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Factors Affecting Non-Performing Loan in Sri Lanka: A Qualitative Study

Keshani A.L.A.D[a], Jayatilake L.V.K.[b]

[a] University of Kelaniya, Sri Lanka.

[b] Department of Commerce and Financial Management, University of Kelaniya, Sri Lanka.

ABSTRACT

Purpose: Comparison of NBFC's Non-Performing loan Ratio was given a research problem to the researcher to argue that which factors will be affected to the NPL of high risky non-banking financial company of Sri Lanka as the case study. This study examines the factors affecting non-performing loans of ABC Financed Limited. The objectives were to identify the Institutional relating Factors, Customer relating factors and Remedial Mechanisms of Dealing with Non-Performing Loans.

Methodology: The scope of the research was limited to ten (10) Employees of ABC Finance Limited and ten (10) Customers of ABC Financed Limited. The study adopted the general qualitative research methodology using Interpretivism paradigm, Case study strategy and Grounded Theory Approach and in-depth interviews were conducted in order to collect data, and all the interviews were recorded, transcribed and coded. Open coding, selective coding and Axial coding were done in order to get the final framework.

Findings: The findings revealed, Customer relating factors also reflect in case of nonperforming loans and there are some new factors were also found as Institutional related factors. Some moderate mechanisms also found to implement for all the financial companies and Banks.

Originality / Value: The study contributes to expanding existing literature by investigating the issues of value relevance of financial statements within the Sri Lankan context, incorporating both red flags and accrual components.

KEYWORDS

Non-Performing Loans, Non-Banking Financial Institute, Institutional Factors, Customer Factors, Remedial Mechanisms

JEL CLASSIFICATION

G23, G32

I. Introduction

The financial system comprises of the regulatory authorities, financial institutions, markets, instruments, a payment and settlement system, a legal framework and regulations (CBSL). The Financial Institutions sector is considered to be an important source of financing for all over the world and common assumption is that growing financial performance will lead to better functions and actions of the organizations. (Farah & Rahman, 2014).
Non-Banking Financial Institutes have been playing a critical role in the financial sector by availing additional financial services that are not always been delivered by the full-fledged banking industry. (Imtiaz, Mahmud, & Faisal, 2019). It is true that the banks share a very large segment of financial intermediation in the Sri Lankan financial market; nevertheless, the non-banking financial companies (NBFCs) play a significant role in this respect. (Kirushanthi, 2015) Non-Bank Financial Institutions came in operation in areas where banks failed to operate prudently, though both banks and Non-Bank Financial Institutions operations are very close, there is substantial difference in risk factors for them. Banks usually lend for short-term in traditional manner, where Non-Bank Financial Institutions finance long-term loan with innovative products. (Rifat A. M., 2017)

Failure to generate earning from loan and recovering principal poses threat to firm's long-term sustainability and impact on the level of private investment by increasing required provision and loss accumulation in the financial system as well as NPL also affect private consumption by reducing loan

CONTACT L.V.K. Jayatilake lakminij@kln.ac.lk Department of Commerce and Financial Management, University of Kelaniya, Sri Lanka

disbursement also known as "credit crunch" caused by erosion of firm's asset and equity (Rifat 2017).
Degeneration in the quality of the loan books of the Banks has been a main cause of financial instability in the banks which would ultimately impact the entire financial system of the country. Past studies (Bonilla, 2012), (Khemraj & Pasha, 2009) and the incidents reported around the world shows that accumulated bad loans play a major role in Bank failures.

Though lots of studies have been carried out to analyze non-performing loans of banking system, this study focuses on factors affecting non-performing loans in Non-Bank Financial Institutions. Non-performing loans has been an important issue for financial institutions and regulators.
In Sri Lanka the banking sector asset base surpassed Rs. 11 trillion by end 2018. The total asset base of the LFC (Licensed Financial Companies) and SLC (Specialized Leasing Companies) sector grew moderately by Rs. 76.63 billion during the year reaching Rs. 1,431 billion by end 2018 (CBSL, Annual Report, 2018). Financial system in Sri Lanka to a greater extent dependent on the soundness of banking and financial institutions. Most of banking and financial institutes are suffering the problem of increase of non-performing Loans and always try to do the best analysis with loan lending process to reduce the failure of payments. Government of Sri Lanka also conducting tighter financial and monetary policies for financial institute more than banking industry.as well as dealing with financial institute are mostly bottom line of the society, therefore this study based on a selected best financial institute in Sri Lanka due to the above reasons.

Table 1. NPL Ratio of selected Financial Companies

Company	2013	2014	2015	2016	2017	2018	2019
CLC	2.98	2.44	2.74	1.09	1.93	2.62	4.9
CCL	2.8	4.1	1.2	4.38	6.97	6.51	7
ABC	0.4	0.88	0.79	1.94	2.47	3.79	8.85
LB	3.35	5.16	5.15	3.28	2.14	2.37	2.69
PLC	1.5	2.1	2.72	5.7	5.3	2.7	3.9
ASIA ASSETS	7	7.12	8.55	9.07	6.45	7.76	9.22
BIMPUTH	1.02	1.73	0.92	0.92	2.99	6.33	16.84
CDB	3.32	5.19	5.78	3.62	3.08	3.07	6.68
CF	-	3.28	4.53	3.86	3.52	3.65	5.61
SENKADAGALA	1.07	3.48	4.3	2.02	1.64	2.28	4.93
VELLIBEL	3.19	4.95	5.11	3.76	2.93	2.72	3.02

Source: (Annual Reports 2013-17)

From the 41 licensed finance companies. Researchers analyzed 7 years NPL ratios of selected 12 Finance companies. Table 1 is describing the NPL ratio variation of selected companies within 7 years and Graph 1 is further clarified the comparison.

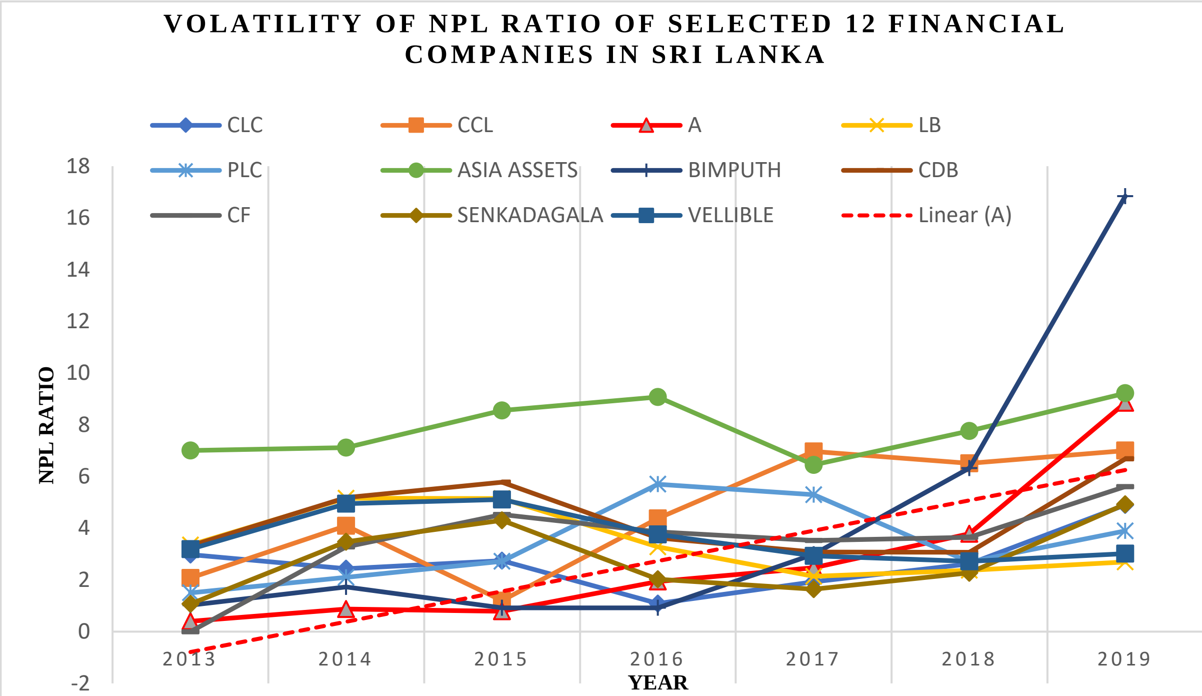

Figure 1. Volatility of NPL Ratio of selected 05 Financial Companies in Sri Lanka

When considering the above graph, we can see Bimputh Finance and selected firm has grown continuously their NPL ratio through the recent years. According to the above situation we can analyze those determinants of NPL is different with organization to organization. Because while some of companies reducing NPL ratio, some of companies are continuously increased NPL ratio. Year 2020 was not a healthy year for all businesses due to the macro-economic factors that were adversely affected to the country, therefore NPL ratio was increased most of companies compared to previous years but when we consider the sector as a whole this, there are only 2 companies were highlighted. Then this study is going through the company which was increased continuously their NPL.

Table 2 is being clarifying that Loan loss provisions of ABC Finance company during 6 years.

Table 1. Loan Loss Provision of ABC Finance ltd

YEAR	2013	2014	2015	2016	2017	2018	2019
Amount (Rs.)	25Mn	10Mn	49Mn	105Mn	245Mn	592Mn	843Mn

Source: (Annual Report of ABC Finance ltd 2013-2018)

Table 2. As at 31st December 2019 Non-performing Loan Balances

Days	Number of Loans	Amount
0 Days	169,457	13,164Mn
1 to 7 Days	16,463	1,188Mn
8 to 14Days	6,283	728Mn
15 to 29 Days	8,943	536Mn
30 to 59 Days	10,450	821Mn
60 to 89 Days	8,858	697Mn
90 to 179 Days	9,608	439Mn
Over180 Days	56,579	3,088Mn
Total	**286,641**	**20,661Mn**

Source: (Recovery reports of ABC Financed ltd)

According to the Table 3, Number of Non-performing loans are Approximately 286,000 and 20,661Mn of amount have not been paid at the end of the 2019. Based on above situation researchers attempted to find the answers on the problem of "What are the factors affecting non-performing loan of ABC Finance company?"

The researcher's data collection, evaluation methods were not conducted by any previous researches, therefore this study was empirically verified. A number of studies have been conducted in many developed countries and Sri Lanka to examine the determinants of non-performing loan and Factors affecting to non-performing loans. Most of studies have been conducted using panel data by exploring Macro economic factors, industrial specific factors and remedial practices that can be implemented to reduce the level of non-performing loans. Therefore, this study has been explored the Factors affecting to non-performing loans in Non-Banking Financial Institute, as a case study using by arguing not only those factors, customer relating factors also affecting to non-performing loans by conducting interviews through NPL customers, as the qualitative research. The findings of the study will explore an area of research in finance for Sri Lankan researchers and contribute to the knowledge in the field of finance.

The study will identify the main factors that affect non-performing loans hence create awareness upon the ABC management and the management of other companies of these factors. The study will inspire the Finance Companies to innovate ways of dealing with or reducing non-performing loans. The study will also examine some of the mechanisms that have been implemented in order to deal with non-performing loans and evaluate their effectiveness. This will be of importance to the Finance Companies in that it will facilitate their cognizance of the effective from the ineffective mechanisms. By appreciating the findings of the study, the Finance Institutes can then implement new or improve on the existing mechanisms to reduce the level of non-performing loans. Second by acquainting themselves with the discussions and findings of this study, the policymakers will be able to implement effective fiscal policies concerning credits and therefore prevent the occurrence of non-performing loans in the economy.

Third by venturing into an area that is largely ignored by academicians, the study will be important in generating a refocus among scholars and researchers of the necessity for a conceptualization of factors affecting non-performing loan.

II. Literature Review

International Empirical Review

Banks that charge high interest rate would relatively experience a higher default rate or non-performing loans. Therefore, a study by (Sinkey & Greenwalt 1991) on large commercial Banks in US examined that a high interest rate charged by banks is related with loan defaults. (Rajiv & Dhal 2003) used a panel regression analysis to indicate that financial factors like cost of credit have got significant impact on NPLs. Bloem and Gorter (2001) also found that “bad loans” may rise due to sudden changes in interest rates. The authors discussed various international standards and practices on recognizing, valuing and following treatment of non-performing loans to address the issue from view point of controlling, management and reduction measures.

Accordingly, a study by (Espinoza & Prasad 2010) focused on macroeconomic and bank specific factors influencing NPLs and their effects in GCC Banking system. they found that higher interest rates enhanced non-performing loans but the relationship was not statistically significant. Other studies, Sinkey and Greenwalt (1991) indicated that loan delinquencies are correlated with rapid credit growth. And a researcher found that excessive lending explains loan loss rate. This was confirmed by (Keeton W., 1999). they used data from commercial banks in the United States (from 1982 - 1996) using a vector auto regression model showed that there was correlation between default and rapid credit growth.

On the other hand, Salas & Sauruna (2002) found that in their study on Spanish banks also revealed that credit growth is associated with non-performing loans. Also, study by (Bercoff et al 2002) confirmed that asset growth affect NPLs. (Skarica, 2013) also conducted a study on the determinants of NPLs in Central and Eastern European countries. By using the Fixed Effect Model and seven Central and Eastern European countries between 2007-2012 periods, the study declared that loan growth, real GDP growth rate, market interest rate, unemployment and inflation rate as determinants of NPLs. The results show that GDP growth rate and unemployment rate have statistically significant negative association with NPLs with justification of enhancing recession and falling during expansions and growth has impact on the levels of NPLs. This implicit that economic developments have a strong impact on the financial stability. The result also found that inflation has positive impact on NPLs with a justification that inflation might affect borrowers’ debt servicing capacities.

Empirical Studies Based on Sri Lanka

Kumarasinghe (2017), found that macroeconomic determinants of banks’ loan quality in Sri Lanka by analyzing secondary data over the period 1998–2014. The findings reveal that, out of the six determinants, GDP growth rate and the Export Growth are significant in level of the NPLs in the Sri Lankan banking sector. The relationship of the GDP with the NPL was found as positive The study of (Ekanayake & Azeez, 2015) investigated the determinant factors of ex-post credit risk considering non-performing loans (NPLs) as proxy variable in Sri Lanka’s commercial banking sector and is evaluated with a sample of nine licensed commercial banks for the period from 1999 to 2012. The study found that the level of NPLs can be attributed to both macroeconomic conditions and banks’ specific factors. It found that, NPLs tends to increase with deteriorating bank’s efficiency. There is a positive correlation between loan to asset ratio and NPLs. banks with high level of credit growth correlated with a reduced level of non-performing loans. Larger banks bring on lesser loan defaults compared to smaller banks. With regard to macro-economic variables, NPLs changed negatively with the growth rate of GDP and Inflation and positively with the prime lending rate

Karthikasan (2016) studied that “An Analysis of the Bank Specific Factors Affecting the non-performing Loans in Commercial Banks in Sri Lanka”. The target population was total of 25 Licensed Commercial banks out of which a sample of 10 and 100 employees was using stratified simple random sampling. The data was collected by use of self-developed questionnaire issued to the Credit manager, Loan officers and executives. Survey was carried out by participating mainly employees of private bank. The findings revealed, there is no relationship between bank ownership and nonperforming loans in commercial banks. There is a positive and significant relationship between high interest rate and nonperforming loans. There is a positive relationship between rapid loan growth and nonperforming loans in commercial banks. There is a negative relationship between credit assessment and nonperforming loans in commercial banks. Strict credit monitoring leads to loan performance as said by employees of commercial banks in the country. There is a negative relationship between credit monitoring and non-performing loans. There is a negative relationship between collateral security and nonperforming loans in commercial banks. There is no relationship between credit terms and nonperforming loans in commercial banks. There is a positive relationship between credit size and nonperforming loans in commercial banks. There is a positive relationship between poor risk assessment and nonperforming loans in commercial banks. There was a significant relationship in poor risk assessment on non-performing loans.

Kirushanthi (2015) study questioned why the commercial banks are far behind in managing the NPLs. As a result, this research aims to understand employing qualitative methodology to identify the determinants of the NPLs in commercial banks in Batticaloa District of Sri Lanka. Findings declared that there are some banking specific factors, customer related specific factors and macro environment factors affected the NPLs.

III. Methodology Overview

The population for this study included two groups, they are the staff of the ABC Finance Company and customers who went to the NPL list of ABC Finance company Sri Lanka.
For this study, the sampling frame comprised a list of registered customers, Senior staff and managers of ABC Finance Company Sri Lanka. The list was obtained from the human resource and sales departments of the company.

The parameters of the population define the sampling process. A purposive sampling was used to determine the participants in the survey interview.

Table 3. Sample Size Distribution

	Population	Sample Size
Staff of Company	1,500	10
Customers who are in NPL list	292,000	5
Existing loyalty customers	755,000	5
Total	1,048,500	20

Source: (ABC Finance LTD HR Department reports)

IV. Data Analysis and Results

The phases of data collection and analysis are described to give an overview of not only the results, but the process involved. In the open coding phase, the codes emerged iteratively. The first codes were generated after the first 02 interviews. After more interviews, codes were added and some of the original codes were deleted. During the axial coding phase, themes and patterns were arranged to determine interactions and relationships. (Corbin & Strauss, 1990) note that ‘research rarely proceeds completely as planned’ and this researcher’s attempts at axial coding as assembling the data in new ways to describe the context, identify core phenomena, specify strategies and explore conditions and consequences. Axial coding yielded a description of a context of ambiguity and collaboration (connecting, networking and partnership) within the organization. The factors affecting non-performing loans were specified in Table 5 included Institution specific factors and Customer related factors conversation and other resources (such as associations, journals, books, and the internet) with the core phenomenon as factors affected non-performing loans which bridge the Gap between other factors and the context. In the third phase, selective coding, narratives illustrating one typical challenging relationship were developed. In the last phase, a theoretical proposition outlining the description of conditions, actions/interactions and consequences that lead to the Customer relating factors was developed. Table 5 provides an overview of the steps and the products of those steps that provide some order to the process.

Table 5. Outline of Data Analysis Process

Categories	**Institutional related Factors**	**Customer related factors**	**Remedial Mechanisms of Dealing with Non-performing Loans**
Themes	Size of Institute	Loan funds to unprofitable investments	Reduction of interest Rates
	Loan Growth Rate/ Credit Growth	Declining in businesses	Enhancing Management and Risk Assessment
	Bad Management	Delay in Project completion	Close Monitoring of Borrowers
	-Loan underwriting and Credit Monitoring	Customers dishonestly	Enhance the saving portfolio against the loan
	-Re-Follow up	Business Diversification	Diversify the product portfolio
	Credit Terms	Higher Debtors	Outsourcing non recoverable defaults
	Lack of appropriate skills of the lending Officers	Awareness	Strength the loan evaluation process
	Attitude toward leaders	Excessive Borrowings	Training and development/ awareness programmes
	Communication Gap		

Open Coding-Codes emerged from 20 interviews, 125 pages of transcripts (08 initial emergent codes and 16 Additional code). Axial Coding-Interconnection of Categories and Themes. 1.Selective Coding Code Reduction (combine, eliminate) Testing themes (observations, return to transcripts, documents, code checking and triangulation with observations, field notes) 2. Theoretical Proposition, Description of conditions, actions/interactions and consequences that lead to the proposed theory.

Results Emerging from Open Coding

After 05 interviews were completed in one of the locations, the researcher started to develop a short list of possible codes. It was determined that the sample was too limited and homogeneous to generate and define open codes and conceptual categories. 05 interviews were completed within two weeks, which limited the interaction between the data collection and coding and analysis. When 10 interviews were completed, open coding yielded a more through list of codes and categories. Table 5 outlines the first approach to understanding the patterns and themes emerging from the interviews and transcripts as participants described Institutional related factors, Customer related factors, Remedial Mechanisms of Dealing with non-performing loans The number indicates the number of participants who mentioned that element.

Table 6. Initial Categories and Codes: Themes Emerging from Transcripts

Categories and Themes	Employees	Customers
Institutional related Factors;		
Size of Institute	04	04
Loan Growth Rate/ Credit Growth	09	-
Bad Management -Loan Underwriting and Credit Monitoring	09	-
Credit Terms	09	08
Lack of appropriate skills of the lending Officers	10	09
Remedial Mechanisms of Dealing with Non-performing Loans;		
Reduction of interest Rates	03	10
Enhancing Management and Risk Assessment	08	-
Close Monitoring of Borrowers	10	09

Frequency counts were tabulated for these codes to determine the strength and patterns of the category or the property reflected by the codes. Further analysis after completing the data collection, combining and eliminating some codes and generating new codes to query the data. The first set of codes reflected the themes generated through previous studies regarding factors affecting non-performing loans and Determinant of non-performing Loans, with the evolution of the researcher's thinking about theory generation, the second set of codes was developed to able to query the data regarding all categories. Following table outline the additional codes. The number indicates the number of participants who mentioned the category.

Table 7. Additional Categories and Themes: Refined Coding Based on Questions and Model

Categories and Themes	Employees	Customers
Institutional related Factors;		
Bad Management – Re-Follow up	08	-
Attitude toward leaders	06	05
Communication Gap	06	-
Customer related factors;		
Loan funds to unprofitable investments	10	09
Declining in businesses	10	05
Delay in Project completion	10	03
Customers dishonestly	10	07
Business Diversification	06	06
Higher Debtors	10	07
Awareness	10	10
Excessive borrowings	10	05
Remedial Mechanisms of Dealing with Non-performing Loans;		
Enhance the saving portfolio against the loan	08	-
Diversify the product portfolio	4	-
Outsourcing non recoverable defaults	5	-
Strength the loan evaluation process	10	-
Training and development/ awareness programmes	8	-

Results from Axial Coding

The researcher's early attempts at coding demonstrated the truth of the observation of research rarely proceeds completely as planned. Early axial coding yielded a description of a context of ambiguity and collaboration (connecting, networking and partnership) within vision-driven organization. As categories and properties were consolidated and some earlier coded properties were eliminated using the criteria of frequency, general application across the sample, relationship to other categories (Customer relating factors) and possible contribution to building a theory, the focus continued to narrow. Through this analysis, a broader picture of the Institutional, Customer relating factors affecting to non-performing loan and Remedial Mechanisms of Dealing with non-performing Loans become clearer. In reviewing data, the researcher noted that, while every participant talked about their non-performed loans were increased but actually which would be the reasons behind this case. To solve this problem researcher was finding the causal factors.

Results Emerging from Selective Coding

In selective coding, the researcher establishes the story that integrates the categories identified through axial coding (Creswell J. W., Qualitative Inquiry and Research Design, 2006). The researcher reviewed the observations, documents (annual reports, selected service records, organizational records, letters, memoranda, agendas, recovery reports related to the organization). Field notes and analytic memos to verify the emerging findings in the transcripts and build a picture.

The interviewer's name was renamed as follows in Table 8.

Table 8. Reference numbers of the Interviewers

Employee 1	EMP_01
Employee 2	EMP_02
Employee 3	EMP_03
Employee 4	EMP_04
Employee 5	EMP_05
Employee 6	EMP_06
Employee 7	EMP_07
Employee 8	EMP_08
Employee 9	EMP_09
Employee 10	EMP_10
Customer 1	CUST_01
Customer 2	CUST_02
Customer 3	CUST_03
Customer 4	CUST_04
Customer 5	CUST_05
Customer 6	CUST_06
Customer 7	CUST_07
Customer 8	CUST_08
Customer 9	CUST_09
Customer 10	CUST_10

V. Theoretical Framework of the Study of Factors affecting Non-performing Loans of Selected Finance Firm

According to the literature, reviewed, factors affecting non-performing loans have been the topics of various articles in both professional and popular media. There were worldwide analyses had been done but still all the financial institutions are suffered with the non-performing loan problem. Some of researchers Both macroeconomic and firm-specific variables are tested to determine the impact on classified loan ratio of Non-Banking Financial Institutions (Rifat A. M., 2016), Identifying the factors affecting Non-performing advances on lending officer perspective (Gunaratne & Wijenayake, 2009) Micro and Macro Determinant of Non-performing Loans ((Messai & Jouini, 2008)

(Cortavarria & et al, 2000) (Espinoza & Prasad, 2009) (Fofack , 2005) (Klein, 2013) (Louzis , Vouldis , & Metaxas, 2012) (Messai & Jouini, 2008)) Determinants of Non-performing Loans by analyzing quantitative data of Banking Industry ((Ekanayake & Azeez, 2015) (Ewert & Szczesny, 2000) (Karthikasan, 2016) (Kirushanthi, 2015)). All these categories are interrelated, each having an impact on others.

As such the research framework developed has four main purposes as (Sekaran,1992) noted they are to guide the research, to provide how the various phenomena in the research are conceived, to provide how these various phenomena in the research relate to one another and, it also can use the development of the research instrument.

This study developed a framework that attempts to provide with an illustration of how the various phenomena in the research are conceived and how they relate to one another. It has presented the points which found from the review of literature, that the researcher believes is important to the study. Therefore, the researcher developed the theoretical framework as in Figure 2.

According to the Figure 2 Institutional relating factors, Customer relating Factors and Remedial mechanisms of dealing with Non-performing Loans are affected to the reducing or increasing of Non-performing Loans.

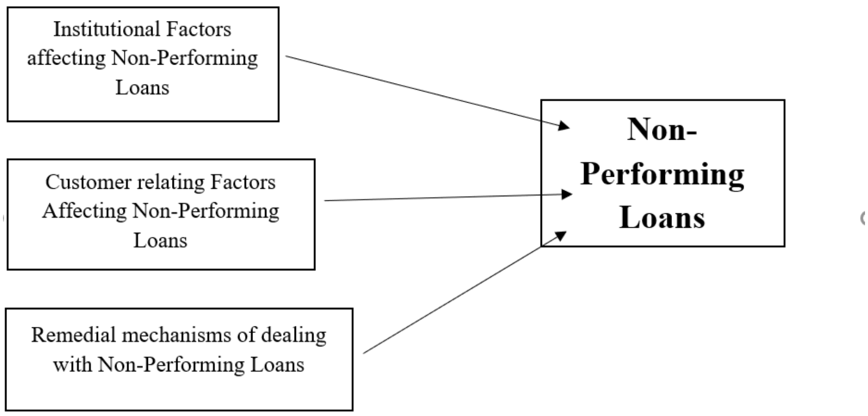

Figure 2. A Theoretical Framework of the Factors Affecting Non-Performing Loans of ABC Finance LTD

VI. Factors to the Framework

Institutional Factors Affecting Non-Performing Loans

Researcher focused on Non-Banking Financial Institute sector only due to this thesis is a case study of ABC Finance company. But Previous studies were focused on the Banking sector. (Adela and Iulia, 2010) presented the idea that how these banking elements average interest rate is connected with non-performing loans in Romanian banking system, results of their study also indicate that there are other indirect factors which affect the non-performing loans as well. Notes that previous researchers have in investigated the relationship between bad loans and loans growth, low-cost efficiency is a sign of poor management practices, thus implying that as an issue of poor loan underwriting, monitoring and control, NPLs are likely to increase. (Misra & Dhal, 2010) findings are similar to that of (Das & Ghosh, 2007). They have identified a positive effect with size of the bank; Previous researchers found that bank specific determinants such as credit growth is negatively related to NPLs and banks focused on credit activities experience low levels of NPLs. Credit terms are important in lending for approving, Authorization process. Hence, lenient credit terms lead to poor loans. Rajan and Dhal (2003). Researchers suggested Non-performing Loans occur due to lack of appropriate skills of the Lending officers and preparing proposals immediately without evaluating in depth seeking urgent approval. In this study researcher attempted to implement new themes under this category. Researchers could find four new factors affecting non-performing loans through in-depth interviews. They are, Re-Follow up, Attitude towards leaders, Communication Gap, Portfolio diversification.

Customer Relating Factors Affecting Non-Performing Loans

This factor was developed by previous researchers through the panel interview of Lending officers, but researcher could develop this factor by interviewing customers who was not performing their loans. It was new experience for future researchers. Some NPLs cause of diverting the loan funds to unprofitable investment, it has been observed of previous researches in the area that the customers are very keen to invest their borrowed money from banks to various unprofitable activities. When declining the business, businessmen are avoiding repaying loan installments (Turner, 1996). Due to some bad effects, projects are delayed. Therefore, contractors cannot complete their credit repayments (Maria, 2000). Some customers do not be honest to the Banks, when loan repayment. They try to do many frauds to avoiding loan installments (Patrick, 1994). In addition to that researcher has developed new themes under this category. Business Diversification; Higher Debtors; Awareness; Excessive borrowings.

Remedial Mechanisms of Dealing with Non-Performing Loans

Proper credit management is necessary to prevent banks from taking unnecessary and excessive risks that may lead to the accumulation of NPLS (Brownbrigde, 2007). Therefore, it seems to be proper control and management of non-performing loans has positive results to the banks, firms and even to the economy. Mismanagement of loans naturally lead to a surge in the levels of non-performing loans (Richard, 2013). The reduction of interest rates has been extended by banks to groups that are most likely to default or those considered as credit risky. Studies have shown that this has had a positive effect on the NPLs by lowering their levels (Beck, et al., 2013). The benefits of risk management are currently being enjoyed by several banks around the world that have implemented strategies of dealing with risks relating to loans (Onsarigo, et al. 2013). The number of banks that lose their money because they lack an effecting mechanism of monitoring their borrowers is unprecedented (Warue, 2013). In addition to that researcher could develop new mechanisms as, Enhance the saving portfolio against the loan, Diversify the product portfolio, Outsourcing non recoverable defaults, Strength the loan evaluation process, Training and development/ awareness programmes.

VII. Conclusion

While the all researchers were talking about Non-performing Loans affected from various situations, this research paper was achieved her research topic through root of the problem. By Interviewing Customers who went to the NPL list and find the reasons for the NPL Problem. It was an effective way to researcher to continue this research. As a Case study, researcher could find new factors affecting to NPL of ABC Finance limited and findings will be useful to relevant organization, both NBFI and Banking sector also. Following factors are the affecting for NPL of ABC Finance Limited,

According to the study, there are several factors identify for NPLs of the ABC Financed Limited. Most of the instances the Institution related factors influence the NPLs in this company those are: Size of Institution, Loan Growth Rate/ Credit Growth, Bad Management (Loan underwriting and Credit Monitoring / Re-Follow up), Credit Terms, Lack of appropriate skills of the lending Officers, Attitude toward leaders, Communication Gap are the main factors

However, the researcher pointed out that there is customer related factors such as Loan funds to unprofitable investments, declining in businesses, Delay in Project completion, Customers dishonestly Business Diversification, Higher Debtors, Awareness, Excessive borrowings were the main reason for the NPLs.

In order to minimize the NPLs, according to the research findings ABC Finance Limited may respond in following manner, Reduction of interest Rates, Enhancing Management and Risk Assessment, Close Monitoring of Borrowers, Enhance the saving portfolio against the loan, Diversify the product portfolio, Outsourcing non recoverable defaults, Strength the loan evaluation process, Training and development/ awareness programmes.

The scope of the study was limited to only one Finance Company which was not inclusive enough. Respondents may not feel encouraged to provide accurate, honest answers, Respondents may not feel comfortable providing answers that present themselves in an unfavorable manner, Respondents may not be fully aware of their reasons for any given answer because of lack of memory on the subject, or even boredom and Difficulties may be occurred as the customers will not be in favorable situation.

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