

## FACTORS INFLUENCING NON-PERFORMING FINANCING (NPF) FINANCIAL STRATEGIES FROM THE PERSPECTIVE OF BANK COLLECTORS

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### ABSTRACT

*Non-Performing Financing (NPF) is a pressing issue; it can severely jeopardise the solidity and endurance of Islamic banks. It means facilities for being overdue or stopping payment that lead to decreased liquidity, lower profit-making and losing the public confidence. The question is particularly important in Islamic finance because Shariah-compliant contracts are based on principles of risk-sharing, asset-backing, and ethical financial behaviour. NPF are characterised by these characteristics that demand more advanced stages of credit risk treatment, making it a complex problem. Problems related to the continuous increase in NPF will undermine the operational soundness of Islamic banks and growth of the economy, indicating the immediate requirement of investigation in this regard. This study explores what causes NPF and the approaches and barriers to its recovery from the perspective of Debt Recovery Officers (DROs). The study adopted a qualitative explorative method, conducting semi-structured interviews with five (5) officers of Bank Rakyat Recovery Centre in Kulai, Johor based on purposive and snowball sampling methods, who are experienced officers in the field. Based on a thematic analysis, it was found that economic and external challenges, behavioural and lifestyle influences, policy and institutional impact, and awareness and financial literacy were the main drivers. Recovery efforts are hindered by regulatory inefficiencies and protracted legal processes. The study calls for a robust regulatory framework, improved borrower financial literacy, and a more flexible, systematic approach to credit risk management.*

**Keywords:** Non-Performing Financing (NPF), Islamic Banking, Credit Risk, Financing Recovery, Thematic Analysis, Qualitative Study.

## 1.0 INTRODUCTION

Traits that Uniquely Differentiate Banking include Conventional from Islamic. According to Prastowo and Usman (2021), this diversity also occurs in terminology and role matters like Non-Performing Loans (NPL) and Non-Performing Financing (NPF). That NPL and NPF are terms that are used interchangeably. In the context of conventional banking, NPL refer to loans that have not been repaid in accordance with the agreed payment schedule for a specified period, typically 90 days or more. In Islamic banking, NPF denotes a form of loan where the borrower has failed to meet the repayment obligations, in compliance with Shariah principles that prohibit interest (riba).

The level of NPF across Muslim-majority countries exhibits diverse and uneven patterns, influenced by economic factors, regulatory environments, and the practices of Islamic banking. In Indonesia, the NPF ratio in Islamic banks tends to be higher than in conventional banks due to the vulnerability of Shariah-compliant financial structures—such as profit-and-loss sharing (PLS) and asset-backed financing—to borrower defaults during financial stress (Sutrisno & Widarjono, 2020). Research has indicated that the high ratio of PLS contracts results in growing financing risk, especially applied to do in the large Islamic banks and operating outside of the Java region with lesser advanced economic activities (Sutrisno & Widarjono, 2022). Furthermore, Otoritas Jasa Keuangan (2023), noted that the NPF ratio of BUS as of December 2022 remained 2.49%, which indicate the necessity of improving risk management procedures.

In Pakistan, Non-Performing Loans (NPL) ratio was 8.4% in September 2024, indicating some challenges for the banking sector in a delicate economic environment, in the presence of regulatory loopholes. Islamic banks, dependent on borrower honesty and steady markets, are especially vulnerable to these problems (CEIC Data, 2024). In Qatar, NPF ratio rose from 3.4% in 2021 to 4.0% in 2022, arising as a result of diversification challenges, issues related to oil price volatility (PwC, 2023). By contrast, NPL ratio in the United Arab Emirates (UAE) was revealed at 4.8% in June 2024 varies due to regulatory changes and macroeconomic factors influencing credit risk in the Islamic financing portfolios (2014 CEIC Data).

Malaysia's Islamic banking industry, meanwhile, has exhibited relatively stable NPF levels, with its ratio marginally edging up to 1.6% as at March 2024. This indicates that Malaysia is a more prudent yet sophisticated financial system, supported by the pro-active policies of Bank Negara Malaysia, allowed the banking economy to face the crisis and its banks performance (Ismail, 2023).

Islamic banking is a global phenomenon and across-country comparison will highlight that NPF level is influenced by the structure, regulation, and economy conditions. Indonesia and Pakistan fare worse as they have weaker credit conditions and are burdened by the complexities of Shariah-based funding. In contrast, Malaysia is relatively stable due to the good regulatory governance and its robust banking industry. There are also differences in oil dependent countries (Qatar and the UAE) demonstrate the role that the dependence of oil and economic concentration plays when analysing the yields of Islamic financing portfolios.

Rising curve of NPF is a real danger to financial system stability, profitability of banks, and investors' confidence. This requires sound credit risk assessment, responsive

regulatory system and improved financial literacy among borrowers that will help in increasing the resilience of institutions.

Although of increased importance, there is a lack of empirical studies in the field of operational level NPF management. Whilst the first wave of the studies collectively explored macroeconomic indicators such as the gross domestic product (GDP), inflation, and interest/profit rates (Abduh & Omar, 2012; Hasan & Dridi, 2010), recent studies have started to unveil the real practices and problems encountered by the recovery officers in Islamic banks. For instance, Ulhaq et al. (2024) studied monitoring techniques and resolution practices and emphasized the role of classifying bad debts and implementing rescue plans to lower NPF ratios. Likewise, Salsabilla and Jaya (2024) also concluded that both NPF and operational efficiency have a significant influence on Iranian Islamic bank stability in the form of Persian Gulf Banks, confirming the importance of NPF handling. Moreover, Muhammad et al. (2020) which compared credit risk management processes of full-fledged and Islamic banking window to stress the need for a stringent approval process and credit monitoring mechanism to circumvent NPF.

In addition, scant attention has been paid to the institutional responses, recovery plans and on-the-ground struggles from the Islamic financial perspective. Some recent work by Ulhaq et al. (2024) provide insight into how Islamic banks manage non-performing receivable using controls and customized resolution schemes that are Sharia-compatible. Likewise, Muhammad et al. (2020) studied credit management practices in full-fledged Islamic banks and Islamic banking windows, and the importance of strong approvals and monitoring systems to reduce financing defaults. Despite these advancements, a number of organizational practitioners felt that more grounded, humanistic research is required work that captures the lived experience of recovery officers dealing with NPF cases in Islamic institutions.

Although Aziz and Ibrahim (2022) examined the macroeconomic determinants of NPF in Malaysia's banking sector using a quantitative approach, their study focused on conventional banks and did not account for the distinct nature of NPF in Islamic banking. Furthermore, while such studies provide valuable statistical insights, they often overlook the operational realities and experience of recovery officers who manage NPF. This highlights a dual gap in the literature—both in terms of the limited focus on NPF within Islamic finance and the lack of qualitative research that captures the on-the-ground challenges and strategies in financing recovery. This study is thus conducted to bridge that gap by examining the management of NPFs from the perspective of experienced recovery officers at Bank Rakyat, offering inductively derived insights that may inform the development of future policy initiatives aimed at enhancing credit risk management practices in Islamic banks.

NPF is still a pressing issue in Shariah-compliant banking, wherein borrowers did not meet the previously agreed repayment. It has now recently been brought to the fore that NPF works against all the three – liquidity, financial stability, and investor's confidence. For instance, Salsabilla and Jaya (2024) confirm that Islamic banks in the Persian Gulf region are less stable when NPF is higher. Similarly, Ananda et al. (2023) reported a negative influence of NPF on the financial performance of Islamic banks in Indonesia. Economic risks, including inflation, devaluation risk of a country's currency, and fuel asset quality and credit risks. In Malaysia, S&P (2024) projects that the NPL ratio might rise 20-25 basis points from 1.6% in April 2024 to end-2024, mainly due to restructured loans, especially to low-income households and SMEs.

Policymakers must take targeted steps such as tightening lending rules, improving borrower tracking, and setting up overall credit risk management systems to avoid such risks. Recent evidence by Ananda et al. (2023) indicates that further improvements in bank efficiency and with respect to capital strength are demanded to survive increased levels of

NPF. Malaysia's regulators appear to have sounded a more particularistic note, seeking to expand stress-testing and comparative monitoring of restructured loans, including loans to low-income borrowers and SMEs (Standard & Poor's, 2024). Indonesia also reformed in the lending quality monitoring and risk management technique for Shariah compliant though (Muhammad et al., 2020). These measures are an expression of the regional impetus to enhance the resilience of Islamic financial systems through a proactive and evidence-based approach.

Despite the extensive research on the efficiency of the banking sector in Malaysia, especially the Islamic banking sector, the majority of studies still focus on cost, profit, and technical efficiency measurements, these measurements have mostly been using quantitative techniques based on Data Envelopment Analysis (DEA) and Stochastic Frontier Analysis (SFA). Yusof and Bakar (2021) and Aziz et al. (2023) show how the texts further support this direction by concentrating on performance measurements but provide little in the way of operational facets or qualitative evaluations. Therefore, there is a need for an investigation of how endogenous institutional mechanisms, such as recovery mechanisms and risk management, influence the level of banking efficiency in Islamic finance.

In comparison, studies that solely investigate NPF in Malaysian Islamic banks are scarce and predominantly macroeconomic based or statistical in nature (Ananda et al., 2023; Yusoff & Hamid, 2022). These works seldom explore the operational-level pain, institutional salvage techniques, or the day-to-day by-line of officers responsible for managing default cases. Further, methodical comparisons of NPF in Islamic banks to NPL management in conventional banks are limited both in depth and in terms of empirical coverage— thus leaving a significant void in the literature in relation to efficient, Shariah-compliant, recovery models under dual-banking systems such as is the case in Malaysia.

Therefore, qualitative, practice-oriented studies are urgently needed to understand how Islamic banks manage NPF under Shariah-compliant contracts, profit-sharing arrangements, and ethical financing frameworks.

This study will contribute by providing in-depth insights into the root causes of NPF and the strategies employed for its recovery. The findings will offer practical implications for policymakers and financial regulators in strengthening regulatory frameworks, enhancing institutional resilience, and improving financial stability in Islamic banking. Additionally, Islamic financial institutions may use these findings to refine their credit risk strategies, strengthen borrower engagement, and improve recovery mechanisms. Recovery officers and debt collectors may also benefit from understanding best practices in NPF management, helping to reduce delinquency rates. Lastly, the results may be used to inform financial literacy advocates and policy makers in promoting responsible borrowing that may ultimately enhance financial inclusion and long-term economic development.

The rest of this paper is organized as follows. The first chapter is the Introduction, which provides background information on the topic and indicates the purpose of the study. Subsequently, the Literature Review and Methodology sections will introduce the theoretical basis, the research method, and the source of data. Findings and Discussion The main study findings are presented and discussed in the results and discussion section. Last, concluding remarks and policy implications.

## **2.0 LITERATURE REVIEW**

Non-Performing Financing (NPF) is a financing contract in which the debtor has difficulties in paying off the debt, such as incorrect credit worthiness and change in the economic condition as well as external shock, which leads to declining capability of customers on their financial ability (Halim & Buana, 2021). NPF is an important parameter in financial sector, which

measures the risk of loan defaults. In Islamic banking, the quality of financing is acceptable as long as its NPF falls below 5% of total disbursed financing (Kumar et al., 2018). Passing this level can harm the stability of the banking system and push the financial risk exposure of Islamic financial institutions to higher level.

Such a link between banking stability and NPF levels has long been documented. As an example, Zamzami (2022) argues that NPF risk management is an important factor to avoid such financial instability. Relying on the views of Permataningayu and Mahdaria (2019), risk management of Islamic financial institution is underdeveloped, and the recovery mechanism should be robust in practice. The occurrence of NPF is influenced by a number of conditions, borrower-related problems, institutional banking rules, regulatory restraints, and d) socio-cultural considerations. For the borrower, low financial literacy, non-realistic perception of the repayment, and economic stress including the household financial instability or loss of the job, contribute to the higher risk of default (Rahman & Tanaka, 2022). Singh and Choudhary (2020) also show that those experiencing economic problems are much more likely to default.

Apart from borrowers' issues, institutional deficiencies in risk management also leads to growing non-performing levels. Ahmed and Khalid (2023) on timberland sector also find that low credit risk evaluation and inefficient borrower discrimination increase NPF explosions. Additionally, Islamic forms of profit-sharing schemes often tend to be more rigid in terms of flexibility of repayment, and this could lead to further difficulties in repayment for borrowers (Ghosh, 2023).

Legally, restrictions on the recovery of NPF limit effective recovery as well. Iqbal and Molyneux (2022) also claim that persistent legal processes and ineffective enforcement tools result in delays in asset recovery and collection of effective financing. In addition, social and cultural influences may deter any harsh recovery measures. Singh and Choudhary (2020) observed it that social norms restrict aggressive methods of collection, particularly in societies dominated by community needs. Rahman and Tanaka (2022) contribute that borrower might not interact with bank officials because of a sense of embarrassment or apprehension of social disrepute, making recovery more challenging.

The theoretical framework for this study is underpinned by different models on determinants and battling of NPF. First, Credit Risk Management Theory lays emphasis on the need for stringent assessments of the borrower, internal controls, and the leveraging of analytics to assess repayment capacity (Basel II & III; Ghosh, 2023). Second, information suggests that borrowers have better information about their financial situation than do lenders, resulting in moral hazard and adverse selection, well known as the most often used reasons for the failure of finance (see Akerlof (1970) Information Asymmetry Theory).

On the one hand, Financial Intermediation Theory, which was introduced by Schumpeter (1911) also has application to Islamic banking. It is predicated on the presumption that 'financial intermediaries' (banks) gather 'savers' money' then direct it at more productive 'borrowers' where the assumption is that this intermediation process funds 'investment' for growth. Islamic banks are not like traditional banks, but they include risk sharing in their operational activities (Zin et al., 2020) and they intermediaries with wisdom as well as morality. This theoretical framework is particularly relevant to investigate how Islamic banks mitigate various financing risks in line with Shariah compliance.

Finally, Institutional Theory by Scott (2004) helps to understand the influence of regulatory environments and governance systems on the sustainable NPF management. It suggests that banks then respond in different ways to NPF depending on their institutional setting including formal rules and informal cultures.

NPF management is effective, particularly in its consideration of credit risk management, and information asymmetry, financial intermediation, and institutional factors, according to the previous literature. However, previous studies have focused predominantly on quantitative examination, in particular on financial ratios and credit risk information, ignoring the qualitative viewpoint of bank collectors who are participating in the NPF recovery process.

This research aims to address this gap by analysing the experiences of officers at banks in NPF recovery strategies along with the issues and proper practices and in Islamic banking. The study will be implemented qualitative and aims to provide enriched insights about what motivates the NPF recovery drive and more viable policy suggestions to the financial institutions.

### **3.0 RESEARCH METHODS**

#### **3.1 Research Paradigm**

This research is qualitative in nature within the interpretivist paradigm which is focused on interpreting the meanings people attribute to social activity. It is in this milieu that the NonPerforming Financing (NPF) collectors encounter, for the first time, the Islamic system of recovery and so their subjective experiences are able to furnish substantial sensitivity of the way the collectors of a bank grapple with it. The interpretivist perspective is suitable as it facilitates a comprehensive examination of the issues as situated and understood by the individuals who experience the phenomena. This approach provides for an inductive process in which themes and patterns emerge directly from the data, rather than being pre-determined by a pre-existing theory.

#### **3.2 Research Design**

A qualitative methodology was selected to explore the under-researched area of NPF recovery in Islamic financial institutions. The study focuses on how bank collectors at Bank Rakyat's Recovery Centre in Kulai, Johor, interpret and manage NPF cases. This design aligns with the study's exploratory and descriptive nature, aiming to highlight the operational and behavioural dimensions of financing recovery rather than produce generalizable findings. Although only one bank was selected for this study, the focus on a single institution does not limit the study's validity, as the purpose was to deeply explore a specific real-world context. A case study approach was not employed because the research emphasis was on thematic insights drawn from individual experiences rather than organizational processes or system-level case documentation.

#### **3.3 Research Site: Bank Rakyat Recovery Centre, Kulai**

The Bank Rakyat Recovery Centre in Kulai, Johor, was selected as the research site due to its centralized role in managing NPF for various financing types. The centre manages personal financing, micro-credit, and hire purchase accounts, making it a comprehensive hub for understanding recovery operations in an Islamic banking context. It is in a key economic area in southern Malaysia which has contextual importance in respect of its diversity of its borrowers based also. At the time of the study, the centre had 21 staff spread over three main sections. It offered a rich mix of departments and financing vehicles from which to collect data.

#### **3.4 Unit of Analysis**

The unit of analysis in this study is the individual bank officer, specifically those working in the Recovery Centre who are responsible for managing personal financing, hire purchase,

and micro-credit portfolios. These officers serve as the primary interactors with borrowers and play a critical role in shaping recovery outcomes. Their operational knowledge and engagement in credit management make them valuable informants for this qualitative inquiry.

### 3.5 Population and Sampling

With a total of 20 employees at the Bank Rakyat Recovery Centre, the study applied purposive and snowball sampling to select five key participants. The purposive sampling ensured participants were chosen based on their direct involvement in NPF recovery, while snowball sampling allowed initial participants to recommend others with relevant experience. The sampling criteria were as follows:

- Currently working at the Bank Rakyat Recovery Centre in Kulai, Johor
- Actively involved in NPF recovery activities
- Possess a minimum of two years of work experience in NPF-related roles
- Willing to participate in the interview voluntarily

A total of five (5) participants were selected for this study, consisting of executive-level and senior officers responsible for personal financing, hire purchase, and micro-credit recovery. Their details are presented as Table 3.1.

**Table 3.1: Details of Participant's Profiles**

<b>Participant ID</b>	<b>Gender</b>	<b>Designation</b>	<b>Working Experience</b>
<b>Participant 1</b>	Female	Executive, Recovery Centre Kulai (Micro Credit Dept)	2 years
<b>Participant 2</b>	Male	Executive, Recovery Centre Kulai (Hire Purchase Dept)	7 years
<b>Participant 3</b>	Female	Executive, Recovery Centre Kulai (Personal Financing Dept)	8 years
<b>Participant 4</b>	Male	Executive, Recovery Centre Kulai (Personal Financing Dept)	8 years
<b>Participant 5</b>	Female	Senior Staff, Recovery Centre Kulai (Personal Financing Dept)	16 years

While two (2) years might be considered minimal, such officers are typically entrusted with portfolios involving micro-credit or hire purchase where early-career exposure is intense and hands-on. Thus, participants with two years of experience were deemed significant informants due to their practical roles and direct borrower interaction. This ensured that informants possessed adequate exposure and contextual understanding of financing issues. The participants included three executives and one senior staff member with experience ranging from 2 to 10 years. Although the number of participants may appear limited, data saturation was achieved by the fifth interview, with no new themes emerging (Creswell & Poth, 2018). Therefore, the sample size is justified in line with qualitative research principles that prioritize depth over breadth.

### **3.6 Data Collection**

In the present study, the data collection procedure was implemented in various steps to ensure high-quality and contemporarily relevant data that serves the aim of the study. The first phase was to prepare and validate research instruments, in which interview questions were formulated according to previous studies and validated by experts. This was so the questions would reflect the aims of the study and to encourage participants to avoid giving brief answers.

The second stage was centred on recruiting participants using purposive sampling to ensure that all individuals with expertise in NPF recovery were included. In addition, the use of snowball sampling was allowed to enhance the pool of participants through acquiring references from the primary informants. This approach was useful to identify key informants directly participating in the recovery and highly knowledgeable about problems related to the NPF management.

After the respondents were selected, interviews were conducted using semi-structured face-to-face interviews. Each session took approximately 30-45 min where we listened to the professionals' experiences on the NPF management. The use of semi-structured interviews provided the researcher with some flexibility to explore new topics whilst ensuring some uniformity across all interviews. The direct contact method between the researcher and the interviewed person led to richer stories, which may have been missed with a questionnaire structure.

After the interviews, post-interview procedure was carried out. The interviews were recorded in the post-interview process and transcribed verbatim to maintain accuracy. To ensure credibility, member-checking was applied, and participants were afforded the chance to verify transcripts prior to the final analysis. This also ensured absolute truthfulness of response, by eliminating ambiguities. The application of these systematic techniques in the methodologies for data collection process were in sync in the obtaining of valid and credible findings that also brought more felt understanding of the NPF management problems.

Several methods and materials were used in this study to expedite the data collection and analysis. Interviews were all recorded utilizing an audio recorder in order to capture all of the discussions and to not miss any of the relevant details. This gave the researcher the opportunity to listen back to the recordings and to do more accurate transcription and analysis. All recorded interviews were then transcribed using transcription software, which enabled the convert recorded voice into text format for additional systematic recording, irrespective any loss of data that the recording could get lost for any reason at all.

A field journal which was a research diary including observations, reflections, and biases identified in data collection and analysis was kept. This journal was used to facilitate tracking of patterns, changes, and transparency in order to provide the research an audit trail. The integration of these means and methods helped to facilitate the trustworthiness and reliability of the qualitative research approach employed in this study.

A summary of the interview questions is presented in Table 3.2 below.

**Table 3.2: Summary of Interview Questions**

No	Interview Question
1	How long have you been working as a loan recovery officer?
2	How would you describe your role in loan recovery, and what is your understanding of the factors contributing to Non-Performing Financing (NPF)?
3	Based on your experience, what patterns in borrower behaviour have you observed that may lead to repayment difficulties?
4	What are some common challenges borrowers face that affect their ability to
5	In your opinion, what can financial institutions do to better support borrowers and reduce NPF cases?
6	Besides financial crises impacting businesses, what other factors do you believe contribute to NPF?
7	Have you noticed any behavioural patterns among borrowers associated with NPF cases (e.g., gender trends, payment tendencies)?
8	From your perspective as a banking officer, what improvements are needed to address repayment issues more effectively?
9	What role do you think government assistance could play in addressing financial difficulties faced by borrowers (e.g., policy changes, subsidies)?

## 4.0 DATA ANALYSIS

This section presents the findings from the qualitative analysis of factors influencing Non-Performing Financing (NPF) from the perspective of Bank Collectors. The study employed a thematic analysis approach, incorporating independent coding, open coding, and axial coding to identify and organize key themes related to NPF. Through this structured process, the researcher was able to extract recurring pattern and group the coding into meaningful categories that reflect real world borrower challenges.

Selective coding was not applied in this study as the primary objective was to explore and describe the factors influencing NPF from the practical experiences of bank collectors. The study aimed to gain insight into real world challenges and perspectives rather than to develop a new theoretical framework. Although selective coding is typically associated with the development of abstract models in theory-building research, this study adopted an inductive approach through thematic analysis to identify meaningful patterns and themes within the data, with the aim of understanding the management of NPF.

### 4.1 Independent Coding

Independent coding in the first stage of the analysis, two researchers independently coded the transcripts of the interviews to facilitate a comprehensive and unbiased interpretation of the data from multiple perspectives. This step is according to the Miles et al. (2014), who push researchers in qualitative research to code independently to reduce bias and to obtain multiple perspectives. By independent coding, each researcher was able to come up with different themes associated with NPF, without being biased by other people's interpretation of the information.

**Table 4.1: Independent Coding**

Author 1	Author 2	Author 3
Business Failure	Economic Challenges	Age and Employment Factors
Unstable Income	Fixed Income Constraints	Job Resignation and Early Retirement
Economic Downturn	Business Vulnerability	Salary Deduction Dependency
Government Policies	Financial Education Deficiency	Workplace Discipline Issues
High Debt Commitments	Negative Bank Perception	Job Transitions Impact
Poor Financial Planning	Early Retirement Challenges	Economic Instability
Seasonal Spending	Male Financial Behaviour	Increased Financial Commitments
Lack of Financial Literacy	Payment Postponement	Unhealthy Spending Habits
Irregular Payment Patterns		Easy Access to Credit
Increased Family Commitments		Deferred Payment Limits
Overborrowing		Living Beyond Mean
Lifestyle Influence		Buy-Now-Pay-Later Behaviour
OPR Adjustments Impact		Small Commitments, Big Impact
Unbalanced Policy Focus		Unregulated Lending Concerns
		Social Media Display

As indicated in Table 6.1, Author 1 concentrated attention on Economy, Government Policies and Borrower Financial Commitments and emerged with a set of most critical issues such as Business Failure, Economic Downturn and High Debt Commitment. Author 2 Looked into financial literacy, banking regulation and external challenge, some of the issues identified

are Lack of Financial education, Negative Perception of the Banks, and Uncollateralized lending. In the same vein, Author 3 investigated employment difficulties and consumer behaviour, including Job Transitions, Lifestyle Influence, and Overborrowing.

A total of 38 key codes were generated from this procedure. These codes are indicative of the primary causes of a borrower financial strain. These individual codes will then be combined into larger categories, in the next step of the analysis, and connections between codes can be identified (Corbin & Strauss, 2015). This procedure assures that these observations describe actual problems in which the borrowers get into and that the researchers are able to grasp the major causes of NPF.

#### 4.2. Open Coding

The second level of analysis was open coding which aimed to explore themes and patterns within the interview data. Open coding is a primary aspect of qualitative data analysis Strauss and Corbin (1998) and was employed to organize common ideas from the respondents' replies.

**Table 4.2: Open Coding**

Open Code	Associated Independent Codes
Economic Issues	<ul style="list-style-type: none"> <li>● Economic Downturn</li> <li>● Business Failure</li> <li>● Unstable Income</li> <li>● Business Vulnerability</li> <li>● Economic Challenges</li> <li>● Fixed Income Constraints</li> </ul>
Lifestyle Challenges	<ul style="list-style-type: none"> <li>● Lifestyle Influence</li> <li>● Living Beyond Means</li> <li>● Unhealthy Spending Habits</li> <li>● Buy-Now-Pay-Later Behaviour</li> <li>● Small Commitments, Big Impact</li> <li>● Increased Family Commitments</li> <li>● Early Retirement Challenges</li> </ul>
Financial Behaviour	<ul style="list-style-type: none"> <li>● Overborrowing</li> <li>● High Debt Commitments</li> <li>● Poor Financial Planning</li> <li>● Seasonal Spending</li> <li>● Salary Deduction Dependency</li> <li>● Increased Financial Commitments</li> <li>● Irregular Payment Patterns</li> <li>● Payment Postponement</li> <li>● Male Financial Behaviour</li> </ul>
Employment Challenges	<ul style="list-style-type: none"> <li>● Age and Employment Factor</li> <li>● Job Resignation and Early Retirement</li> <li>● Job Transitions Impact</li> <li>● Workplace Discipline Issues</li> </ul>
Government and Policy Impact	<ul style="list-style-type: none"> <li>● Government Policies</li> <li>● OPR Adjustments Impact</li> <li>● Unbalanced Policy Focus</li> <li>● Deferred Payment Limits</li> </ul>
Credit Accessibility Issues	<ul style="list-style-type: none"> <li>● Easy Access to Credit</li> <li>● Unregulated Lending Concerns</li> </ul>
Awareness and Perception	<ul style="list-style-type: none"> <li>● Social Media Display</li> <li>● Negative Bank Perception</li> <li>● Lack of Financial Literacy</li> <li>● Financial Education Deficiency</li> </ul>

Seven major determinants were identified as determinants of NPF, from the point of view of bank collectors, for this study. Table 6.2 summarizes these categories and their corresponding independent codes.

Open coding is a crucial factor in data analysis as it assists in categorizing and establishing dominant factors causing NPF. This process enables the researchers to identify participant responses into well-defined themes, thus providing clarity in the borrowers' patterns of behaviour and financial distress (Corbin & Strauss, 2015). Through sorting similar concepts, open coding supports the idea of findings being grounded in experiences, thus enhancing the validity of the findings. It also prepares the ground for the second step of axial coding during which themes are further linked to culture to capture how they relate to each other and have an influence on the NPF (Miles et al., 2014).

### 4.3 Axial Coding

The next level of analysis, that is, axial coding, was undertaken in order to sort and regroup the seven (7) open codes into new, overarching and more substantive themes. Such a procedure facilitated a systematic comprehension of the most important drivers of NPF, as perceived by bank collectors. Finding commonality among the codes, axial coding organized the data into the four major themes presented in Table 4.3.

**Table 4.3: Axial Coding**

Open Code	Axial Code
Economic Issues	Economic and External Challenges
Employment Challenges	
Lifestyle Challenges	Behavioural and Lifestyle Influences
Financial Behaviour	
Government and Policy Impact	Policy and Institutional Impacts
Credit Accessibility Issues	
Awareness and Perception	Awareness and Financial Literacy

In this context, four themes were generated through the coding process in this research that, according to bank collectors, are the main causes for the occurrence of NPF. These cut across economic and external challenges, behavioural and lifestyle-related influences, policy and institutional effects, and awareness and financial education. The categories emerged with an organized system of independent coding, followed by open coding, and axial coding. Each theme emphasizes particular types of borrower behaviour, financial circumstances and structural factors affecting loan repayment. This is the thematic base to generalize the interrelated causes of NPF and to facilitate the interpretation of the results within the setting of Islamic banking.

## 5.0 FINDING

Results of this study highlight that Non-Performing Financing (NPF) is caused by economic and external shocks, behavioural and lifestyle, policy and institutional, and awareness and financial literacy. These themes are directly aligned with the study objective, which is to explore the key contributing factors to NPF from the perspective of bank collectors. The results offer context specific insight into the Malaysian Islamic banking environment, where borrower often face difficulties due to unstable income, financial overcommitment, and insufficient regulatory control over informal lending platforms. Furthermore, the finding underscore the practical implication for Islamic banks highlighting the importance of strengthening financial literacy programs, enforcing stricter credit evaluation, and enhancing policy oversight. By grounding these insights in the lived experiences of loan recovery

officers, the study provides valuable knowledge to support improved NPF risk management and more effective borrower engagement strategies.

## 5.1 Factors Influencing Non-Performing Financing (NPF)

Based on the interview data, the findings revealed four major themes (axial code) describing the key factors contributing to NPF among borrowers. These themes highlight why borrowers struggle to repay their loans and provide insights into the challenges banks face in handling NPF cases. Table 4 shows how researcher categorized these factors into meaningful themes to better understand the problem. These themes will further discuss as below.

### 5.1.1 Economic and External Challenges

One of the main reasons borrowers fail to repay loans is economic instability. Many faces sudden job losses, reduced salaries, and business failures, making it hard to keep up with financial commitments. External factors such as currency fluctuations, inflation, and government policies such as Overnight Policy Rate (OPR) adjustments also impact loan repayment.

This finding aligns with Foglia(2022), who confirmed that economic downturns directly affect borrowers' ability to repay loans. Additionally, Ismail et al. (2024) found that government monetary policies, such as OPR adjustments, influence borrowers' repayment capacity, making it harder for them to meet their financial obligations.

*"...Regarding the economy, their business challenges are often tied to current economic conditions. Issues like currency fluctuations and COVID-19 have significantly affected them." [Participant 1]*

*"...most customers are business owners. Sometimes, they stop running their businesses after about a year. When this happens, and they start falling behind on payments.... two or three months overdue.....they struggle to pay because they no longer have any income." [Participant 1]*

### 5.1.2 Behavioural and Lifestyle Influences

Many borrowers overestimate their financial capacity and take on unnecessary financial commitments, leading to repayment difficulties. Social status, peer influence, and easy access to credit such as Buy-Now-Pay-Later (BNPL) schemes encourage overspending. Research by Montoya & Scott (2013) and Banuri & Nguyen (2023) confirms that excessive spending habits and financial overcommitment are major causes of debt problems. Jaikumar and Sharma (2021) further explained that individuals, particularly those with lower incomes, take out loans to compete socially, increasing financial instability.

*"They aim for a luxurious lifestyle but cannot actually afford it. They do not own a house but buy cars priced the same as houses." [Participant 4]*

*"People spend without thinking...holidays, new gadgets, and expensive cars. When the loan payments come, they struggle." [Participant 2]*

*"Buy-Now-Pay-Later schemes make it easy to overspend. You do not feel the burden immediately, but later, the debt piles up." [Participant 5]*

*"I see many customers who take personal loans for weddings or vacations instead of financial emergencies. Then they struggle to pay back." [Participant 3]*

*"Social media influences people to spend more than they can afford. They watch influencers living large and they want to have the same lifestyle, even if it is beyond their means." [Participant 1]*

### 5.1.3 Policy and Institutional Effects

Lack of appropriate regulation on non-banking services, in particular unregulated lending platforms such as Buy-Now-Pay-Later (BNPL) schemes (for example via Spaylater and Atome): A key driver for increased NPF cases, with unregulated financing schemes also contributing to the rise in over-leverage consumers. End-to-end borrower onboarding solutions such as these enable borrowers to aggregate different credit facilities without effective credit due diligence leading to over leveraging and financial distress. Banking institutions require stringent loan approval and credit screening processes; however, such protocols do not exist in the BNPL platforms that need not perform any formal income verification and credit history checks, thus increasing the exposure to financially weak people to over-indebtedness.

In the same vein, this result is also consistent with Gallo (2021) and Rajeev & Subramoniam (2017) who argued that due to the lack of explicit regulations of alternative lending platforms, financial over commitment tends to soar. Additionally, DeHaan et al. (2024) observed that BNPL platforms promote consumption on "impulse" and therefore have implications for financial stress among borrowers with existing levels of high levels of indebtedness.

*"Platforms like Spaylater and Atome facilitate easy access to cash loans without rigorous screening, exacerbating financial difficulty for the borrower." [Participant 5]*

*"They are quite easy to use, and a lot of people can use these buy now, pay later services thinking that they are manageable but then find that they have taken on too much debt," he said. "And suddenly they cannot afford their loan repayments." [Participant 3]*

*"Unlike banks, these platforms do not check financial stability. Customers borrow too much, and later they struggle to pay even their bank loans." [Participant 2]*

### 5.1.4 Awareness and Financial Literacy

A major reason borrowers' default on their loans is a lack of financial education. Many borrowers not fully understand loan terms, interest rates, or the long-term impact of debt. Additionally, negative perceptions of banks make borrowers hesitant to seek assistance or discuss repayment difficulties.

Studies by Zhou et al. (2021) confirm that social media plays a crucial role in shaping public trust in banks, influencing how borrowers perceive financial institutions. Tulcanaza-Prieto et al. (2022) further highlight those borrowers who distrust banks are less likely to seek financial help, making them more vulnerable to financial distress and loan defaults. Moreover, Jaikumar & Sharma (2021) emphasize that without proper financial education, borrowers are more likely to engage in impulsive financial decisions, leading to overcommitment and non-performing loans.

*"There is a perception that banks only want to collect money. This makes customers avoid discussing their problems with the bank entirely." [Participant 3]*

*"Customers need to be taught financial planning before taking loans. Many just assume their salary will always be enough to cover everything." [Participant 5]*

## 6.0 LIMITATION OF STUDY

This study focused on exploring the factors contributing to NPF based on the experiences of five bank collectors from one Islamic financial institution. As a result, the findings reflect the specific views and working environment of these participants. This may limit how well the results apply to other banks or regions.

Since the study used a qualitative method through interview, the goal was to understand real life experience in depth, not to provide statistical results. The insights gained are rich and detail but not meant to represent the whole banking sector or to show trends using numerical data.

Also, this study was carried out within the context of Islamic banking. It did not compare Islamic and conventional banks as that was outside the scope of this research. Therefore, the findings should be understood as being specific to shariah-compliant banking practices.

## 7.0 CONCLUSION, IMPLICATIONS AND SUGGESTIONS

This study explored the main factors that influence Non-performing Financing (NPF) from the viewpoint of bank collectors in Islamic banking. The analysis found four (4) key theme that include economic and external challenges, behavioural and lifestyle influences, policy and institutional impacts, and awareness and financial literacy. These themes show how different aspects like borrower's financial habits, unstable income, and weak regulation contribute to difficulties in repaying financing.

The findings are important for both banks and policymakers. Islamic financial institutions can use these insights to improve their credit risk assessment processes, strengthen early warning systems, and offer better support to borrowers. Policymakers may also disassociate themselves from the informal credit suppliers and reform the mechanisms for debt recovery. In the meantime, improving financial literacy could help raise public awareness so people make better financial decisions and do not over-borrow.

Recommendations are provided on the basis of the results. The first is banks should proactively implement financial education programs targeted especially at high-risk borrower segments. These programs should go beyond general financial literacy to include personalized financial counselling, debt management planning, and awareness of shariah-compliant financial obligations. Such initiatives can empower borrowers with the knowledge and skills needed to make informed financial decisions and reduce the likelihood of default. Second, the financing approval process must be governed by strict underwriting criteria that assess the borrower's repayment capacity realistically. Transparency in loan terms including profit rates, penalties, and repayment schedules is crucial to ensure borrowers fully understand their obligations. This approach not only prevents over-commitment but also enhances accountability on both sides. Thirdly, regulatory authorities should intensify oversight on BNPL schemes, which have increasingly become a gateway to easy and often unchecked access to credit. While they offer short-term convenience, BNPL platforms contribute to over-indebtedness, especially among vulnerable groups. A regulatory clampdown is needed to ensure these platforms operate with clear disclosure practices, credit assessments, and shariah-compliant principles where applicable. Next, banks must institutionalize flexible and humane repayment mechanisms for clients undergoing temporary financial hardship. This may include payment holidays, restructuring of instalments, or

temporary moratoriums aligned with shariah principles. Such approaches not only improve recovery rates but also preserve customer relationships and uphold the social responsibility of Islamic financial institutions.

For future research, studies could involve a wider group of participants from different banks, including both Islamic and conventional institutions. A mixed-method or long-term study would also give deeper insight into how borrowers' behaviour and financial challenges change over time. Exploring how digital financing and government policies affect repayment patterns would also be valuable.

In conclusion, this study provides a clearer picture of how NPF develops and how it can be managed more effectively. By focusing on real experiences of bank collectors, the study offers useful ideas that can help improve financing practices, reduce risk, and support a more stable Islamic banking system.

## 8.0 AUTHORS CONTRIBUTIONS

The introduction, problem statement, research objectives and research questions were developed by SNJS. YS designed the methodology, NSAH conducted the data analysis, including coding, insight and discussion and contributed to interpretation of the data and ensured a coherent presentation of the findings of the study. All authors participated in the literature review, the development of the interview questionnaire, and the cultivation of engagement strategies for interview sessions with bank collectors. SS and NFS reviewed the entire study and provided critical feedback for refinement and improvement.

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None declared.

## 10.0 CONFLICT OF INTEREST STATEMENT

None declared.

## 11.0 DECLARATIONS OF STATEMENT

The lead author confirms the integrity and transparency of this manuscript, ensuring that it presents an honest, accurate, and comprehensive account of the study. No essential aspects of the research have been omitted, and any deviations from the original study plan have been appropriately explained.

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