates that fluctuations in economic conditions greatly affect Credit Risk. More precisely, deteriorating economic circumstances are linked to elevated credit risk, whereas enhancing economic conditions are also inclined to raise credit risk. These findings suggest that economic changes play a key role in impacting the credit risk profile.

The noteworthy and robust connection between Economic Conditions and Credit Risk underscores the need to include economic factors in the assessment and management of credit risk. Financial institutions need to understand that changes in the economy can have a major impact on credit risk, so it's crucial to incorporate economic forecasts and conditions into risk management strategies to accurately evaluate and reduce credit risk.

Table 22: Correlation between Credit risk and industry specific challenges
(Source: Developed by the researcher)

Correlations			
		Credit Risk	Industry-Specific Challenge
Pearson Correlation	Credit Risk	1.000	.784
	Industry-Specific Challenge	.784	1.000
Sig. (1-tailed)	Credit Risk	.	<.001
	Industry-Specific Challenge	.000	.
N	Credit Risk	100	100
	Industry-Specific Challenge	100	100

This table displays the correlation between Credit Risk and Industry-Specific Challenge. The Pearson Correlation Coefficient is 0.784 for the correlation between Credit Risk and Industry-Specific Challenge. This shows a very high positive correlation, demonstrating a meaningful and significant connection between the two variables. As industry-specific challenges rise, so does Credit Risk, indicating that industries with more challenges are linked to higher credit risk.

Statistical Significance (Sig.) refers to the likelihood that results are not due to chance. A p-value of < .001 indicates a very strong statistical significance for the correlation. This outcome verifies that the correlation observed is unlikely to be random and is a

dependable indicator of the association between these variables. Both variables utilize a sample size of 100, offering a strong foundation for conducting correlation analysis. A sample of this magnitude confirms the accuracy and importance of the correlation coefficient.

The highly positive correlation of 0.784 between Credit Risk and Industry-Specific Challenge shows that industry-specific challenges greatly influence credit risk levels. This indicates that sectors encountering significant operational or financial challenges are likely to have increased credit risk, highlighting the need to take industry-specific factors into account during credit risk evaluation.

The important role that industry-specific factors play in determining credit risk is emphasized by the strong and statistically significant correlation between Industry-Specific Challenges and Credit Risk. Financial institutions need to thoroughly assess

industry-specific conditions when evaluating credit risks. Having knowledge of the obstacles encountered by a particular industry can offer useful perspectives on possible dangers and aid in creating better risk management plans.

Table 23: Correlation between Credit risk and borrower specific characteristics
(Source: Developed by the researcher)

Correlations			
		Credit Risk	Borrower-Specific Characteristics
Pearson Correlation	Credit Risk	1.000	.683
	Borrower-Specific Characteristics	.683	1.000
Sig. (1-tailed)	Credit Risk	.	<.001
	Borrower-Specific Characteristics	.000	.
N	Credit Risk	100	100
	Borrower-Specific Characteristics	100	100

This table shows how Credit Risk is related to the characteristics specific to the borrower. The correlation between Credit Risk and Borrower-Specific Characteristics is 0.683, as indicated by the Pearson Correlation Coefficient. This shows a significant positive relationship. In a practical sense, this implies that specific traits of the borrower are linked to increased Credit Risk. As borrower-specific characteristics suggesting higher risk rise, Credit Risk also tends to rise significantly.

Statistical significance (Sig.) refers to the measure of the likelihood that a relationship between two or more variables is in fact a real effect and not just due to random chance. The p-value for this correlation is less than .001, indicating a high level of significance. This indicates that the correlation seen is statistically strong and not likely to be due to random chance, confirming the dependability of the connection between the two variables. Both variables rely on a sample size of 100, offering a strong basis for

the correlation analysis. This sample size is sufficient to ensure the accuracy and applicability of the findings. The high positive correlation of 0.683 between Credit Risk and Borrower-Specific Characteristics suggests that individual borrower attributes have a substantial impact on credit risk. This connection implies that attributes unique to the borrower, like credit score, earnings, or financial habits, greatly influence the amount of credit risk.

The crucial and robust link between Borrower-Specific Characteristics and Credit Risk highlights the necessity of including borrower-specific variables in credit risk evaluation. It is vital for financial institutions to carefully consider these qualities when assessing credit requests and handling risk, as they are essential signals of possible credit risk. This understanding can assist in customizing credit policies and enhancing risk management approaches by concentrating on the characteristics that have the greatest impact on credit risk.

Table 24: Correlation between Credit risk and Rehabilitation strategies
(Source: Developed by the researcher)

Correlations			
		Credit Risk	Rehabilitation Strategies
Pearson Correlation	Credit Risk	1.000	.553
	Rehabilitation Strategies	.553	1.000
Sig. (1-tailed)	Credit Risk	.	<.001
	Rehabilitation Strategies	.000	.
N	Credit Risk	100	100
	Rehabilitation Strategies	100	100

This correlation table analyzes how Credit Risk is related to Rehabilitation Strategies. The Pearson Correlation Coefficient for Credit Risk and Rehabilitation Strategies is 0.553. This figure shows a moderate positive correlation. It indicates that increased Credit Risk levels are linked to a greater utilization of Rehabilitation Strategies. In essence, when Credit Risk rises, there is an inclination to introduce additional or altered rehabilitation techniques.

The correlation is highly significant, as shown by a p-value of less than .001. This indicates that the noted connection between Credit Risk and Rehabilitation Strategies is statistically significant and probably not a result of chance. The assessment is conducted with a sample size of 100 for each variable, which is typically sufficient to guarantee the accuracy of the correlation coefficient and its statistical importance.

The 0.553 moderate positive correlation between Credit Risk and Rehabilitation Strategies shows that as Credit Risk goes up, there is a significant rise in the utilization of rehabilitation strategies. This connection implies that instances of higher credit risk typically result in more rigorous or frequent rehabilitation endeavors, which may be focused on reducing or handling the heightened risk.

The substantial and moderate connection between Credit Risk and Rehabilitation Strategies emphasizes that the utilization of rehabilitation strategies is strongly linked to the amount of Credit Risk. Financial institutions and credit managers need to understand that a higher credit risk often requires stronger or more frequent rehabilitation strategies. This knowledge is beneficial for creating specific strategies and techniques to effectively manage increased credit risk.

Recommendations

Develop Industry-Specific Risk Mitigation Strategies

The examination shows that Industry-Specific Challenges are the most influential factor on credit risk, with a correlation coefficient of 0.784. In order to reduce this risk, the Bank of Ceylon (BOC) needs to create specific risk management plans for the tourism industry, considering its susceptibility to outside economic and environmental disturbances. This may involve developing unique financial instruments like catastrophe bonds or insurance-linked loans to offer financial security in times of economic downturns. Furthermore, BOC should provide specialized advisory services tailored to different sectors, such as tourism, to assist businesses in expanding their income sources and implementing stronger business strategies. Regular industry risk assessments will enable BOC to adjust strategies in response to developing trends and risks.

Strengthen Economic Condition Monitoring and Response Systems

BOC must improve its economic monitoring capabilities due to a significant correlation of 0.670 between Economic Conditions and credit risk. Using advanced predictive analytics and economic modeling will enable the bank to more accurately predict economic downturns and proactively modify its credit policies. BOC has the ability to create a macroeconomic stress-testing system to assess how economic shocks could affect its loan portfolio. Furthermore, establishing an economic crisis response team within the bank could guarantee swift implementation of emergency plans like loan modifications, changes in interest rates, or temporary payment suspensions in times of economic turmoil. BOC can reduce the adverse economic impacts on its credit risk profile by taking proactive measures instead of reactive ones.

Refine Borrower-Specific Credit Assessment Models

The research shows a significant correlation of 0.683 between Borrower-Specific Characteristics and credit risk. BOC needs to improve its credit assessment models to more accurately address the unique risks associated with individual borrowers. This might mean incorporating advanced data analytics, like machine learning algorithms, to evaluate the likelihood of default using a wider range of factors such as behavioral data, transaction history, and alternative credit data. Additionally, BOC ought to introduce a flexible credit scoring system that constantly adjusts

borrower ratings using up-to-date financial information and economic factors. Offering specific financial education programs and credit guidance to borrowers at high risk can also decrease defaults and enhance loan performance.

Optimize and Personalize Rehabilitation Strategies

The correlation of 0.553 between Rehabilitation Strategies and credit risk indicates that current rehabilitation methods may not be completely successful. BOC should enhance these strategies by implementing a personalized approach to borrower recovery. This might involve creating specialized restructuring plans that match the unique financial situations and the ability to repay individual borrowers. BOC could create early alert systems to detect borrowers in danger of defaulting before it happens, enabling proactive actions. Moreover, the effectiveness of rehabilitation efforts could be improved by incorporating flexible restructuring options, such as extending repayment terms, providing grace periods, or temporarily lowering interest rates. Consistent training for recovery officers in debt restructuring and recovery best practices will guarantee the successful implementation of these strategies.

Enhance Banking Practices and Credit Assessment Methods

Although the correlation between Banking Practices and Credit Assessment Methods and credit risk is moderate at 0.538, there is still potential for enhancement. BOC needs to regularly revise its credit assessment techniques to include top practices and the most recent risk management strategies. This may include implementing advanced risk assessment tools that take into account qualitative and quantitative factors, such as ESG criteria, which are becoming more crucial for evaluating long-term credit risk. BOC should also think about adopting automated systems for making decisions on loans for SMEs, which could accelerate the credit approval process without compromising on risk evaluation precision.

Expand Financial Inclusion Initiatives

BOC should utilize the knowledge gained from the connection between credit risk and borrower-specific traits to broaden financial inclusion efforts. BOC can reach new markets and effectively handle credit risk by providing microfinance products and customized financial services to underserved markets like small businesses in rural areas. These efforts may involve providing credit options that come with risk reduction features like mandatory savings plans or insurance coverage for default risks.

Implement Robust Risk Governance Frameworks

In order to effectively manage the risks found in the study, BOC needs to enhance its overall risk governance framework. This involves setting up explicit guidelines and processes for recognizing, evaluating, reducing, and observing risks. BOC needs to make sure that risk management is incorporated in decision-making at every level, starting from frontline employees up to the board of directors. Regular audits of risks and independent reviews must be carried out to guarantee adherence to regulatory standards and internal policies.

Encourage cooperation between banks and stakeholders in the industry

Effective credit risk management across the sector requires collaboration among banks, industry stakeholders, and government

agencies. Banks need to collaborate in order to exchange successful strategies and create standardized guidelines for handling risks unique to certain industries, especially in sectors such as tourism. Collaborative efforts, like partnerships between the public and private sectors to develop infrastructure and plan for crisis management, have the potential to strengthen the banking sector's ability to withstand external shocks.

Allocate resources towards research and development to enhance credit risk management

The creation of a Credit Risk Research and Innovation Center in the banking sector might lead to progress in evaluating and managing credit risks. This facility will concentrate on creating fresh risk evaluation instruments, investigating creative financial products, and performing research on upcoming risks. Sri Lankan banks can maintain a competitive edge by investing in research and development to continually enhance their credit risk management practices in line with global trends.

Conclusion

The study carried out offers a comprehensive examination of credit risk and recovery methods for small and medium-sized businesses (SMEs) in Sri Lanka's tourism industry, with a specific emphasis on the BOC. The tourism industry, which is a key player in the country's economy, makes up approximately 12% of Sri Lanka's GDP. Yet, its significant reliance on outside elements such as worldwide economic changes, political unrest, and natural calamities leaves it extremely susceptible. The fragility of SMEs within the global tourism industry was highlighted by the COVID-19 pandemic, leading to an increase in NPLs.

One important finding from the study is that BOC's current credit risk management strategies, while thorough, do not fully meet the specific obstacles encountered in the tourism sector. The bank has traditionally used a mix of credit evaluations, diversification of loan portfolios, and rehabilitation techniques, all of which have been fairly effective in reducing credit risk. Nonetheless, the need for constant evaluation and adjustment of these strategies is due to the vulnerability of the tourism industry to external shocks [64-68].

During the research, various crucial findings were uncovered through the regression analysis conducted. It was observed that the challenges unique to the tourism industry had the greatest effect on credit risk. These difficulties consist of changes in tourist arrivals due to seasons, regulatory adjustments, and the impacts of global events like pandemics and natural disasters. The model indicated that specific challenges within the industry greatly impact credit risk in a positive way, with a Beta coefficient of 0.568. This indicates that with the escalation of these challenges, the likelihood of loan defaults in the tourism industry significantly rises [69-72].

Furthermore, the study revealed that macroeconomic factors like inflation, currency changes, and overall economic instabilities are key factors in establishing credit risk. Having a Beta value of 0.231, it was found that macroeconomic conditions are an important factor in predicting credit risk, showing that fluctuations in the economy can affect SMEs' loan repayment capability. Borrower-specific traits like financial management abilities, asset quality, and leadership skills were also identified as

significant elements. These traits were highly linked to credit risk (Beta = 0.231), indicating that SMEs with inferior financial management have a higher chance of loan default.

Although these risk factors were identified, the study found that BOC's current banking practices and credit assessment methods do not have a substantial impact on credit risk. The results showed that BOC's credit evaluation methods are strong, but they do not cater to the unique challenges of the tourism industry, as indicated by a Beta value of 0.020. This indicates that the bank should review and update its credit assessment models to include factors related to the specific characteristics of the tourism sector [73-74].

In the same way, BOC's rehabilitation tactics, such as restructuring loans, rescheduling payments, and offering advisory services, were found to have a limited effect in reducing credit risk. While these methods offer short-term support for small and medium-sized enterprises during financial difficulties, their overall impact in the long run is still constrained. The rehabilitation strategies have a negative Beta value of -0.157, indicating a reverse relationship with credit risk, although this connection was not deemed statistically relevant. This underlines the importance of implementing rehabilitation methods in the tourism industry that are more tailored and adaptable to the unique financial situations of borrowers.

The study also highlights the significance of external variables when evaluating credit risk in the tourism industry. SMEs in this sector have been significantly impacted by political uncertainty, natural calamities, and changes in the global economy. Occurrences like the 2019 Easter Sunday attacks, the 2004 Indian Ocean tsunami, and the COVID-19 pandemic had a major impact on tourism in Sri Lanka, resulting in lower tourist numbers and less income for small and medium-sized enterprises. These incidents highlighted the necessity for banks such as BOC to implement managing risks in the tourism industry, the sector's susceptibility to external shocks highlights the need for ongoing enhancement and adjustment of these practices. BOC must improve its credit assessment methods by including additional industry-specific and macroeconomic factors. Furthermore, the bank needs to customize its rehabilitation approaches based on the unique financial circumstances of SMEs, offering businesses experiencing financial difficulties with more adaptable and individualized assistance. BOC's actions will help bolster the recovery and sustainable expansion of small and medium enterprises in the tourism industry of Sri Lanka, ensuring its own financial strength and benefiting the overall economic resilience of the nation.

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Questionnaires

Evaluation of Credit Risk and Rehabilitation Strategies for Small and Medium-Scale Commercial Loans in Sri Lanka's Tourism Industry: An Analysis of Commercial Banks Practices and Market Recapture Approaches (Reference on Bank of Ceylon-Sri Lanka)

Survey Informed Consent

You are being invited to participate in this research study titled "Evaluation of Credit Risk and Rehabilitation Strategies for Small and Medium-Scale Commercial Loans in Sri Lanka's Tourism Industry: An Analysis of Commercial Banks Practices and Market Recapture Approaches (Reference on Bank of Ceylon-Sri Lanka)".

This research is conducted by Ishani Hansika from the Guildhall School of Business and Law at the London Metropolitan University- UK.

You will be asked to complete a questionnaire that contains 32 questions that we anticipate will take 10 minutes to complete.

Kindly note that by submitting this form you are also giving your consent to use the data.

All data you provide will be anonymous, which means that no one could use any reasonable means to identify you from the data. The anonymous data collected will be stored securely on the University network and only the researcher and supervisor will be able to access it. The data will be analysed as part of the research study and then published in my dissertation. It is expected that the project to which this research relates will be finalised by September 2024. After the project has completed the data will be destroyed.

If you have any questions, please email me at ishanihansika1991@gmail.com

Researcher/Student name: Ishani Hansika Dhanapala

***Required General Information**

1. Gender *
 - Male
 - Female
 - Prefer not to say
2. Designation
 - Credit Officer
 - Recovery Officer
3. Years of Experience in Current Role *
 - Less than 1 year
 - 1-3 years
 - 3-5 years
 - More than 5 years
4. Educational Background *
 - Advance Level/Diploma
 - Bachelor's Degree
 - Master's Degree
 - Professional Qualification (e.g. ACCA, CFA)
5. Have you had you received any specific training in credit risk management? *
 - Yes
 - No
8. You believe that the current banking practices align with the unique needs of the tourism sector. *
 - Strongly agree
 - Agree
 - Neutral
 - Disagree
 - Strongly disagree
9. BOC always uses incorporate qualitative factors (Five pillars of Credit) into your credit assessments? *
 - Strongly Agree
 - Agree
 - Neutral
 - Disagree
 - Strongly disagree
10. The most common reasons for rejecting a loan application from a tourism sector under the current credit assessment framework is the Capacity and willingness of the customer. *
 - Strongly Agree
 - Agree
 - Neutral
 - Disagree
 - Strongly Disagree

Banking Practices and Credit Assessment Methods

6. BOC reviews and updates its credit assessment methods for tourism sector frequently. *
 - Strongly Agree
 - Agree
 - Neutral
 - Disagree
 - Strongly disagree
7. BOC is using all credit assessments and methods (Credit scoring models, Financial statement analysis, Site visits and personal interviews) to find when evaluating loan applications from tourism sector. *
 - Strongly Agree
 - Agree
 - Neutral
 - Disagree
 - Strongly Disagree

Economic Conditions

11. Current economic conditions in Sri Lanka (e.g., inflation, exchange rates) are significantly impact on credit risk assessment for tourism sector. *
 - Strongly Agree
 - Agree
 - Neutral
 - Disagree
 - Strongly Disagree
12. BOC regularly adjusts loan terms or interest rates, Terms and conditions based on changes in the economic environment. *
 - Strongly Agree
 - Agree
 - Neutral
 - Disagree
 - Strongly Disagree

13. Economic instability (e.g., political unrest, economic downturns) are significantly affect the creditworthiness of tourism sector. *
 - Strongly Agree
 - Agree
 - Neutral
 - Disagree
 - Strongly Disagree
 14. Tourism Sector is highly resilient to economic fluctuations compared to other sectors. *
 - Strongly Agree
 - Agree
 - Neutral
 - Disagree
 - Strongly Disagree
 15. Economic forecasts and Trends, Global Events and external shocks (pandemics, geopolitical instability, natural disasters), can be affected of future economic conditions on the repayment capacity of tourism sector. *
 - Strongly Agree
 - Agree
 - Neutral
 - Disagree
 - Strongly Disagree
- Industry-Specific Challenges (Credit Risk)**
16. Industry-specific risks such as Seasonal fluctuations, Regulatory changes, Environmental risks are most critical when assessing credit risk for tourism sector. *
 - Strongly Agree
 - Agree
 - Neutral
 - Disagree
 - Strongly Disagree
 17. BOC regularly updates risk assessments tools and methods for new challenges emerging within the tourism industry. *
 - Strongly Agree
 - Agree
 - Neutral
 - Disagree
 - Strongly Disagree
 18. You believe that the tourism industry's dependency on global trends increases credit risk. *
 - Strongly agree
 - Agree
 - Neutral
 - Disagree
 - Strongly disagree
 19. BOC incorporates industry benchmarks (e.g., average occupancy rates, revenue per available room) into credit risk assessments. *
 - Strongly agree
 - Agree
 - Neutral
 - Disagree
 - Strongly disagree

20. Most common industry-specific challenges that have led to the default of tourism are High Operating Costs and Dependency on External Factors. *
 - Strongly Agree
 - Agree
 - Neutral
 - Disagree
 - Strongly Disagree

Borrower-Specific Characteristics

21. Borrower's management skills and experience are very important in your credit evaluation process. *
 - Strongly agree
 - Agree
 - Neutral
 - Disagree
 - Strongly disagree
22. Business plan and strategic plans, Collateral quality and credit history of borrower are prioritized when assessing the creditworthiness of a tourism sector. *
 - Strongly Agree
 - Agree
 - Neutral
 - Disagree
 - Strongly Disagree
23. BOC's credit and recovery officers always perform site visits or personal interviews with tourism borrowers as part of credit assessment. *
 - Strongly Agree
 - Agree
 - Neutral
 - Disagree
 - Strongly Disagree
24. BOC assesses the growth potential of the tourism sector by Financial Performance and Projections when considering them for a credit facility. *
 - Strongly Agree
 - Agree
 - Neutral
 - Disagree
 - Strongly Disagree

Rehabilitation Strategies

25. The business's ability to generate sufficient cash flow to meet its restructured debt obligations is the best criteria to determine whether qualifies for loan rehabilitation. *
 - Strongly Agree
 - Agree
 - Neutral
 - Disagree
 - Strongly Disagree
26. BOC regularly engages in negotiations with borrowers of tourism sector to restructure /Reschedule loan terms. *
 - Strongly Agree
 - Agree
 - Neutral
 - Disagree
 - Strongly Disagree

27. Granting additional credit facilities is the most effective rehabilitation strategy in helping tourism sector. *
- Strongly Agree
 - Agree
 - Neutral
 - Disagree
 - Strongly Disagree
28. Loan restructuring or rescheduling is the most effective rehabilitation strategy in helping tourism sector. *
- Strongly agree
 - Agree
 - Neutral
 - Disagree
 - Strongly Disagree
29. monitoring financial performance reviews and Regular follow-up meetings are very effective in rehabilitation strategies implemented for tourism sector. *
- Strongly agree
 - Agree
 - Neutral
 - Disagree
 - Strongly disagree
30. Bank practices, policies and circulars are key challenges when engaging ,coordinating and implementing successful rehabilitation strategies for tourism. *
- Strongly agree
 - Agree
 - Neutral
 - Disagree
 - Strongly disagree
31. As an employee, you are satisfied about the Evaluation of Credit Risk and Rehabilitation Strategies for Commercial Loans of tourism Sector which are implemented by BOC. *
- Strongly Agree
 - Agree
 - Neutral
 - Disagree
 - Strongly Disagree

Credit Risk

32. The current credit risk assessment methods employed by commercial banks in Sri Lanka are effective in accurately predicting the default risk of SMEs in the tourism sector *
- Strongly Agree
 - Agree
 - Neutral
 - Disagree
 - Strongly disagree
33. The rehabilitation strategies implemented by the Bank of Ceylon have significantly improved the financial stability of SMEs within the tourism industry post-crisis. *
- Strongly agree
 - Agree
 - Neutral
 - Disagree
 - Strongly disagree
34. Economic conditions in Sri Lanka have a substantial impact on the credit risk of loans extended to the tourism sector. *
- Strongly agree
 - Agree
 - Neutral
 - Disagree
 - Strongly disagree
35. SMEs in Sri Lanka's tourism sector receive adequate financial support from commercial banks to manage and mitigate credit risk effectively. *
- Strongly Agree
 - Agree
 - Neutral
 - Disagree
 - Strongly disagree
36. The existing risk management frameworks within Sri Lankan commercial banks are sufficient to handle the challenges posed by non-performing loans in the tourism industry. *
- Strongly agree
 - Agree
 - Neutral
 - Disagree
 - Strongly disagree