

FACTORS AFFECTING NON-PERFORMING CREDIT AND CARD CENTRE PROFIT

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The problem of nonperforming credit is seen as a burden on any bank's stability and growth. Present study examined the major factors that have motivated for not settling the credit by the credit card holders, and the effect of that behavior on the profit of the Sampath bank. Secondary data were collected from randomly selected 500 performing as well as nonperforming credit card holders to identify the factors affecting on nonperforming credit and the card center profit. Primary data were collected from a sub sample of 200 randomly selected nonperforming credit card holders through a telephone survey to identify reasons for not settling their credit. Descriptive analytical techniques, binary logistic regression and ordinary least square regression were used in data analysis. Empirical results showed that, among the nonperforming credit card holders, males were dominating (79.2%), 70.9% of the respondents were temporary residence majority was married (90.25%) and a small percentage was having life insurance policy (6.6%). Binary logistic regression disclosed that, bank's internal factors such as the paying behavior, age of the credit card, risk grading done by the bank and customer characteristics such as age, gender, having a life insurance policy, marital status and educational level have significant ($p < 0.05$) contribution to nonperforming credit (NPC). Educational level, possession of a life insurance policy, risk grading and age of customer were positively influenced while age of the credit card was negatively influenced on not paying the credit. Married credit card holders have high risk of being NPC compared to unmarried one whereas males were not paying their credits compared to females. Ordinary least square regression disclosed that, interest amount was positively influenced while the credit limit and overdue amount were negatively influenced on card center profit. Vehicle accidents and business bankrupts were the major reasons for the incidence of nonperforming credits. Hence, the bank should adopt appropriate screening procedure to avoid granting credit cards to individuals with potential risk factors of being NPC.

Keywords: Credit card, Card center profit, Nonperforming credits