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AN OVERVIEW OF RETAIL LENDING IN INDIA

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ABSTRACT

Retail lending is not a new phenomenon in India. It has always been prevalent in India in various forms. For the last few years, it has become synonymous with mainstream banking for many banks. The typical products offered in Indian retail lending are Home loans, Auto loans, Property loans, Consumption loans for the purchase of durables, Educational loans, and credit cards.

The total lending market in India has grown to Rs 174 lakh crore at the end of March 2022, with retail loans contributing 48.9%. The share of commercial loans was at 49.5% and the balance of 1.6% was contributed by microfinance, according to a study by credit bureau CRIF High Mark.

Indian economy is still largely informal in nature and hence 51 % of India's total retail lending share is with Non-Banking Finance companies (NBFCs), Public sectors Banks & private sector Banks command 20 % & 21 % shares respectively in India's Retail lending market, Housing Finance companies command a very little market share of 1 % and other players command about 7 % of market share in Indian retail lending Market.

Public sector Banks in India dominate the Home loan, Personal loan & Education loan categories with a market share of 41%, 42.3% & 90% respectively, Private sector banks dominate Credit card & Big-ticket size auto loans with a market share of 76% & 37.4 % respectively while NBFCs dominate two-wheeler loans with the market share of 64.4% and Housing finance companies with 35.8% market share, second in home loan outstanding after public sector banks.

In the current business environment, the Indian banking industry is putting strategic emphasis on retail banking products to ensure profitability and lasting customer relationships. The retail loan market has decisively got transformed from a sellers' market to a buyers' market. With the ongoing formalization in the economy and use of emerging technologies, Banks are going to benefit tremendously in capturing the Retail lending market share in India.

KEYWORDS: Retail Banking, Retail Lending, Consumer Loans, Mortgage Loans, Personal Loans, Home Loans, Vehicle Loans, Education loans, Credit Cards.



INTRODUCTION

Retail lending for the last few years, has become synonymous with mainstream banking for many banks. The typical products offered in Indian retail lending are Home loans, Auto loans, Property loans, Consumption loans for the purchase of durables, Educational loans, and credit cards. The loan values of these retail loan products typically range between Rs.20,000 to Rs.200 lakh with a repayment period of 5 to 15 years except for housing loans which may extend up to 30 years.

Retail lending has inherent advantages over the other areas of lending by financial institutions such as:

- It is a better option for Banks/ Financial Institutions to increase their earnings as lending to corporate is of high risk & is generally slow moving.
- Retail lending results in better yield and improved bottom line for Banks/ FIs.
- The products can be designed customized, deployed & marketed according to individual requirements.
- The risk is spread over the large pool of customers & the recovery is very good.
- Diversified portfolio due to a huge customer base enables banks/ FIs to reduce their dependence on few or single borrowers
- Better scope for innovation in product offerings.
- Retail lending involves minimum marketing efforts in a demand-driven economy.
- Banks/FIs can earn good profits by providing non-fund-based or fee-based services to retail customers without deploying their funds.
- Consumer loans are presumed to be of lower risk and NPA perception
- Better negotiation power in the hands of Banks/ FIs

In the current business environment, the Indian banking industry is putting strategic emphasis on retail banking products to ensure profitability and lasting customer relationships. The retail loan market has decisively got transformed from a sellers' market to a buyers' market. Gone are the days when getting a retail loan was somewhat cumbersome. All this emphasizes the momentum experienced in retail lending in the Indian economy in recent years.

With the ongoing formalization in the economy and use of emerging technologies, Banks are going to benefit in a big way in capturing the higher Retail lending market share in India.

REVIEW OF LITERATURE

Various empirical studies have been conducted from time to time to understand and examine retail lending in India and its various aspects; important studies are reviewed below in chronological order:

Shyamala Gopinath (2005) in his/her article at Reserve Bank of India says the issue of Retail banking is extremely important and topical. Across the globe, retail lending has been a spectacular innovation in the commercial banking sector in recent years. The growth of retail lending, especially, in emerging economies, is attributable to the rapid advances in information technology, the evolving macroeconomic environment, financial market reform, and several micro-level demand and supply side factors. India too experienced a surge in retail banking. There are various pointers towards this. Retail loan is estimated to have accounted for nearly one-fifth of all bank credit. The housing sector is experiencing a boom in its credit. The retail loan market has decisively got transformed from a sellers' market to a buyers' market.

Dr. Vighneswara Swamy (2012) in his research found that the Indian banking sector is growing rapidly and is expected to enjoy even better growth opportunities in the evolving future. Retail banking has always been prevalent in various forms ever since the evolution of banking. Retail lending in India is becoming an important segment of bank credit. It holds the key to the inclusive, comprehensive, and pervasive growth of India. India's retail-banking asset size is expected to grow at

the rate of 18% a year over the period of four years (2006-2010). Customer service is perhaps the most important dimension of retail banking. While most public sector banks offer the same range of services with similar technology/expertise, the level of customer service matters the most in bringing in more business. Perhaps more than the efficiency of service, the approach and attitude towards customers will make the difference.

Bhadrapa Haralavva (2021) in his research found that India experienced a surge in retail banking after the introduction of financial sector reforms in 1992. The retail banking industry in India has swiftly emerged as one of the major contributors to the overall growth of the banking sector in the recent past. In the current business environment, the Indian banking industry is putting strategic emphasis on retail banking products to ensure profitability and lasting customer relationships.

Atmadip Ray (2022) Economic Times of India says in his article that India's retail lending space has evolved as a major driving force behind economic expansion with the volume of retail loans including housing and vehicle loans now coming neck to neck with the volume of commercial loans.

Economic Times, BFSI report (2022) states that Retail loan growth in India continued to remain strong rising 18.1 percent, led by 31 percent growth in credit cards, 18 percent in Auto Loans, and 15 percent in Home loans.

Sanjeet Dawar, managing director at CRIF High Mark (2022) says "India's credit sector particularly retail lending maintained an accelerated growth trajectory despite unprecedented challenges arising due to the second wave of COVID-19. This resurgence in the credit landscape signals economic recovery and is extremely Encouraging."

RESEARCH GAPS

While reviewing the available literature, it was found that Retail lending in general has been studied. However, present market constituents and their market share, product-wise market share, emerging trends & challenges in Indian retail lending have not been covered in the previous studies. This research study was undertaken to throw light on these aspects of Indian retail lending.

SCOPE OF THE RESEARCH

The research was focussed on understanding the present retail lending scenario in India which primarily looks upon the key market constituents and their market share across the various retail lending products in India for the financial year 2022.

RESEARCH METHODOLOGY

The study is analytical in nature and based on secondary data collected from reliable sources i.e. Reserve Bank of India reports, Financial disclosures made by various Banks & Financial Institutions in India, Articles published by individual researchers and renowned consulting firms, and various reports from renowned financial magazines & newspapers. It is a national-level study and the key area focussed upon is Retail lending (Retail Advances) and its analysis. Financial variables are measured from the financial reports of different organizations, Reports published by RBI, and various financial newspapers and consulting firms. The collected data was processed as per the objectives of the study and with simple statistical tools and techniques.

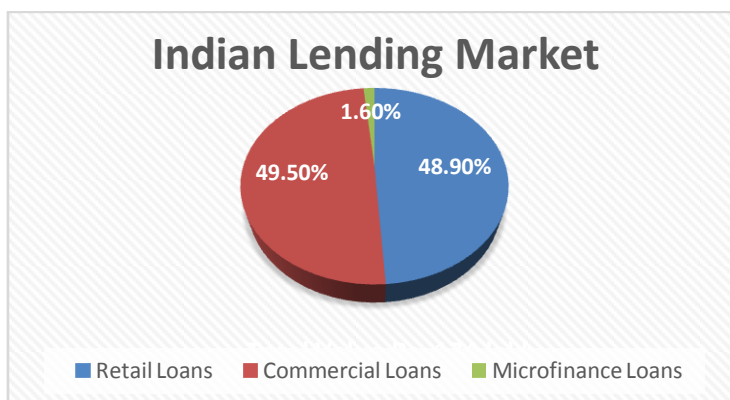
RESEARCH OBJECTIVES

1. To study the Retail lending scenario in India
2. To study market composition in Indian Retail lending

RESULTS & FINDINGS

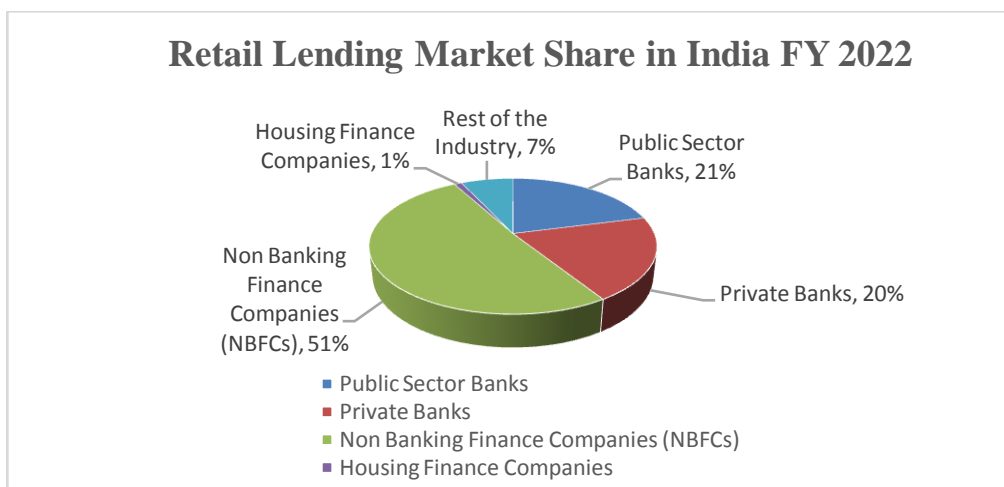
The total lending market in India has grown to Rs 174 lakh crore at the end of March 2022, with retail loans contributing 48.9%. The share of commercial loans was at 49.5% and the remaining 1.6% was contributed by microfinance, according to a study by credit bureau CRIF High Mark. Retail loans grew at 13.6% in FY22 to the tune of Rs 85.2 lakh crore, outpacing both commercial loan growth and

microfinance loan expansion. Commercial loans grew 8.6% to Rs 86.3 lakh crore. Microfinance grew by 10% to Rs 2.9 lakh crore. Overall, FY22 witnessed 11% growth in new loan originations across retail, microfinance, and commercial loans.



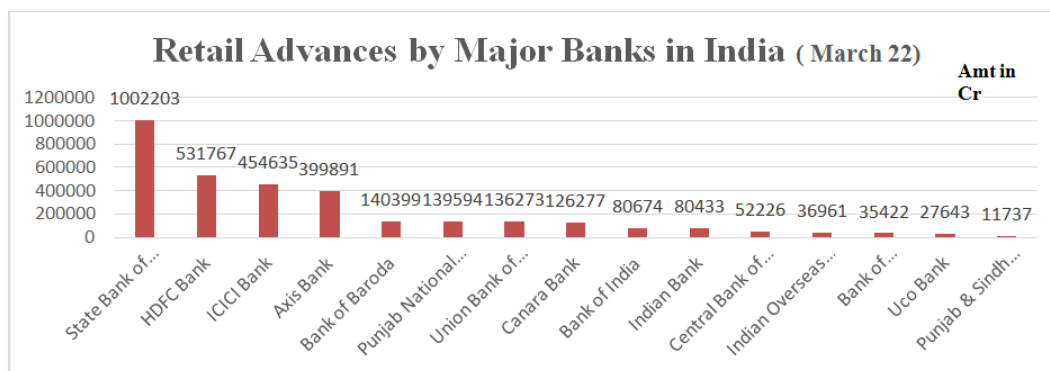
Source-CRIF Highmark, Indian Banking report 2022

Indian economy is still largely informal in nature, 51% of India’s total retail lending share is with Non-Banking Finance companies (NBFCs), Public sectors Banks & private sector Banks command 20 % & 21 % shares respectively in India’s Retail lending market, Housing Finance companies command a very little market share of 1 % and other players command about 7 % of market share in Indian retail lending Market.



Source- Statista, Indian Retail Banking, 2022 & Economic times, BFSI Report, 2022

According to an RBI report, 12 major state-run banks and 3 major private sector banks nearly accounted for Rs. 32.56 lakh crore of retail lending in India in March 2022. State Bank of India has the highest value of Rs. 10.02 lakh crore in retail lending followed by HDFC bank of Rs. 5.31 lakh crore and ICICI bank of Rs. 4.54 lakh crore in March 2022.

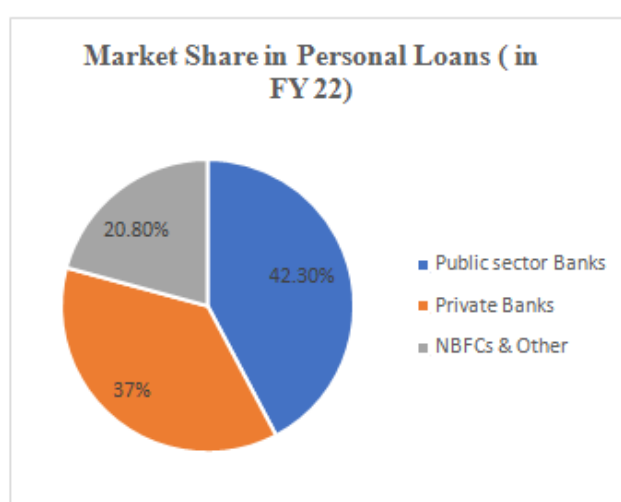
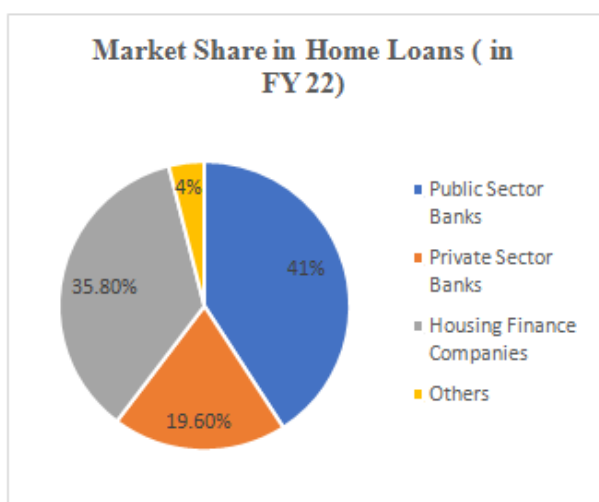


Source- Reserve Bank of India, 2022

A bulk of the retail loans in **value terms** comes from the home loan segment with its portfolio outstanding at Rs 25.5 lakh crore contributing nearly 30% of the retail lending universe. **By the count of active loans**, credit cards dominated the market with a share of 17.2%, followed by personal loans (14.1%), Agri loans (11.8%), consumer durable loans (11.3%), and gold loans (11%). The count of home loans was just about 3.3% while auto loans constituted the least share of 2.9%.

The study showed that public sector banks enjoyed the highest market shares in both home loan (41%) and personal loan (42.3%) segments while private banks had 19.6% and 37% shares respectively. Housing finance companies with 35.8% market share were second in home loan outstanding after public sector banks.

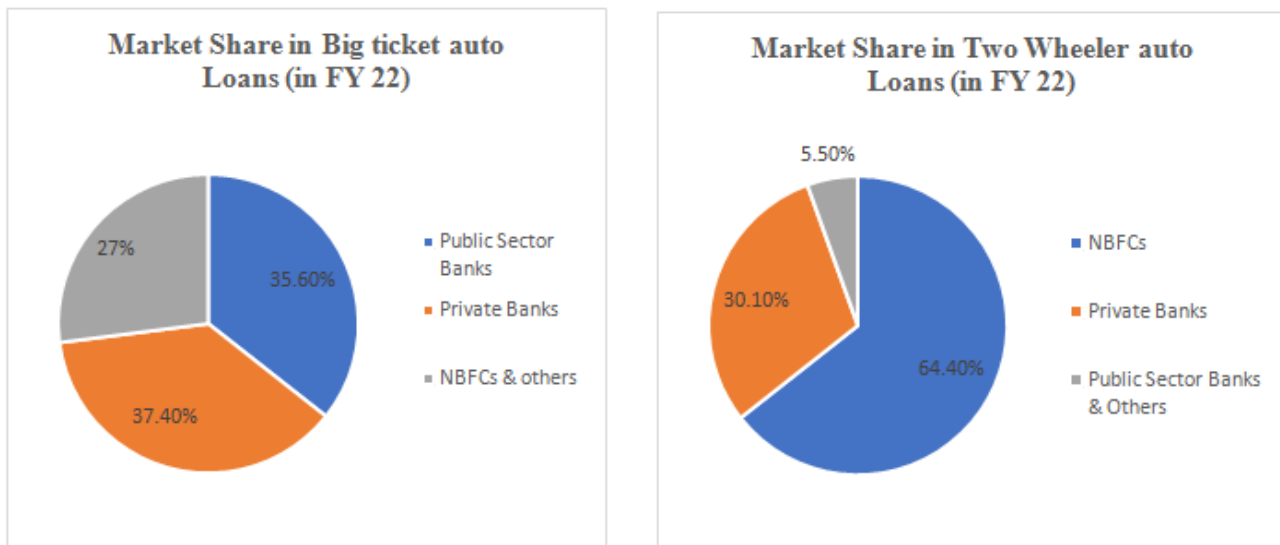
According to market research.com, The housing finance market is booming in India and is expected to grow at a compound annual growth rate (CAGR) of 20.58% during the FY 2022 – FY 2027 period. Increasing urbanization and affordable mortgage interest rates are the two key factors propelling the growth of the market. In 2021, the affordable housing segment made up 90% of the market in terms of volume and about 60% based on value. Millennials and young borrowers, having high disposable incomes and an increased need for urban accommodation, are potential consumers for home loans. They account for 27% of Home loan borrowers.



Source- Statista, Indian Retail Banking, Economic times BFSI Report, CRIF Highmark report 2022

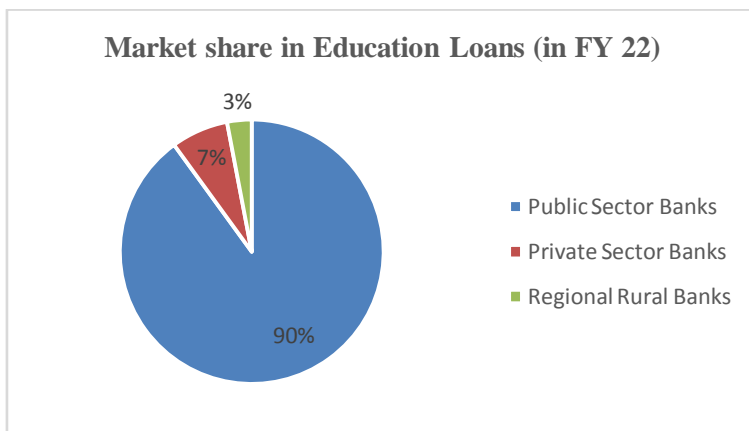
According to the 'How India Lends' report, Public sector banks (35.6%) and their private peers (37.4%) were almost necks to neck in auto loan market share. The Two-wheeler loan segment was

however largely dominated by non-banking finance companies which enjoyed a 64.4% market share followed by private banks’ 30.1%, the report called showed.



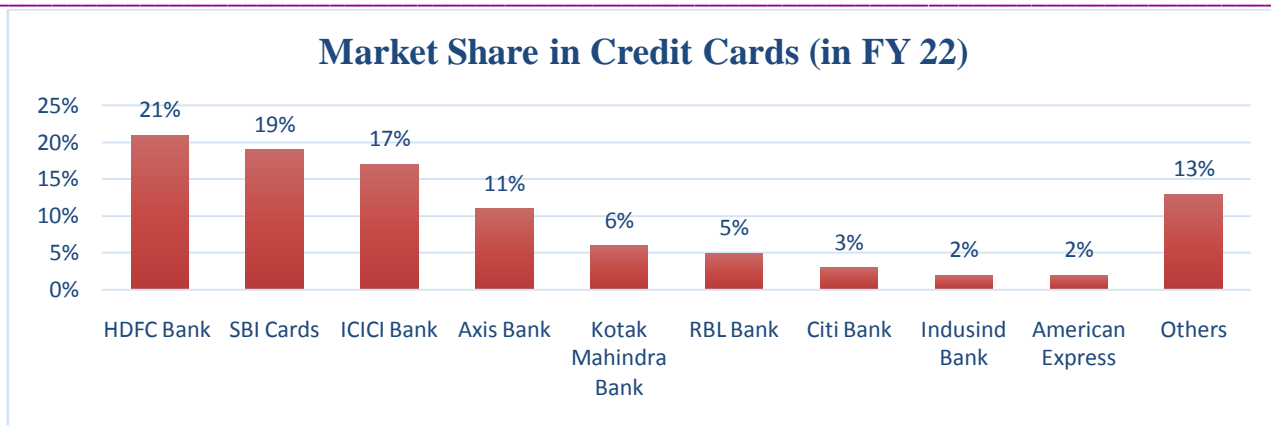
Source- Statista, Indian Retail Banking, Economic times BFSI Report, CRIF Highmark report 2022

As per the RBI report and article published by Indian Express in Nov. 2022, 90 % of the education loans in India are disbursed by Public sector Banks while Private sector Banks & Regional Rural Banks account for 7 % and 3 % in education loan disbursements.

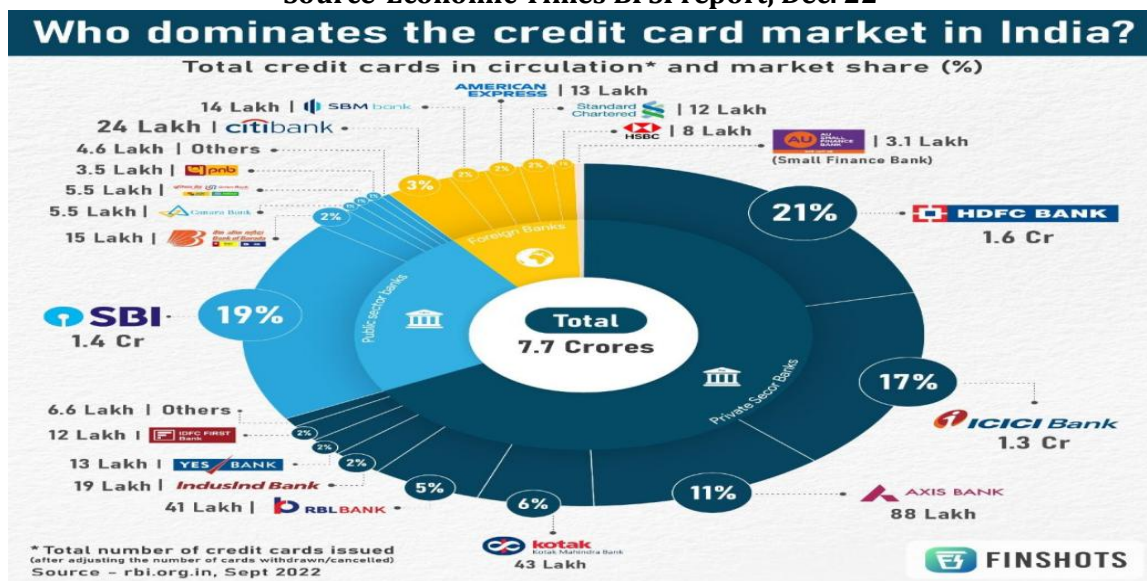


Source-Reserve Bank of India & Indian Express article Nov. 22

According to Economic Times BFSI Report 2022 and PwC, Decoding India’s credit card market report 2022, HDFC Bank is the leader in credit cards with a market share of 21 % followed by SBI & ICICI Bank holding 19 % & 17 % market share respectively



Source-Economic Times BFSI report, Dec. 22



Source- Finshots, Largest credit card issuers in India 2022, Infographic

Challenges in Retail Lending

The Indian financial sector is going through lot many significant changes. Financial institutions are currently experiencing a challenging time as a result of new technology, increasing regulations, and the rise of digital channels. This has resulted in emerging issues in retail lending and Retail banking in general, which needs to be kept in check constantly. Customer expectations are reportedly one of the industry's largest challenges in retail banking. Banks / Financial institutions are now held accountable to the same standards consumers hold when interacting with internet giants such as Apple and Amazon. Customers now desire user experiences that are quick, easy, and simple. Financial institutions need to constantly adapt to changing customer expectations.

Source- The Challenges in Retail Banking (careerera.com)

According to various sources following are the emerging challenges faced by Indian Banks and financial institutions in Retail lending:

1. Increased Competition

The competition in the retail banking sector is at an all-time high. Retail lending as such has now gone beyond geography specificity and Online-only banks have more resources to spend on enticing clients to move since they don't have to pay the overhead associated with maintaining branches. The solution to resolve this issue is by enhancing customer loyalty by customizing their experience. The banking industry has seen the increasing competition, especially from the FinTech sector. The user-

friendly and digital nature of FinTech companies offers customers the flexibility they need and the freedom to choose between different providers.

2. Pressure to Improve Customer Experience

Since the retail banking industry is facing challenges of increased competition, institutions have greater pressure to improve the customer experience. Institutions are continuously trying to set themselves apart from competitors by offering better customer experience. Doing this needs an in-depth understanding of customer needs which will result in long-lasting customer relationships.

3. Increased Customer expectations

The level of customized and personalized services that customers now demand in retail lending is determined by competitors' offerings with whom they deal. This comprises challenger banks, fintech, and entertainment brands. To stand out from the competition and lure customers, Banks must provide high-quality, dependable, and memorable experiences across a variety of channels. Retail banks can accomplish this by connecting and coordinating their systems to speed up the process of quickly serving their customers by utilizing simplistic automation. Additionally, Financial Institutions must lower the amount of manual administrative mistakes, which will lead to client satisfaction.

4. High investment cost in Technology

Retail banking in general demand large-scale technological investments. Technology has become a critical element in banking for creating customized products, delivery channels, customer profitability, and developing a customer relationship management system. Automating the process of a loan application, and offering convenient services to a vast number of customers anytime anywhere needs huge investments which demand maintaining sufficient volumes and profit margins to support the investments. Banks are making significant investments in the development of products for digital channels. The top priority for 24% of the senior banker respondents was product innovation. Even though IT investments are skyrocketing, some banks are not very pleased with their Return on investments to date.

5. Operational Silos

According to PWC, the barrier to the growth of retail lending is the conventional practice of launching and maintaining products in silos, which results in a fractionalized business model. The ability of retail banks to adjust to market changes is being slowed considerably by these silos. Although integration appears to be expensive, experts concur that it is no longer a choice, it's essential to enhance the customer experience, which is the key to future growth.

EMERGING TRENDS IN RETAIL LENDING

The COVID Pandemic brought many changes in the retail banking industry, it has completely reshaped the market dynamics, and it has disrupted traditional banking areas such as branch banking by speeding up digitalization. Indian lenders are now changing their strategies to overcome current challenges such as Higher turnaround & response time in new loan applications, High technology infrastructure investment costs, and Meeting regulatory compliances. **Source- Emerging trends in retail lending | Acuity Knowledge Partners (acuitykp.com) by Hitesh Acharya**

1) Rise of “Digital only” Fintech lenders:

Traditional banks' slow and tedious loan processing setups are now being sophisticatedly challenged by the faster and easier technology-enabled online processes of fintech lenders which are often called “Neo-Banks”. Such “digital-only” lenders addressed the concerns fueled by a combination of traditional banks' bureaucratic processes, the need for less physical customer interaction due to the pandemic, and easy access to Technology infrastructure. A Capgemini study found fintech banks 1.8x

more able to innovate and offer personalized products than traditional banks. Due to low operating costs, innovative marketing techniques enable fintech lenders a low-cost customer acquisition.

2) Data analytics-driven credit risk assessment models:

Current credit scoring models which were relying only on credit information company-generated scores, such as CIBIL, CRIF, and Experian scores are now being supplemented with data analytics models to provide reliable alternative scoring models. Credit decisions are now increasingly taken by including behavioral data (spending patterns, bank account patterns, psychometric test data), personal data (Education, Occupation, and Job history), Income and asset data (Cash flows, Asset ownerships, and timely payment of Bills). Now various data points can track not just the borrower's ability to pay and also their discipline and willingness to repay the debts.

3) Increased use of technology:

Banks are focusing on cost saving by using process digitization and automation which replaces the inefficient and manual processes in middle and back offices, Initially Technology was perceived to replace repeatable, "high volume, low value" tasks. However, now with the emergence of artificial intelligence (AI), machine learning (ML), and automation, these technologies are adding value at every step of the lending process for example:

AI chatbots, can now deliver a human-like, personalized conversations which they learn with every customer interaction and help reduce call-center volume. Now AI chatbots have developed the capacity to give users personalized financial recommendations and customized guidance. With the emergence of these technologies, Lenders are now deploying these technologies for personalized customer interactions, Faster KYC and lending decisions, Fraud prevention, and Loan pricing.

4) Personalized customer journey:

Retail consumers are inclined towards choosing lenders that go beyond the traditional focus on sales and customer service and prioritize the customer experience. Personalization involves using data analytics to predict the best loan-offer recipients, determine their individual needs at the time, provide prompt and on-demand information, and relevant advice, and build long-lasting relationships. Banks pitching traditional mortgage loans, for example, will be at a disadvantage to lenders that can engage with and support borrowers through every stage of the home-buying process. This is also known as solution selling.

DISCUSSIONS

Indian Retail lending has now reached the tune of Rs. 85.2 lakh crores with a 48.9 % share in India's overall lending almost at par with commercial loans in India during the financial year 2022 Non-Banking Finance Companies (NBFC) still hold the largest market share of 51 % in overall retail lending in India.

12 state-run banks and 3 major private sector banks nearly accounted for Rs. 32.56 lakh crore of retail lending in India in the Financial Year 2022. State Bank of India had the highest value of Rs. 10.02 lakh crore in retail lending.

Public sector banks dominate the Home loans, Personal loans & Education loans with 41%, 42.3% & 90% market shares respectively. Housing finance companies with 35.8% market share, second in home loan outstanding after public sector banks.

The Housing finance market is booming in India and is expected to grow at a compound annual growth rate (CAGR) of 20.58% during the FY 2022 – FY 2027 period due to increasing urbanization and affordable mortgage interest rates.

Private sector banks dominate Credit cards & big-ticket size auto loans with a market share of 76% & 37.40 % while NBFCs dominate two-wheeler loans with a market share of 64.40 %

CONCLUSION

Retail lending in India existed for a long time and it has been on the rise due to inherent advantages over the other areas of lending in India. Retail loans have almost touched the commercial loan in terms of value in the financial year 2022 with a value of Rs. 85.2 lakh crore and a 48.9% share in India's total lending. Largely dominated by Public sector banks However, Private Banks & NBFCs are also on the rise in the Indian Retail lending landscape and already surpassed Public sector banks in certain product categories such as Credit cards, Auto Loans & two-wheeler loans having 76%, 37.40% & 64.40% market share in respective categories also in Personal loan category, private sector banks are not far behind the public sector banks with a market share of 37%. Public sector banks are losing their market share in retail lending with each passing year. With the emergence of technology, new players such as fintech companies are disrupting the existing retail lending practices by offering a better customer experience in retail lending which created threats to existing traditional banks in India. Indian Retail lending landscape has become highly competitive and financial institutions need to continuously innovate their offerings to set them apart from the competition by offering better customer experience in retail lending.

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