

## Retail Loan Trends over Last Decade & Study of Factors Affecting Them

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### ABSTRACT

*Retail Banking remains one of the niche segments of Banking Industry. It basically caters to providing banking services to Micro Small and medium Term Enterprises (MSME's) and Individuals. Interest Based and Non Interest based financial services are provided over to customers as means to generate net income to the bank. Accepting Deposits and granting loans to and from customer provide interest incomes, which are often their main stay of Net income generated. Retail loans and their customer preferences have been subject to changes with changes in social environment, change in demographics, change in family patterns and increase or decrease in people's purchasing power and several other factors over the last two decades since liberalization of Indian economy. The Objective of this chapter is to study the trend analysis of retail loan values outstanding by the Public Sector Bank's over last decade 2007-2017 and highlight what are the factors that are causing the aforesaid trends. The study shall conclude by highlighting the future outlook and necessary recommendations to bank for necessary actions to provide synergy in retail loan facilities, factors affecting them and customer needs.*

**Key Words:** - Retail Loans, NPA, Demonetization, Interest Rate Scenario

### I INTRODUCTION

Banking industry, in today's day and age encompasses various business segments in itself, like providing banking services to corporate, wealth management, capital market operations and investment banking.

A noteworthy and interesting segment which has huge revenue potential is the segment of Retail banking. Retail banking segment is characterized by a huge client base and a huge volume of transactions. Banks, its employees, retailers, customers and consumers are highly connected in this banking segment.

Keith Pond Defines Retail banking as "The offering of banking and other financial services to individuals and micro, small or medium-sized enterprises (MSMEs)" Retail banking refers providing banking services to small businesses and individuals, with high volume of low value transactions. Retail Loans are referred to as the loans which are taken from retail lenders and these lenders are those who work with individual as compared to institutionalized lenders who give loans to big organizations and corporations. These retail lenders include organizations such as banks, credit card companies, credit companies and loan financiers.

Retail banks offer various Services. These like account opening, credit card, debit card, ATM, internet banking, phone banking, insurance, investment, stock broking and so on.

Current & saving accounts (CASA) and home loans advances (e.g., personal, housing, auto and educational), are the vital items offered by banks. Related subordinate administrations include credit cards or vault administrations. These are often categorized into Interest based services and Non Interest Based Services. Sheer Quantity of low volume transactions, complimented by multiple products, multiple channels and multiple customer groups characterize Retail banking. This multiplicity

and Diversity is both an advantage as well as challenge, faced by retail bankers.

This is in sharp contrast to whole sale banking segment where multinational companies, governments and government enterprises and the financial institution are the customers and deal in low quantity high value transactions.

The Importance of Retail lending can be understood by the fact that retail loans now constitute a whopping 30 % of all loans given by banks. The percentage of retail loans for NBFC's stood at 35%.

### II RESEARCH OBJECTIVE

The intention of this Study is to critically analyze the trend in retail loan values over the last decade, i.e. from 2007 to 2017 and the varied factors which are responsible for the trend values. Thus we can find out the trend of personal finance which indicates the status of economy over this period. Retail Lending done on the basis of Credit worthiness principles of Loan taker, Sound Collateral Guarantee, Profitability on Investment in terms of interest rate difference between lending loans and taking deposits, Risk Diversification and mitigation in terms of varied outreach of loan given in terms sectors allotted. These internal factors are affected and influenced by host of external macroeconomic and other factors.

### III REVIEW OF LITERATURE

The data base of Indian economy: the data archives website of reserve bank of India gave the values for the Retail loans for the ten years i.e. from 2007-08 Financial Year to 2017- 2018 financial year. The Work of Lewis R. Barbara., Pond Keith etc provided conceptual clarity about Retail loans [1] and RBI report provided by Shyamala Gopinath provided inputs on the Challenges to retail Banking in India. [3]

The varied macroeconomic and other factors that affect the internal lending policies of banks have been part and parcel of the changes in last thirty years across the world in banking domain. Latest technologies have arrived, transactions are automated and digitalized, and of course customer is the king.

In-fact the demarcation between various segments of banking has become very blurred. Sociological and demographic changing trends have necessitated the need to service customers with technology intensive applications and interface, improvised customer services and banking convenience. Higher technology reach and increased digital literacy levels have increased expectations of Indian customers. Accessibility and pace of innovation in digitalization is increasing and cyber security has become a Prime issue for all digital transactions.

**Lewis R B.** states that cutting operating cost by adopting secure and scalable technology with effective implementation helps to reduce the response

time to customers. [1] This shall also lead to increase in client base and economies of scale.

The challenge in this sector seems to be an inclusive approach with innovative products and minimum dependence on branches, i.e. to have a multi-channel approach to reach out to customers and keep them informed about various services being offered by bank.

#### IV RETAIL LOAN TRENDS

According to latest RBI Data, The Indian banking system consists of 21 public sector banks, 21 private sector banks. Apart from this, the banking ecosystem, 45 foreign banks, 56 regional rural banks, 1,562 urban cooperative banks and 94,384 rural cooperative banks, also operate in addition to cooperative credit institutions. In FY07-18, total retail lending was 5217.99 Cr Rs which increased to 19084.69 Cr Rs in FY 2017-18, an increase of 265 % Thus, it comes as no shock that India’s retail credit market is the fourth largest in the emerging countries.

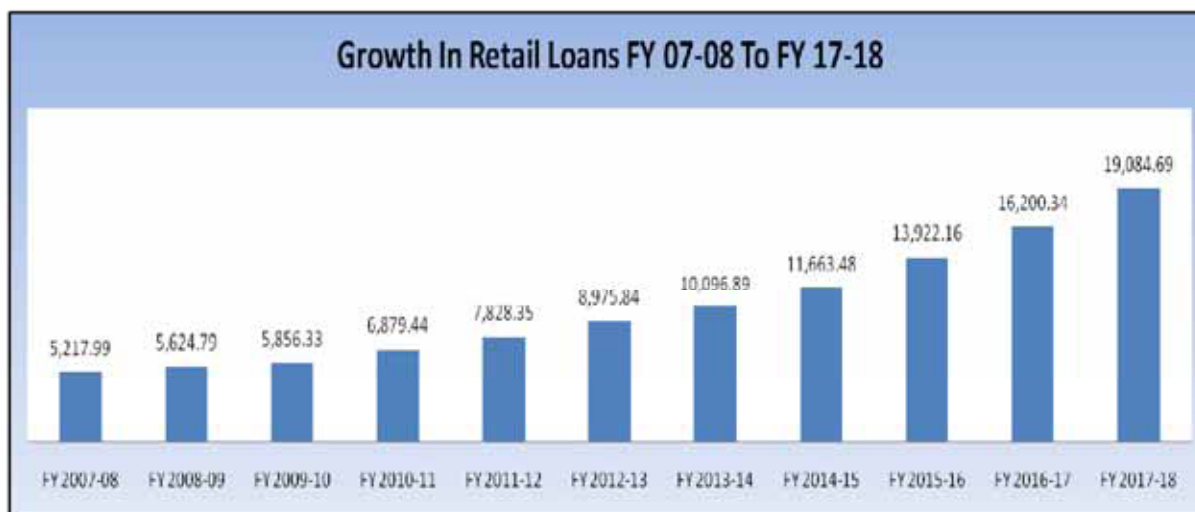


Fig No. 1 Increase in Total Retail Loans & Growth over Last ten Years (Source RBI: DBIE)

The following graph (Fig.1) shows the increase in trend in Retail Loans by Public Sector Banks from FY 07-08 to FY 17-18. The Trend is representative of the contemporary times where by Indian economy has shown a positive trend in spite of Global recession of 2008-10 and Domestic Disturbances caused as a consequences of Demonetization and GST.

*Looking at the Deeper Trends These Salient Points Emerge from the value of Retail loans from Database of Indian Economy; RBI data archive*

**(a) Housing Loan**

This remains the biggest segment for retail loans. Countering almost 50 % of the total retail Loans. The percentage of housing loan increases from 50 % of total retail loans in FY07-08 to 51% FY17-18. See Fig 7 & 8. In absolute terms the housing loan increases from 2603.06 Cr Rs in FY07-08 to 9745.63Cr Rs in FY17-18, and steep increase of 274 %.

In absolute terms the housing loan increases from 2603.06 Cr Rs in FY07-08 to 9745.63Cr Rs in FY17-18, and steep increase of 274%. Fig 2 Shows the Growth in Housing Loan Segment.

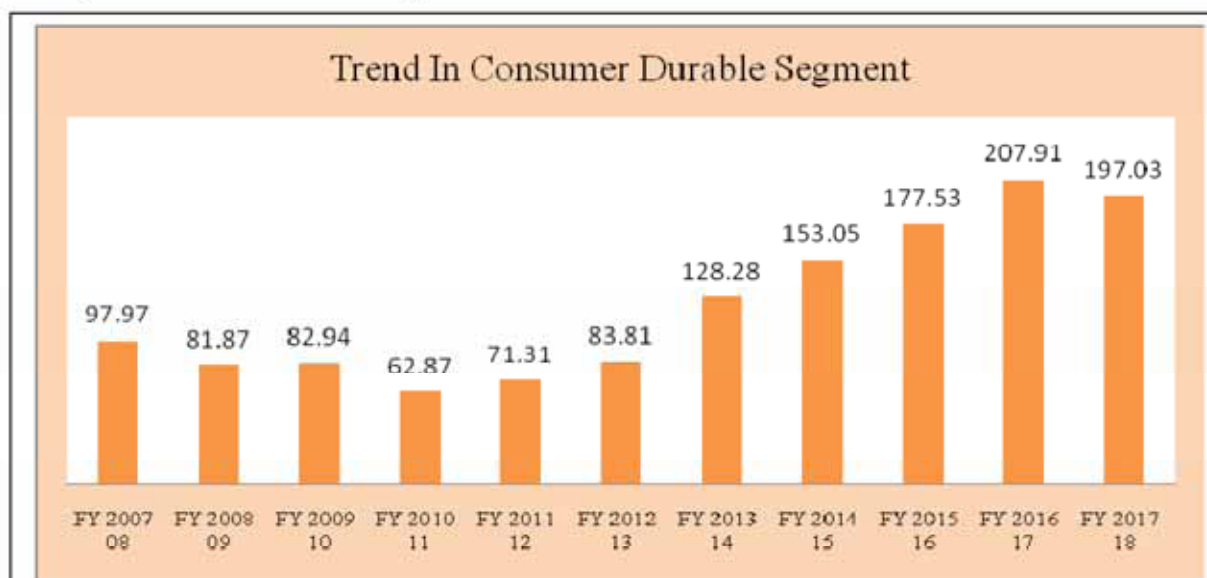


**Fig No. 2 Increase in Total Home Loan segment. Growth over Last ten Years (Source RBI: DBIE)**

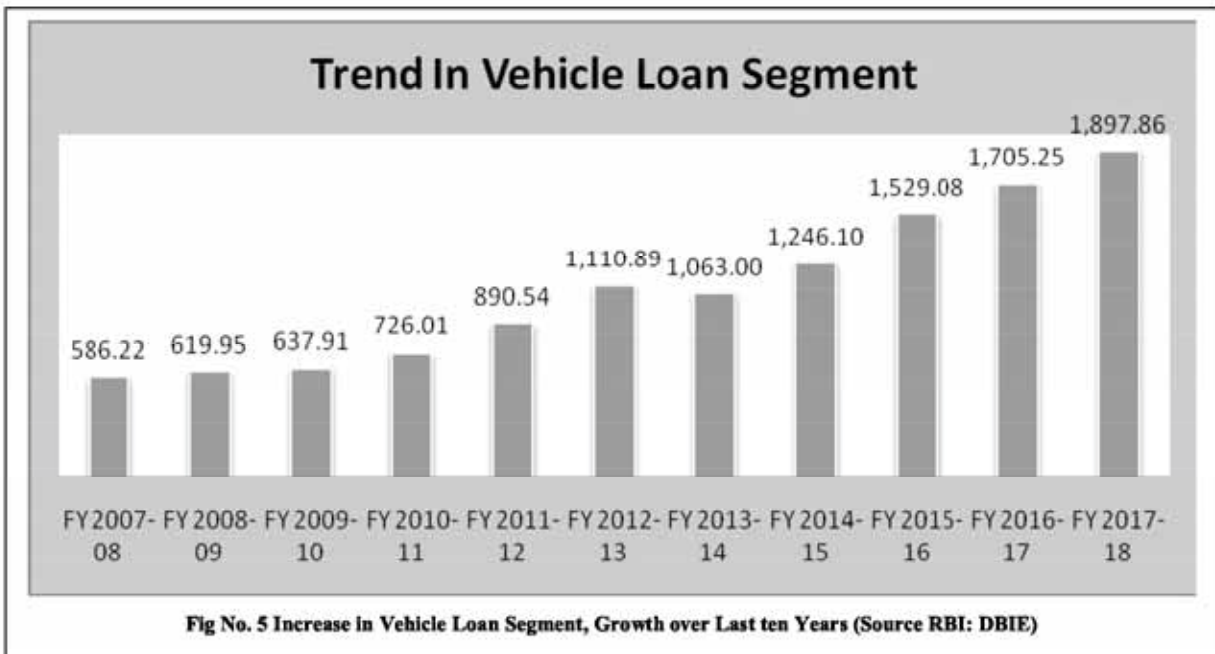
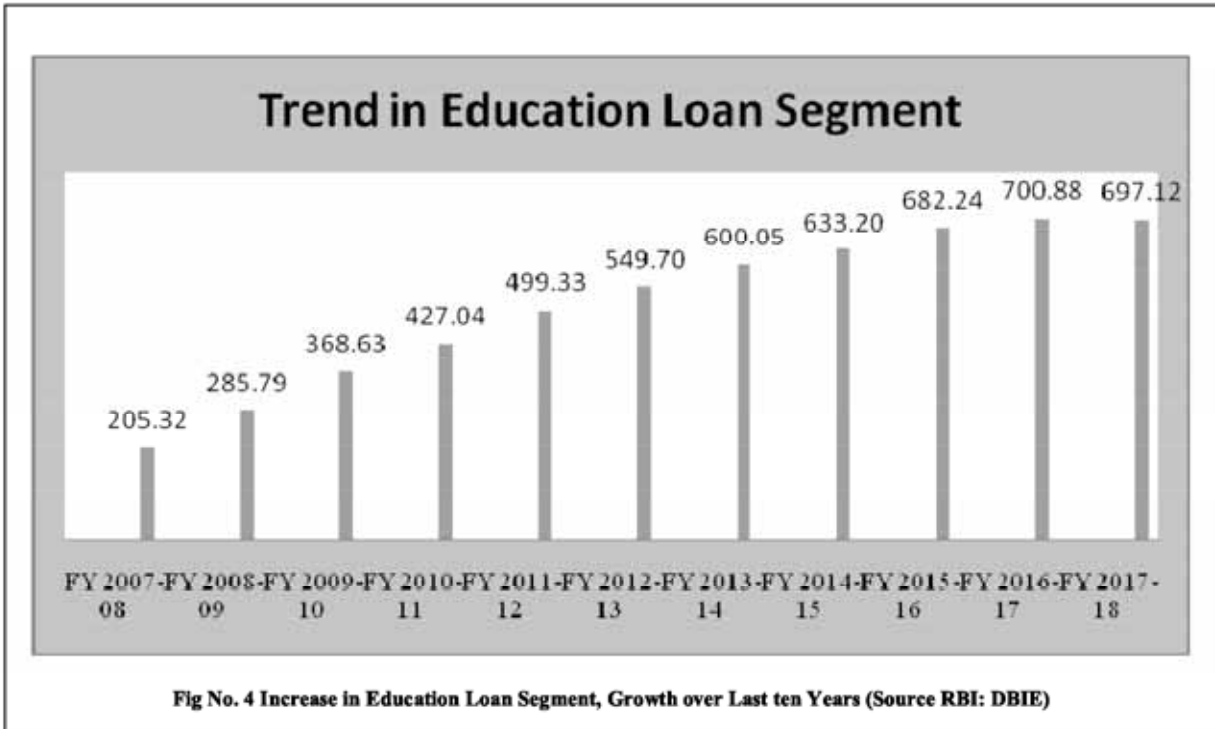
- (b) **Consumer Durable Segment-** As Compared to Other Segments, The relative share of Consumer Durable loan segment has decreased in proportion of total retail loans from 2 % in FY 07-08 to only 1% FY 17-18. See Fig 7 & 8. In absolute terms, as Fig. 3 Shows their growth has shown only a moderate increase of 100%, i.e. from 97.97 Cr Rs in FY07-08 to 197.03Cr Rs in FY17-18.
- (c) **Education Loan Segment-**This segment has only shown growth in absolute number rising from 205.32 Cr Rs in FY 07-08 to 697.12 Cr Rs in FY 17-18, almost an increase of 200 %. The Fig.4 illustrates the absolute growth in this

segment. The relative proportion of Education loan segment in the total retail loans category remains a measly 4 %, throughout the decade. See Fig 7&8 for comparison.

- (d) **Vehicle Loan segment-** This is a segment which has shown an absolute growth of 223 % rising from 568.22 Cr Rs in FY 07-08 to 1897.86 Cr Rs in FY 17-18. Overall its share in the retail loan proportion as decreased from 11% to 10% of overall retail value. This loan curve growth can be traced in Fig.5 and since this sector is directly affected by consumer and market economy, It shows a bumpy ascendancy rise and choppy behaviour.



**Fig No. 3 Increase in Total Consumer Durable Loan segment, Growth over Last ten Years (Source RBI: DBIE)**



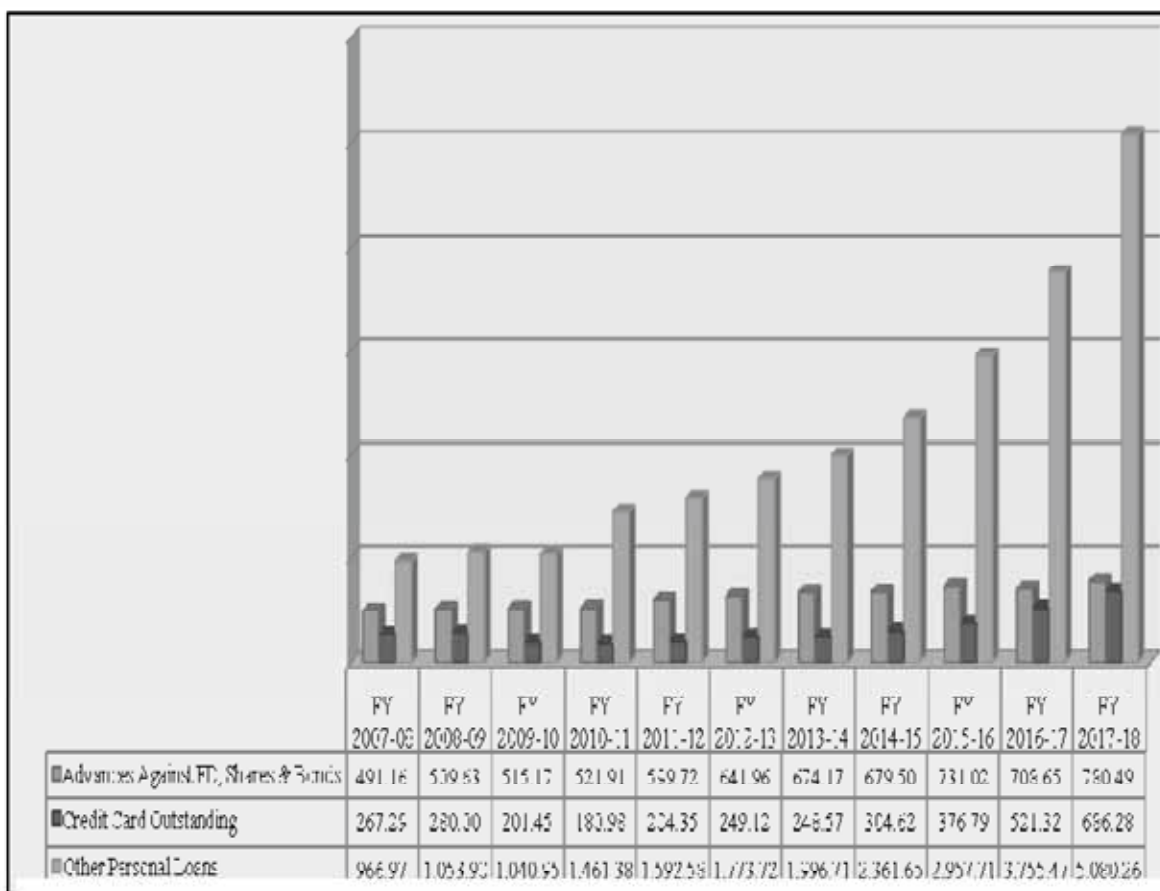


Fig No. 6 Increase in Loan against Collateral/ Credit Card & Personal loans Segment, Growth over Last ten Years ( RBI: DBIE)

(e) **Combined Segment- Loan against Collateral (Fixed Deposits/ Shares/ Bonds/ Property Papers), Credit Card Outstanding & Personal loans-** If we see the Statistics in Fig. 6 (Above) which shows the increase in Loan against Collateral/ Credit Card & Personal loans Segment, Growth over Last ten Years, the biggest absolute increase comes in the personal loans category which shows an absolute increase from 966.96 Cr Rs in FY 07-08 to 5080.26 Cr Rs in FY 17-18, a whopping rise of 425.3%. Rightly the proportion of Personal loan has risen from 19% of Total Retail loan in FY 07-08 to 27% in FY 17-18. The Other segment of outstanding credit cards can be taken next. Here relative proportion as part of total retail loans has fallen

from 5% in FY 07-08 to 3 % in FY 17-18. In absolute terms the increase has been nominal from 276.29 Cr Rs in FY 07-08 to 686.28 Cr in FY 17-18, increase of 148 %. Coming to the last segment of Loan against Collateral (Fixed Deposits/ Shares/ Bonds/ Property Papers), its relative share as part of total retail loan scenario was 9% in FY07-08 which dipped to marginal 4% in FY 17-18. Numbers show an absolute increase of only 58%, rising from 491.16 Cr Rs in FY07-08 to 780.49 Cr Rs in FY 17-18. Relative proportion of each segment is shown in Fig 7 &8 which shows distribution of each loan segment in total retail loan category from FY 07-08 to FY 17-18.

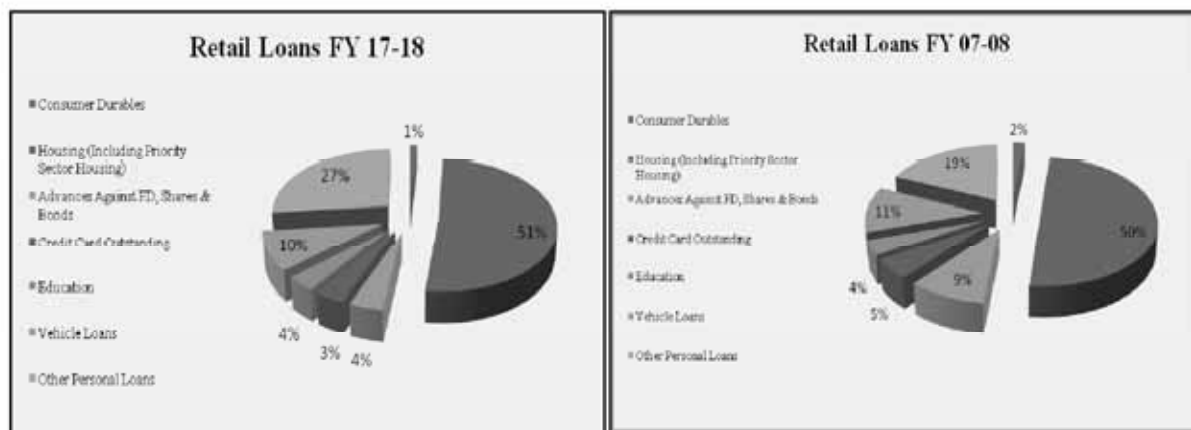


Fig No. 7 & 8 Comparative Analysis of Retail Loans Distribution by Public Sector Banks (Source RBI: DBIE)

### V DATA ANALYSIS & FINDINGS

**Factors Likely responsible for these Trends:** Retail lending growth in emerging economies like India has been attributed to massive digitalization drive, financial sector reforms, evolving macroeconomic variables and their interaction with micro level factors such as demand and supply, growth patterns, consumer choices, economy events etc. In the context of the above trends we look at some of the factors which might have resulted in same.

**(a) Growth of middle class consumers helps in growth of Retail Loans in purchase of Consumer Durables:** ‘In India middle income population is growing rapidly. With a rise in consumer demands and greater income at hand in this population has given an opportunity in retail industry to grow and prosper. They now expect a high satisfaction in terms of quality and pricing. Consumers thus are availing wide range of products and value added services in India. With an ease of getting finance, with low rate of interest and availability, now consumer is able to get his choice of product very easily. The increasing consumerism would now be a driving reason for the organized retail sector in India. The rise in income and improvement in infrastructure are empowering the consumers in accelerating the needs and meeting the same for the consumer. This is one of the drivers for the overall increase of credit cards, Personal loans and even vehicle loans. Although with Digitization Indians are using more credit cards. Financial awareness and incidences of fraud has led to the reduced use of credit cards and more use of debit cards.

- (b) Increase in number of working women:** In today scenario, the urban women are more literate and qualified. They maintain the balance between home and work. Now the purchasing habit and choices are different from earlier home-makers. They do not have sufficient time for leisure and now want all things under one roof. They now thus prefer one stop modern retail outlets for fulfilling their needs and wants. Also, public sector banks also have given various incentives and schemes for working women and enabling them to have their own house and various facilities. Central government schemes also various flexibility in loans like women getting a tax relaxation till Rs. 2,00,000 on interest payment on home loans, lower interest rates and ease in repayment procedure helps in boosting home loans by women. This is evident in increasing home loans year on year.
- (c) Value for money & Organized retail shopping scene:** Organized retail deals in high volume and are able to enjoy economies of large scale production and distribution. This eliminates the intermediary in the distribution channel thus reducing the cost and time. Now the retailers are offering more quality products at reasonable and affordable prices. Example: Big Bazaar. Foreign retailers have also pitched in and created a niche. This is fuelling the economic growth of middle class and increasing their living standard apart from being helpful to industry.
- (d) New emerging rural markets:** India has one of the fastest emerging rural consumers with more conscious towards quality and price. Rural Customers are now more bargaining to get the same services as urban consumers. Therefore the organized retail sector is devising new strategies and methods to reach rural consumers. After agriculture, the largest source of employment is now the retail industry with penetrating deep in the society affecting their income and buying

behavior. Various facilities like good connectivity increase in information sharing, internet and ease of loans from public sector banks help in increase in vehicle loan and education loan. Both the consumer is now more aware and wants him to be educated and respected in society. Now, rural people are thinking of other ways of income by educating their children and focusing more on overall development of individual. One of the biggest beneficiaries of education loan is rural students. Also owing to the agriculture focused economic scenario, in our country and the various schemes being run for them, they are buying more tractors etc from vehicle loans and other instruments from personal loans.

- (e) **Entry of Corporate sector:** Govt. of India is not the only entity in the game. Larger business groups like Tata's, Birla's and Reliance have now entered the retail sector, rural farming sector and even to some extent in banking sector and they are making their presence felt deeply. They are in a position to provide quality products and services to consumers. Consumers are thus availing all these at cheap loans.
- (f) **Increased Technological impact & financial literacy:** Today the technology is changing the dynamics of market. Various advancements like computerization, MIS, automation and digitization have changed the way, business operate. India has vast market and the growing needs of the consumers have developed the technology for the product quality and services. The technology has made digital truncations easy and paved way for ease accessing cash after the closure of banks in form of ATM, POS machine and e-wallets apps like PayTM, BHIM and Google Pay, etc. This has also led to spurt in support of mobile banking, net banking and phone banking, thus helping consumer to get loans more easily than ten years back. This is quite evident in overall increase in loans by public sector banks in India.
- (g) **Rise in income:** Rise in disposable income and market sustainable growth patterns have led to increased spending. This is the reason why, home loans are now preferred as investments for future and consumer durables and goods are more easily bought than ever before. All loan segments have been impacted from this.
- (h) **Media Explosion, Continuous Interaction over various mediums:** The advances in technology and science have led to continuous interaction of consumers with financial intermediaries. The BFSI sector has now expanded hugely and consumers are constantly informed regarding changes in financial policies, plans, new product offerings, reduction in rates and all latest financial developments. They also get new about the consequences of all such possible decisions they can take with regards to their (consumer's)

personal financial position. Thus with better understanding, people and consumers are making informed choices and seeking win-win propositions to suit their needs.

- (i) **Rise of consumerism:** The emergence of consumerism economy has created the demand for more products and services, and has led to the procession of material goods as symbolic to be craved by one and all. This has perhaps led to the economic growth booms and busts and retail loans have been a significant factor in their capacity to fuel this trend. Loans for cars, scooters, laptops, mobiles and even televisions are now available. Take the jewelry now through credit cards and keep paying by EMI later. Go for dream education in USA by taking loan and pay later EMI's. All this and more has led to ever increasing retail loan increasing trend. Consumers are much more aware of every choice they make and have technology as a tool to select retail loans and other products. The factors like comfort, time, location, luxury have become very important for the consumers. Special schemes, carefully addressed discounts and attractive ranges and price quotients have kept the consumer market kicking.

## VI IMPACT OF DEMONETIZATION

Demonetization in November 2016 was widely expected to record fall in retail loan growth rate as demand was likely to fall due to the disrupting effect of demonetization. In short the Short term loans were paid back by old bank currency notes and demand for short term or working capital loan was found to be low because of economic disruption. Asset Quality of Banks Increased in long term with CASA ratio of Banks Improving. In the long term retail loans are likely to fall due to demonetization as in short term many industries suffered.

The Impact of Demonetization needs to be studied as the full effect can only be captured over a long period with sufficient data and correlations with other macroeconomic data.

## VII RETAIL LOAN NPA'S & RISE OF NARROW BANKING

RBI Categorizes the loans into four segments; (1) Industry (2) Agriculture (3) Personal (4) Services. As per the RBI records it has been found that loans to industry constitute a record near about 40 % of the total outstanding where as the Retail Lending i.e. Personal constitute near about 25 -30%. Rest is all taken up by agriculture loans and other services oriented loans.

On Studying the Record of bad loans it was found that Gross Percentage of NPA was considerably higher For Industrial loans ( Near to 19% ) as compared to priority Sector NPA's and Retail NPA's. The GNPA ratio of agriculture (6.4%), Services (5.7%) and retail (2.1%) stood in sharp contrast to the Industrial NPA created by defaults from big corporate.

It has also come to light that recovery rate of bad loans is significantly low, i.e. it fluctuates from 8 % to 11 % of the total loan outlay. Thus majority loans which come from industrial sector are not recovered eventually after they are written off. This is consequential even to the process of liquidation that starts with banks resorting to the provisions of IBC Code.

Also noted is that bad loan ratio is for loan segments like home loan, auto loan etc falls within normal range as and when compared to the bad loan ratio of industrial segments. For example; The bad loan ratio of home loan is only about 1.7 % of total home loans. Significantly the bad loan ratio of auto loans is 2.4% of total auto or vehicular loans. All these statistics point towards the importance of retail loans where bankers understand are less prone to NPA and the messy consequences which befall them.

It is for the above reasons that retail banking is being aggressively pursued by bankers for their own advantages. Namely the loss of lesser NPA's as compared by giving the same amount to industrialists. In fact this is a strategy which has been suggested by many a bankers and this concept is called **Narrow banking** Concept.

This entails that banks with less resources or those having limited funds should only resort to lending retail loans. Thus there would be no problem arising out of arm-twisting the bank to give loan to a big industrialist by political or otherwise interference. Thus loan NPA's would be avoided. And now this trend is being followed voluntarily. This has been responsible for increasing the retail loan % of banks in last 6 -7 years' time frame.

Other factors too have contributed to the same trend; some of them are convenient time frame of money being returned thus the asset liability management aspect remains good for bank balance sheet and slower pace of growth as country moves from a developing economy to a more developed economy. The aspirations of burgeoning middle class are also a reason as they usually seek retail loans for personal needs and they are found to be better creditworthy than others.

## VIII CONCLUSION

In the end we can conclude that, we are in constantly changing and retail banking is no exception to the rule. Consumer behavior, sociological unrests,

political events and world economy are being contoured to new dimensions as the world moves on to. India has the one of the leading retail market in global economy and carries the contradiction of carrying the setup of traditional market in combination to modern outlets and markets, thus providing host of choices to the consumers.

Retail banking remains the most visible face of banking for the general public at large. Retail Banking specifically refers to provision of banking products and services offered to individual small scale customers and consumers, typically for non-entrepreneurial purposes. There has been introduction of various measures like payment banks (Ex. India Post) and small finance banks.

This has led to deeper penetration of the banking sector into Indian population. Schemes like PMJDY have focused on bringing the all Indians to banking domain. RBI's new measures have led to overall restructuring of banking sector and have influenced retail loan segment also.

## IX FUTURE OUTLOOK

The Challenges to the retail banking remain daunting, even though growth opportunities are ever present. The increasing regulatory concerns regarding loan quality, credit worthiness concerns over NPA's, globally slow and sensitive economy, increasing customer expectations are more than evident factors which are affecting banking. Retail lending and loans have come on to very sharp focus on account of lesser NPA's in their profile and thus their great value as a source of interest income to bankers and NBFC Lenders. Their Unique Proposition and attractiveness in bank loan portfolio calls for careful measurement of customer expectations. Innovation and diversification of services to consumers across products and channels are two of the surest means to keep the momentum going strong in retail lending and trade.

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