Working Paper 367

The growing importance of consumer finance for financial inclusion in India

Saon Ray

Smita Miglani

Sandeep Paul

December 2018

INDIAN COUNCIL FOR RESEARCH ON INTERNATIONAL ECONOMIC RELATIONS

Table of Contents

List of Tables

List of Figures

Abstract

Financial inclusion or access to financial services is a major development goal for all nations across the globe. The concept has a multitude of dimensions from payments and savings accounts, credit, insurance and pensions and securities market. Ensuring quality access to formal financial services has always been a challenging task. Despite being a prime policy agenda for decades, the goal of universal financial inclusion is yet to be achieved in India. The Indian financial inclusion story so far was led by commercial banks and MFIs. While acknowledging the importance of access to credit for productive purposes, a total integration with financial market also means access to services like insurance and consumption loans. This paper examines the role of consumer finance, a high growth segment of the Indian financial sector in promoting financial inclusion. Consumer finance involves granting credit to consumers to enable them to possess goods for everyday use. While the Indian financial sector is changing rapidly, a large number of households still rely on informal sources for unforeseen expenditure. The paper presents results of a survey of consumer perception on the role of consumer credit to financial inclusion.

Keywords: *financial inclusion, NBFCs, consumer survey*

JEL classification: *G23, G38*

Author's email: *sray@icrier.res.in; smiglani@icrier.res.in; spaul@icrier.res.in*

The growing importance of consumer finance for financial inclusion in India[ξ]

Saon Ray, Smita Miglani and Sandeep Paul

1. Introduction

Financial inclusion or access to financial services is a major development goal for nations across the globe. Financial inclusion, implies "*an absence of price and non-price barriers in the use of financial services"* (Demirgüç-Kunt et al., 2008). The concept of financial inclusion has a multitude of dimensions ranging from payments and savings accounts, credit, insurance and pensions and securities market. Though a broad concept, and difficult to measure, it can be thought of as the proportion of individuals and firms that use financial services in an economy (World Bank, 2014a).

According to the latest Global Findex data (Demirgüç-Kunt et al., 2018) published by the World Bank, 69 percent of world's adults had an account in 2017, either at a financial institution (as an individual or jointly-owned account) or through a mobile money provider.[1] The level of financial inclusion varies across the world: the share of adults in developed countries with an account at a formal financial institution is more than twice the share in developing countries (World Bank, 2014a). While developed countries record near universal account ownership, in developing nations the number of unbanked remains huge, though the relative proportion has come down in recent times. Inequalities can be also observed with respect to income, gender, place of residence, that is, urban or rural, etc. Women continue to lag behind in account ownership with a gender gap remaining constant both globally and in developing nations. The latest World Bank Findex report (Demirgüç-Kunt et al., 2018) finds that although there was upward movement in account ownership in all categories since 2011, the gap between men and women remains constant at 7%, reported in the previous editions of the survey in 2014 and 2011. The gap persists between rich and poor, too: while 74% of adults in the richest 60% of households have an account; only 61% of poor households have an account.

Increasing financial inclusion around the world requires a combination of financial services and increasing knowledge about finance (financial literacy) among customers to help them make informed decisions. A few nations, including India, have perceived that there are risks in launching new financial products for customers without providing financial knowledge as uninformed customers are prone to making wrong decisions.

This paper examines the role of consumer finance, a high growth segment of the Indian financial sector in promoting financial inclusion. Specifically, it focuses on the case of the

ξ The authors wish to thank Mr. Tamal Bandyopadhyay and Prof. Alok Pandey for their comments on an earlier version of the paper.

1 This database measures how adults in 148 countries save, borrow, and make payments. For details, see http://datatopics.worldbank.org/financialinclusion/ About 1.7 billion persons in the world are unbanked, with 225 million adults without an account in China, followed by India (190 million), Pakistan (100 million), and Indonesia (95 million). These four economies, together with three others - Nigeria, Mexico, and Bangladesh - populate nearly half of the world's unbanked population.

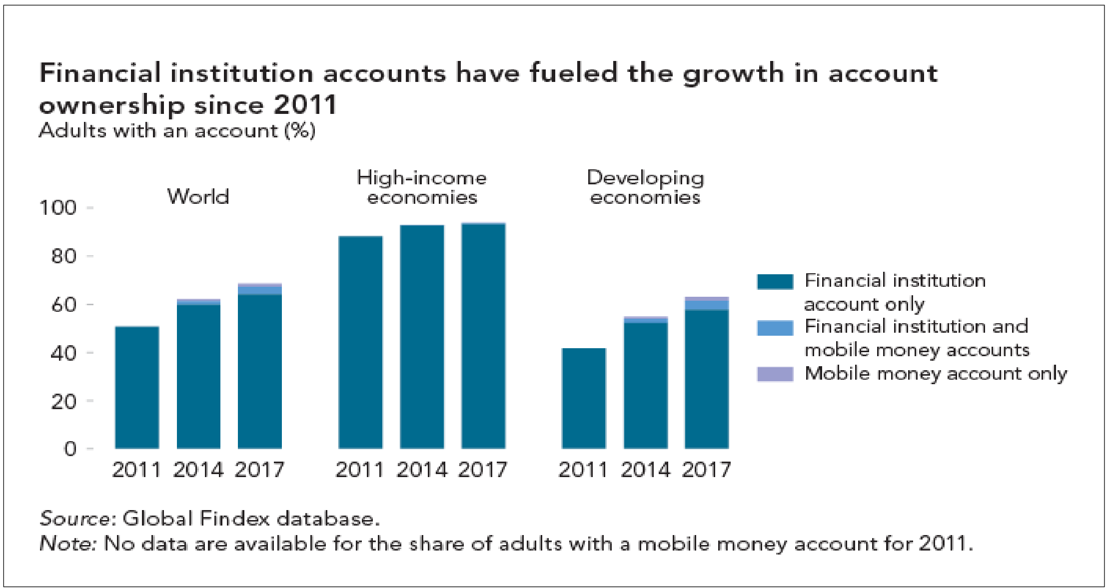
urban poor in the country. Section 2 discusses the global trends in financial inclusion and the issues of access versus use. It presents India's case and compares it with other developing country experiences. The role of financial literacy in financial inclusion is also discussed. Section 3 presents India's case in financial inclusion. Section 4 discusses the role of non-bank financial companies (NBFCs) in financial inclusion in India. Section 4 examines the role of consumer finance in financial inclusion. It also presents the results of a primary survey conducted in 5 cities to gauge the importance of such credit in financial inclusion. Section 6 concludes raising important concerns about personal debt.

2. Global trends in financial inclusion – Access versus Use

The Reserve Bank of India (RBI) defines Financial Inclusion as "the *process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular at an affordable cost in a fair and transparent manner by mainstream institutional players."* [2]

As per the latest Findex Report published by the World Bank (Demirgüç-Kunt et al., 2018), the share of adults in developed countries with an account at a formal financial institution is more than twice the share in developing countries. There has been an upward movement in account ownership across all income categories since the year 2011. The growth rate in account ownership recorded in the two periods, 2011-14, and 2014-17, by the developing economies being more than double that of the high-income economies (Figure 1).

Figure 1: Growth in Financial Inclusion globally

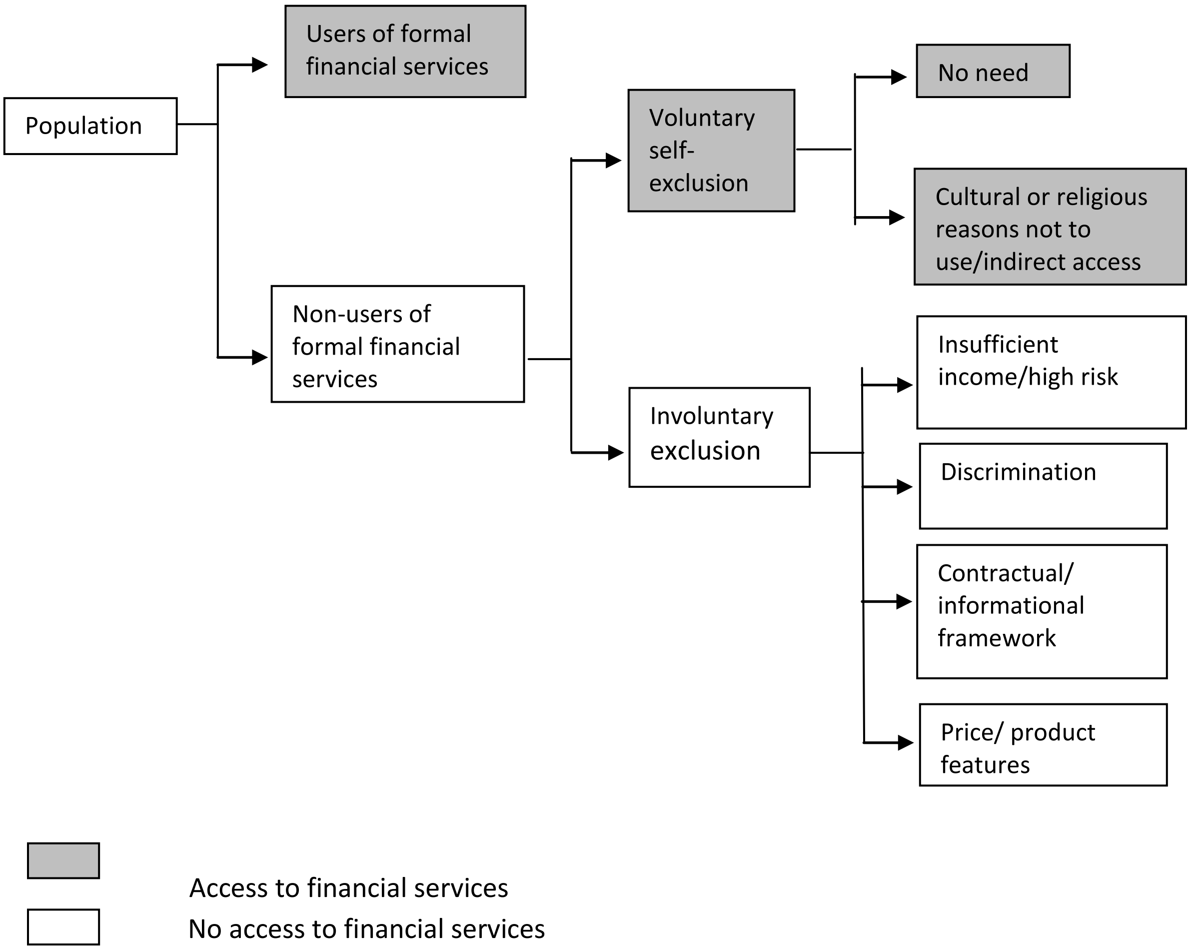


Source: Adopted from (Demirgüç-Kunt., et.al, 2018)

[2] https://rbi.org.in/scripts/FS_Speeches.aspx?Id=912&fn=2754

It is important to note here that, financial inclusion does not concern only 'access', but also the 'use' of financial services. While access essentially refers to supply of services, use is determined by demand as well as supply (Demirgüç-Kunt et al., 2008). The distinguishing features between access to finance and use are shown in Figure 2.

Figure 2: Distinguishing between access to finance and use



Source: Adopted from Demirgüç-Kunt, Beck, and Honohan, 2008

Even when there is access to conventional banking services, there could be a group of non-users who are excluded from the system voluntarily. For instance, this could be because of lack of financial literacy or due to religious and cultural reasons. Lack of financial literacy is due to not having "familiarity with and understanding of financial market products, especially rewards and risks, in order to make informed choices" (RBI, 2008).

Involuntary exclusion, which is the main issue under discussion here, refers to a situation where the population lacks access despite a demand. This can happen because of both, price and non-price barriers such as risk perceptions, information asymmetry, commercial viability, high transaction costs, lack of institutional infrastructure. The non-price barriers are important mostly with respect to financial services, such as deposit or payment services. The exclusion in this case is largely due to a lack of banking penetration or regulatory requirements. Price barriers are in the form of associated costs, fees, minimum requirements etc., unaffordable to many non-users. The exclusion issue is more pertinent when it comes to credit services as credit rationing can exist even in equilibrium (Stiglitz and Weiss, 1981). Potential borrowers can be denied credit services even when there is demand on account of risk concerns arising out of adverse selection and moral hazard problems.

2.1 Role of financial literacy

Xu and Zia (2010) survey the evidence on financial literacy[3] levels across the world, in both developed and developing countries. They find that while financial literacy levels are low in high income countries, are even lower in low income countries. They note that in low income countries financial literacy is correlated with having a bank account, affects insurance take-up. There is widespread interest in financial education. In high income countries surveys have shown that financial literacy is correlated with retirement planning and affects debt and mortgage outcome for individuals.

Disney and Gathergood (2013) examine data for the UK of 2010 to analyze the relationship between financial literacy and portfolios of consumer credit held by them. They find a clear relationship between these: household heads with poor financial literacy hold a greater fraction of high cost credit in their portfolios. Though existing studies have offered mixed evidence on the effectiveness of financial education programmes, the authors point out such programmes and other public policy measures to improve individuals' understanding of basic concepts is likely to be beneficial.

Hilgert et al. (2003) explore the connections between consumer knowledge and behavior focusing on cash-flow management, credit management, savings and investment. They use data for American consumers for 2001. While the literature observes that there is a correlation between financial knowledge and behavior, increase in knowledge does not improve behavior implying that people gain knowledge as they save (and not the other way) or there could be a third variable namely family experiences and socialization that affects both knowledge and behaviour. The study finds that certain types of financial knowledge were found to be statistically significant for particular financial practices.

3. India's case in financial inclusion

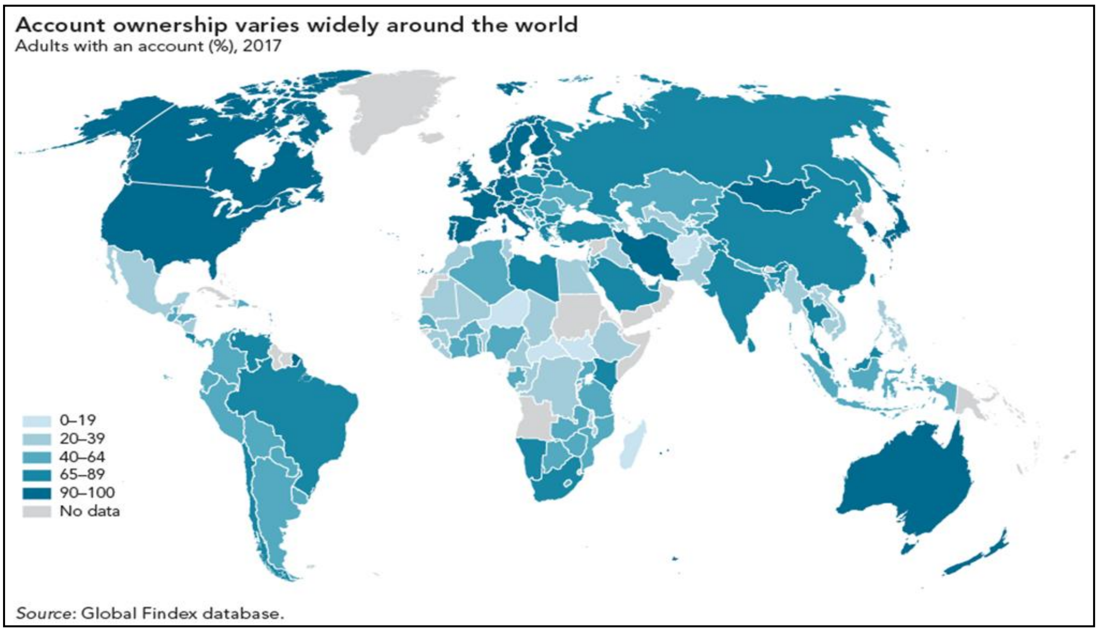
As pointed out earlier, the developing world is home to most of the unbanked. While usage is the issue in developed nations, the developing world has concerns about both, access and usage. Figure 3 depicts that most of the developing world falls under the low account ownership categories as reported by the Global Findex (2017) report. [4]

---

[3] Financial literacy, according to Xu and Zia (2010) encompasses concepts "ranging from financial awareness and knowledge, including financial products, institutions, and concepts; financial skills such as ability to calculate compound interest payments; and fincial capability more generally, in terms of money management and financial planning."

[4] Demirgüç-Kunt et al., 2018

Figure 3: Account ownership across the countries



Source: Adopted from Demirgüç-Kunt., et.al, (2018)

Among developing economies, however, the growth in account ownership has been far from uniform. As per the Global Findex Report (2017) report, in India, the share of adults with an account has more than doubled since 2011, to 80 percent. The report acknowledges that the government level initiatives launched since 2014 to boost account ownership among traditionally excluded and unbanked adults through biometric identification cards could be behind this increase in share. Between 2014 and 2017, account ownership in India rose by more than 30 percentage points among women as well as among adults in the poorest 40 percent of households. Among men and among adults in the wealthiest 60 percent of households, it increased by about 20 percentage points. Indonesia also saw equitable growth in account ownership among men and women as the overall share of adults with an account rose from 20 percent in 2011 to 49 percent in 2017.

Again, as per Global Findex Report (2017), most developing economies have a gender gap in account ownership, though the size varies. In Bangladesh, Pakistan, and Turkey, for example, the gender gap is nearly 30 percentage points. Other developing economies with a double-digit gender gap include Morocco, Mozambique, Peru, Rwanda, and Zambia. Smaller gaps are found in such economies as Brazil and India. In India, about 42 percent of male account owners use digital payments, while just 29 percent of female account owners do. Globally, 13 percent of adults, or 20 percent of account owners, reported having an inactive account (with no deposit or withdrawal in the past 12 months). The share of account owners with an inactive account is especially high in many South Asian economies. In India, the share is 48 percent - the highest in the world and about twice the average of 25 percent for developing economies. The report also states that part of the explanation might lie in the Government's Pradhan Mantri Jan-Dhan Yojana (PMJDY) scheme which brought an additional millions into the formal banking system, but many of whom may not have had the opportunity to use their new account. In Afghanistan, Nepal, and Sri Lanka about a third of account owners have an inactive account, as against 21 percent in Bangladesh. In high-income economies, only 4 percent of account owners have an inactive account. In developing economies, female account owners are on average 5 percentage points more likely than male account owners to have an inactive account. In India, however, 54 percent of women with an account reported having made no deposit or withdrawal in the past year, as compared to just 43 percent of men.[5]

As discussed before, account ownership alone does not guarantee usage of financial services. The focus is now on digital technologies in promoting the use of such services. Experience over the last few years has shown that when coupled with other efforts like digital infrastructure, well-developed payment systems, appropriate regulations and consumer protection safeguards, digital technology can be an important tool in this direction (Demirgüç-Kunt et al., 2018).

As a country of 1.3 billion people, ensuring quality access to formal financial services has always been a challenge for the Indian government. Despite being a prime policy agenda item for decades, the goal of universal financial inclusion has yet to be achieved. While much of the problem is due to lack of access and financial literacy[6] there is also evidence for voluntary exclusion in India.[7] The number of people accessing banking services is the basic parameter in this regard. The 2011 Census conducted by the Government of India reported that about 59% of total households were availing banking services. The figures were 67.8% and 54.4% in urban and rural areas, respectively.[8] The Global Findex survey (Demirgüç-Kunt et al., 2018) reported that for India, in the 15+ age group, 79.9% of the population had accounts with financial institutions. This meant a strong growth when compared to 53.1% reported in the previous edition of the survey in 2014, and 35.2% in 2011. The all-India CRISIL Inclusix[9] reports a score of 58.0 at the end of 2015-16, propelled by two major factors: 1.

---

5 For details, see Demirgüç-Kunt et al., 2018

6 Financial literacy has been considered as a definite stepping stone to reach the goal of financial inclusion. In 2015, the Standard & Poor's Ratings Services Global Financial Literacy Survey (S&P Global FinLit Survey) found that 76 percent of Indian adults did not adequately understand key financial concepts, such as risk diversification, inflation and compound interest. This was lower than the worldwide average of financial literacy. For details, see S&P (2015).

7 The Committee on Financial Sector Reforms (Planning Commission, 2009) has pointed out that certain section of Indians, including some in economically disadvantaged sections are often unable to access banking products and services due to reasons of faith (Planning Commission, 2009). Report of the Committee on Medium-term Path on Financial Inclusion (RBI, 2015a) has also given evidence for the issue where the analysis suggests that this could reduce inclination to formal finance in general among these communities in general, although they might be accessing long-term formal finance (RBI, 2015a).

8 For details, see http://www.censusindia.gov.in/2011census/Hlo-series/HH12.html

9 India's first Financial Inclusion index known as CRISIL Inclusix was launched in 2013 based on four critical dimensions: (i) branch penetration, (ii) deposit penetration, (iii) credit penetration, and (iv) insurance penetration. The last dimension was added for the first time to make the index much more comprehensive. It measures progress on Financial Inclusion down to the level of each of the 666 districts in the country in 2013 (as against 717 now). The index is based on data provided by RBI, the Micro-Finance Institutions Network (MFIN), and the Insurance Information Bureau of India.

Significant increase in the number of deposit accounts, largely because of the Jan-Dhan initiative. 2. Sharp increase in the number of credit accounts across regions.[10]

Technology has also been helpful in achieving gender parity and reduced the gap between richer and poorer adults. In India three years ago, men were 20 percentage points more likely than women to have an account. Today, India's gender gap has shrunk to 6 percentage points. This has been due to a strong government push to increase account ownership through biometric identification cards (Demirgüç-Kunt et al., 2018).

The recent revival of financial inclusion policies has been spearheaded by the Pradhan Mantri Jan-Dhan Yojana (PMJDY)**,** a National Mission on Financial Inclusion, launched by the Government of India in August 2014. The scheme was started with a target to provide 'universal access to banking facilities', starting with 'Basic Saving Bank Accounts' with an overdraft facility, a RuPay Debit card with inbuilt accident insurance cover of Rs. 1 lakh and other social security schemes. The scheme had a special focus on weaker sections and low-income groups. Table 4 shows that the scheme has had 32.25 crore beneficiaries till August 01, 2018. The RBI reports that after the demonetization exercise of 2016,[11] 23.3 million new accounts were opened, and there was a drastic rise in PMJDY accounts.[12] However, about 20 percent of these accounts lay dormant or not in regular use by September 2017.[13]

Table 1: Number of beneficiaries and deposits under the Pradhan Mantri Jan Dhan Yojana (PMJDY) (Figures in crores) (As on 01/08/2018)

Bank Name / Type	Number of Beneficiaries at rural/semi-urban centre bank branches	Number of Beneficiaries at urban metro centre bank branches	No Of Rural-Urban Female Beneficiaries	Number of total beneficiaries	Deposits in Accounts (In Crore)	Number of Rupay Debit Cards issued to beneficiaries
Public Sector Banks	14.02	12.03	13.52	26.05	64388.62	19.64
Regional Rural Banks	4.39	0.81	2.85	5.20	14072.06	3.70
Private Sector Banks	0.60	0.40	0.53	1.00	2214.15	0.93
Grand Total	**19.02**	**13.23**	**16.90**	**32.25**	**80674.82**	**24.27**

Source: PMJDY website

Financial inclusion has been one of the important areas of policy intervention by the Government of India. Box 1 shows the supply side and the demand side measures undertaken by the Government as well as initiatives taken by the RBI in the recent past.

10 The score in 2013 was 50.1 by 2012-13.

11 On 8 November 2016, India's Prime Minister Narendra Modi announced that, from midnight onwards, the country's two largest-denomination notes (Rs. 500 and Rs. 1,000) would be "demonetised", or withdrawn from use. The policy's aim was to tackle corruption, undermine counterfeiters and discourage hoarding of undeclared/black income in the economy.

12 For details, see https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/MID10031760E85BDAFEFD497193995BB1B6DBE602.PDF

13 Press information Bureau, Government of India. For details, see http://pib.nic.in/newsite/PrintRelease.aspx?relid=170751

Box 1: Efforts by the Indian government and RBI towards financial inclusion

Efforts by the Indian government towards financial inclusion

Financial inclusion has been a priority area for the Government of India. The objective has been to extend financial services to the large hitherto unserved population of the country and thereby unlock its growth potential. Some important schemes are summarized below:

- '**Swabhimaan'** is a financial security programme launched in February 2011 by the Government to ensure banking facilities in habitations with a population in excess of 2000 (as per 2001 Census) by March 2012. Its focus was on bringing the deprived sections of the society in the banking network. About 74351 villages with population of above 2000 had been covered with banking facilities either by branches; business correspondents (BCs), mobile banking etc., by March 31, 2012.
- **Direct Benefit Transfer (DBT):** The objective of the scheme is to ensure that money under various developmental schemes reaches beneficiaries directly and without any delay. The scheme was launched in the country from January, 2013 and rolled out in a phased manner. At present, DBT in 35 schemes have been expanded across India. Banks play a key role in implementation of DBT.
- **RuPay Card**: A card payment scheme conceived by the NPCI to offer a domestic, open-loop, multilateral card payment system allowing all banks and financial institutions in India to participate in electronic payments. It was launched in 2012. The purpose is to build a domestic card payment network at much lower and affordable costs to the Indian banks so that dependency on international card schemes is minimized.
- **Pradhan Mantri Jan-Dhan Yojana (PMJDY):** The PMJDY was launched in August 2014, and envisages universal access to banking facilities with at least one basic banking account for every household. Under the PMJDY, banks were to survey allocated sub service areas and wards and open accounts for all uncovered households by 26.01.2015. Of the 21.22 crore households surveyed, bank accounts were opened for 99.99% households.

The RBI's efforts at financial inclusion[14]

In recent years, the RBI has adopted a planned and structured approach to address the issues of financial inclusion, focusing both on the demand as well as supply side.[15] Some major initiatives taken in the recent years are summarized below.

- **Institutionalization of the framework of BCs:** As setting up a bricks and-mortar branch may not be viable in all cases, in January 2006, the RBI issued guidelines for engagement of BCs, as retail agents for providing banking and financial services at locations other than a bank branch/ATM. The BCs enable a bank to expand its outreach and offer a limited range of banking

[14] Former Reserve Bank of India (RBI) Governor Dr. Y.V. Reddy coined the term 'financial inclusion' while working on the draft of the annual monetary policy statement for the fiscal year 2006–07 (statement was issued on 18 April 2006), along with then deputy governor, Usha Thorat. They came across many policy actions addressing the issue of 'financial exclusion' and, in fact, Dr. Reddy had thought of using this term initially and announce measures to overcome it. But while finalizing the draft, it dawned on him that the central bank had been trying to encourage commercial banks and other financial intermediaries to reach out to more and more people and hence the right term for these activities should be 'financial inclusion' and not exclusion.

[15] For details, see RBI (2016a).

services at low cost. Permission was granted by RBI in April 2011 to domestic Scheduled Commercial Banks to open branches/ mobile branches/ Administrative Offices/CPCs (Service Branches) (i) in Tier 2 to Tier 6 centres, and, (ii) in rural, semi-urban and urban centres of the North-Eastern States. The requirements for opening bank accounts were simplified over time.

The RBI has encouraged banks to adopt a structured and planned approach to financial inclusion with preparation of Financial Inclusion Plans (FIPs). All domestic Scheduled Commercial Banks – in the public sector and private sector – were advised to draw up board-approved FIPs as an integral part of their business strategy based on their competitive advantage. [16] The first two phases of FIPs implemented over the period 2010-13 and 2013-16 were interspersed with implementation of the Government initiated the PMJDY during 2014-15.

In 2015, the RBI set up an Expert Committee on Medium-Term Path for Financial Inclusion under Deepak Mohanty to draw up a medium-term and long-term roadmap for financial inclusion. The committee made about 80 recommendations which are currently being pursued by the RBI. For convergence of the financial inclusion efforts of various stakeholders, the RBI reconstituted the high-level inter-institutional Financial Inclusion Advisory Committee in the same year for monitoring progress on Financial Inclusion and financial literacy; evaluation of its impact through studies/surveys and preparation of a 'National Strategy for Financial Inclusion'.

- **Operation of New Banking Entities:** Payments Banks and Small Finance Banks (SFBs) are a part of new model of banks or a set of differentiated structures conceptualized by the RBI.[17] On November 27, 2014, the RBI issued Guidelines for Licensing of Payments Banks and SFBs in the private sector. SFBs were set up to further financial inclusion through (i) provision of savings vehicles, and (ii) supply of credit to small business units; small and marginal farmers; micro and small industries; and other unorganised sector entities, through high technology-low cost operations.[18] Till now, 11 Payment Banks and 10 SFBs have received license from RBI to start banking operations in India.

  RBI has also been encouraging the use of mobile banking, pre-paid instruments in the form of digital wallets and mobile wallets, operationalization of the *Aadhaar* Bridge Payment System and *Aadhaar*-Enabled Payment system, etc., to promote financial inclusion.

- **Demand-Side Interventions: Financial Literacy Centres (FLCs)/ Rural Self-Employment Training Institutes -** In 2012, RBI mandated it for banks to set up FLCs to further the cause of financial literacy and prepare target-specific content for the interest groups in the country. As on March 2016, 1384 FLCs were operational in the country. A pilot project for setting up 100 Centres for Financial Literacy at block level to scale up the FLC infrastructure was initiated during 2015-16.

- **Financial Inclusion Plans for banks (2016-19):** In the third phase of Financial Inclusion Plans (2016-19), the focus of the RBI is on more comprehensive monitoring of progress made by banks at district level and take initiatives, particularly on the demand side.

Source: Authors' compilation using various sources

[16] These plans include self-set targets with respect to: opening rural bricks- and-mortar branches; BCs employed; coverage of unbanked villages through branches/BCs/other modes, opening of Basic Savings bank deposit accounts (BSBDAs) including through BC-ICT; issuance of Kisan Credit Cards (KCC) and General Credit Cards (GCC) and other products aimed at the financially excluded segments.

[17] http://pib.nic.in/newsite/PrintRelease.aspx?relid=175911

[18] https://rbi.org.in/SCRIPTS/BS_PressReleaseDisplay.aspx?prid=32614

4. Role of NBFCs in financial inclusion

Financial inclusion is necessary since credit is critical in a country like India where a large percentage of the population is either self-employed, or engaged in small informal businesses (Rajeev and Vani, 2017). Contrary to popular understanding, financial inclusion is not limited to basic banking services or commercial banking. While acknowledging the importance of access to credit for productive purposes, a total integration with financial market also means access to services like insurance and consumption loans. Credit facilities in India come from various sources which can be broadly classified as formal (banks, non-banking financial companies or NBFCs, MFIs[19]) or informal (money lenders, friends and relatives etc.).

As discussed earlier, the size of the unbanked population in India is huge and ensuring quality access to financial services remains an uphill task. The issue is more critical when it comes to availability of credit, especially small ticket loans for consumption. The level of exclusion is huge as commercial banks tend to discourage such loans owing to high transaction costs. Add to this the demand for small ticket loans seem to arise from consumers who are perceived to be risky owing to lack of credit history and low income levels. While the micro finance sector traditionally has been providing small loans these are mostly income-generating loans under joint liability lending or following the self-help group model; individual loans are far and few between. The informal sector money lenders have been filling this lacuna.[20]

The issue was highlighted in the Report of the Household Finance Committee (RBI, 2017b) which maintained that the main approach to systematic reduction of informal credit from non-formal unregulated institutional sources such as moneylenders is to expand the banking network to reach unbanked areas in India.[21] The committee, quoting the Financial Inclusion Insights Survey (2015), points out that the correlation between access and use of bank accounts in India is 0.59, which is not particularly high. This suggests that policies need to go beyond provision of bank accounts and enable effective use of finance amongst Indian households. At the same time, it acknowledges the effectiveness of PMJDY in creating new demand for formal bank credit from households that were previously unbanked. Thus, policies to ensure universal banking enable households to create formal credit histories; and learn and build experience with the formal financial system.

Some discrepancy in access to credit has also been observed in the urban and rural areas as well. Rajeev and Vani's (2017) analysis of NSSO unit record (household level) data (AIDIS, 59th and 70th Rounds) reveals that urban households find it more difficult to get loans

---

19 Microfinance loans are primarily meant for starting income generating activities. However, money being fungible the borrowed money is often used partially for meeting consumption expenses (See Duflo et al., 2013).

20 The Indian financial market is yet to shed its informal nature from both demand and supply side. In 1950-51, 7.2% of total rural credit was from intuitional sources. The share of private moneylenders had decreased from nearly 93% to about a third by the turn of the millennium. Despite gains in financial inclusion over the years, the interaction of majority with the market is nil or far from satisfactory. Financial inclusion is necessary since credit is critical in a country like India where a large percentage of the population is either self employed or in small informal businesses (Rajeev and Vani, 2017).

21 In 1950-51, 7.2% of total rural credit was from institutional sources. The share of private moneylenders had decreased from nearly 93% to about a third by the turn of the millennium.

compared to their rural counterparts, and they generally get fewer loans from both, formal and informal lending sources. Also, poorer sections avail loans more from the informal sector at much higher rates of interest. Therefore, there is a need to improve the credit delivery system for the urban poor, especially the self-employed. A comparison of interest rates charged by informal markets across households of different economic strata and states has been also made by this study.

Non banking financial companies (NBFCs) have been competing with and complementing the activities of banks over the past few decades in the process of financial intermediation. They have even been termed as 'shadow banks' by the Financial Stability Board (FSB).[22] They are regulated by the RBI and are gaining increasing importance in the Indian financial system, accounting for about 9 percent of the total assets of the financial sector – the third largest segment after scheduled commercial banks or SCBs (64 percent) and insurance companies (14 percent) (RBI, 2014a). In the wake of the slowdown in bank credit on account of asset quality stress in recent years, the double-digit growth in credit by NBFCs has emphasized their role as a reliable credit provider in India's financial system (RBI, 2017c).

NBFCs in India have evolved in terms of their operations, reach and profitability over the years. Based on activities undertaken, NBFCs are classified into 12 major categories.[23] They now specialize in a number of areas such as financing commercial vehicles (for example, Shriram Transport Finance), loans against gold (Manappuram Finance or Muthoot Finance), finance infrastructure (Srei infrastructure, IDFC, etc.) or consumer durables (Bajaj Finance or Capital First).[24]

The Financial Stability Report of the RBI (2014b) of June 2014 noted that, "given the relatively limited reach of the formal financial system, such entities may be playing an important role in supporting the efforts towards financial inclusion." By extending credit to the unbanked, these entities are contributing immensely to financial inclusion. A report published in 2015 by the Boston Consulting Group and the CII (BCG-CII, 2015) noted that NBFC credit growth would further accelerate in the next 5-10 years in India. The NBFC sector would evolve and transform to serve the latent credit needs of the emerging India. For this, the NBFCs will have to embrace digital tools to dramatically enhance internal productivity (sales, operations and pricing). The emerging NBFCs (called NBFC 2.0) will augment the strengths of the existing NBFCs (called NBFC 1.0) in various areas.

Ever since the default of the Infrastructure Leasing and Financial Services (IL&FS) on its debt obligations, the spotlight is on NBFCs in India. There are indications of asset liability

---

[22] Non-Banking financial companies (NBFCs) are companies registered under the Companies Act, 1956 and per Section 45 (I) of the RBI Act, 1934, 'engaged in the business of making loans, advances, acquisition of shares, stock, bonds, debentures, or securities issued by the Government or local authority or other securities of marketable nature, leasing, hire-purchase, insurance and chit business.'

[23] For details, see RBI (2017c).

[24] For lists of different categories of NBFCs registered with the RBI, see https://rbi.org.in/Scripts/BS_NBFCList.aspx

mismatch of some NBFCs.[25] The NBFC sector borrows from via debentures and banks and lend to the industry. In the latter, they seem to be no different from banks (40% of credit of banks goes to industry, Chandrasekhar and Ghosh, 2018). However, it is thought that NBFCs primarily lend to small and medium enterprises (SMEs) rather than large infrastructure projects that banks fund. While non-performing assets (NPAs) of banks have been growing (and has been widely discussed), NPAs of NBFCs have also been growing. The current crisis also reflects the interconnectedness of the banking system. The latest Financial Stability Report, 2018 points out that while the SCBs are the dominant players in the financial system accounting for 46% of bilateral exposure, NBFCs were at 12%. In terms of intersectoral exposure, NBFCs were the dominant receivers of funds.

Currently, every NBFC-NDSI (systemically important non-deposit taking non-banking financial company) have to report their Capital to Risk Assets Ratio, exposure to real estates, both direct and indirect as well maturity pattern of assets and liabilities in their balance sheet.[26] The RBI has announced recently that it will review its guidelines regarding asset liability reporting by NBFCs.

5. The Consumer Finance sector

Consumer finance refers to activities involved in granting credit to consumers to enable them to purchase goods for everyday use. Consumer loan is a type of loan which is given to an individual in a non-secured basis[27] for personal, family, vehicles and home loans etc. Most of these loans are unsecured without any collateral for security to the lending institution and are largely used to finance personal consumption like vehicles, consumer durables etc. The market is fast expanding with both scheduled commercial banks and non-banking finance companies aggressively expanding the portfolios.

The RBI Committee on Household Finance (RBI, 2017b) enquired about the sources of financial vulnerability and how Indian households manage financial risks (using data from the Financial Inclusion Insights Survey). It found that while half of the population depends on help from family, friends and moneylenders, only a quarter are able to deal with emergency expenses using accumulated wealth. Formal financial institutions are hardly in the picture, meaning that the current financial system fails to achieve one of its most important goals of helping households smoothen cash flows and consumption patterns.[28] It is further estimated that if households shift from non-institutional to institutional debt, they can move between 2.5 and 5.5 percentage points, respectively, up the wealth distribution (RBI, 2017b).

The All India Debt and Investment Survey (AIDIS) by the NSSO reveals interesting trends about consumption loans in India. About 65% of the total amount of cash debt outstanding on 30.06.2012 among rural households, and 52% of the same among urban households had been

25 The Financial Stability Report 2010 had noted that NBFCs could be prone to asset liability mismatches and hence exposed to liquidity risks due to their funding from mutual funds. In the third quarter of 2008-09, such a liquidity crunch was faced by the NBFCs.

26 RBI Notification No. DNBS. 200 / CGM(PK)-2008 dated August 1, 2008.

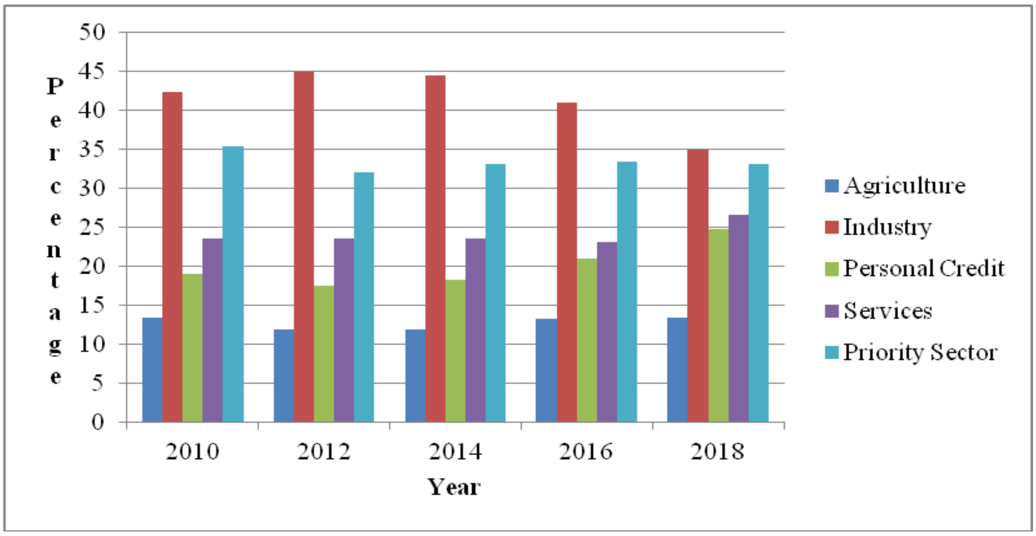
27 A loan which is in a non-secured basis means, without any collateral for security to the bank.

28 See Collins et al. (2010).

contracted for a relatively short duration of less than two years, and a meager 2% for a period of 10 years or more for both the sectors. The non-*institutional* agencies provided a significant amount of their total loans to households at an interest as high as 20% or above, the share of such loans to total was 69% in the rural, and 58% in the urban areas. Much of the debt is incurred for non-business purposes: the percentage share of debt against 'non-business expenditure' is seen to decrease from about 85%, in the bottom class, to about 44.5% in the top class in the rural, and from 99% in the bottom class to 76% in the top class – bottom deciles take loans mostly for non-productive purposes. The results from the AIDIS hint that there is a high demand for small loans for smaller durations for non-business purposes: a formal consumer finance industry can address this demand effectively and displace unregulated non-institutional players.

Within bank credit, retail credit/ personal credit, is a segment that has been gaining much traction in the recent times. The share of personal credit in the gross credits extended by scheduled commercial banks has been steadily rising in the last few years. Currently, it accounts for about 25% of gross banking credit in India with total outstanding loans of Rs. 19445 billion as of July 2018.[29] We note the rising importance of personal credit over the years in Figure 4. Figure 5 shows the share of personal credit deployed by banks and its trends over the years.

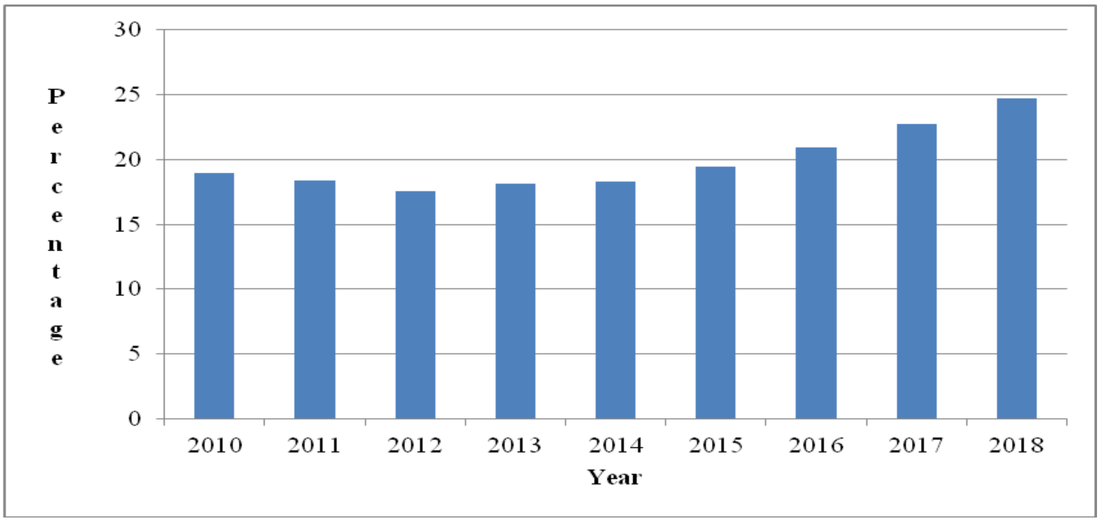
Figure 4: Sectoral deployment of bank credit in India



Source: Authors' compilation using RBI data

29 For details, see RBI Press Releases on Sectoral Deployment of Bank Credit - https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=44877

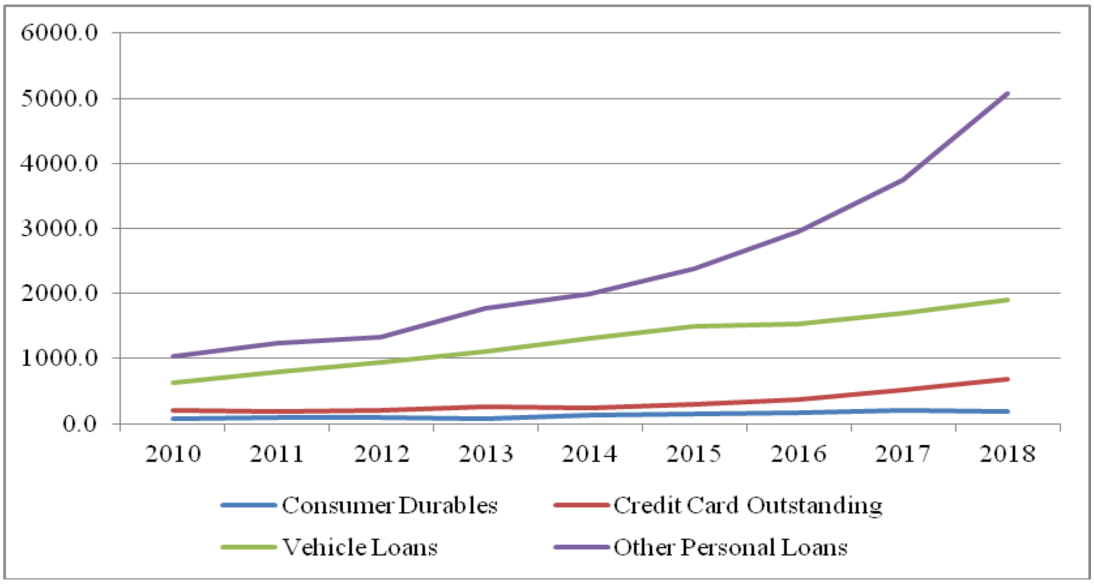
Figure 5: Share of personal credit deployed by banks



Source: Authors' compilation using RBI data

Figure 6 shows that within personal/retail credit, housing loans and vehicle loans form the biggest chunk, while other loan products like consumer durable loans, credit cards, education and individual advances are also showing impressive growth.

Figure 6: Growth trajectory of select sectors of personal bank credit



Source: Authors' compilation using RBI data

Along with the growth in the retail credit in the banking sector, India is also witnessing a rapid growth in non banking companies specializing in consumer credit. Some of the major players include NBFCs like Tata Capital Financial Services Limited, Bajaj Finserve, Home Credit India, HDB Financial Services. A study by Credit Suisse (2015) asserts that the consumer lending market in India is expected to be a US$1.2 trillion opportunity for the organized lenders by 2020. Though comparatively much smaller than the banking sector, the

NBFCs are actively trying to expand the consumer lending business in India. The growth in NBFC credit to retail segments stands testimony to this. Though the bulk of NBFC credit still goes to industrial sector (about 60% in 2017), retail credit (16.8% of total credit by NBFCs) was the fastest growing segment in the FY 2016-17 (RBI, 2017d). Interestingly, within the retail sector; it was the consumer durables and credit card receivables which registered impressive growths. While the former grew by 83.9% in 2016-17, the latter had a percentage variation of 50%. Vehicle loans, the largest component within the retail sector (41.5%) had in fact regressed with a decline in actuals. While the reason for decline of vehicle loans is largely attributed to transient impact of demonetization (RBI, 2017d), credit to consumer durables and credit card receivables seems to have largely remained unaffected.

5.1 Perception of Indians towards consumer loans - Survey

With a view to understanding the perceptions of people towards credits and loans, particularly in the consumer finance segment in the urban areas of India, a survey was undertaken by ICRIER in March and April, 2018. The survey covered 844 respondents across five cities: Bangalore, Bhopal, Delhi, Kolkata, and Mumbai. The objective was to gauge the importance of consumer finance in financial inclusion. Middle-income and lower-income group respondents (defined as monthly household income of Rs. 25000 and above and monthly household income of Rs. 25000 and below respectively) were included.

Table 2 shows the characteristics of the sample. The survey covered 568 males and 276 females. Hence about one third of the respondents were women. The average income of the sample was Rs. 13443.6. The lowest monthly income was Rs. 1500 (US$ 22.50) while the highest was Rs. 80000 (US$ 1199). 179 respondents had no income - of these 67 were students and 100 were homemakers.[30] Figure 7 shows the city-wide distribution of the respondents.

Table 2: Sample characteristics

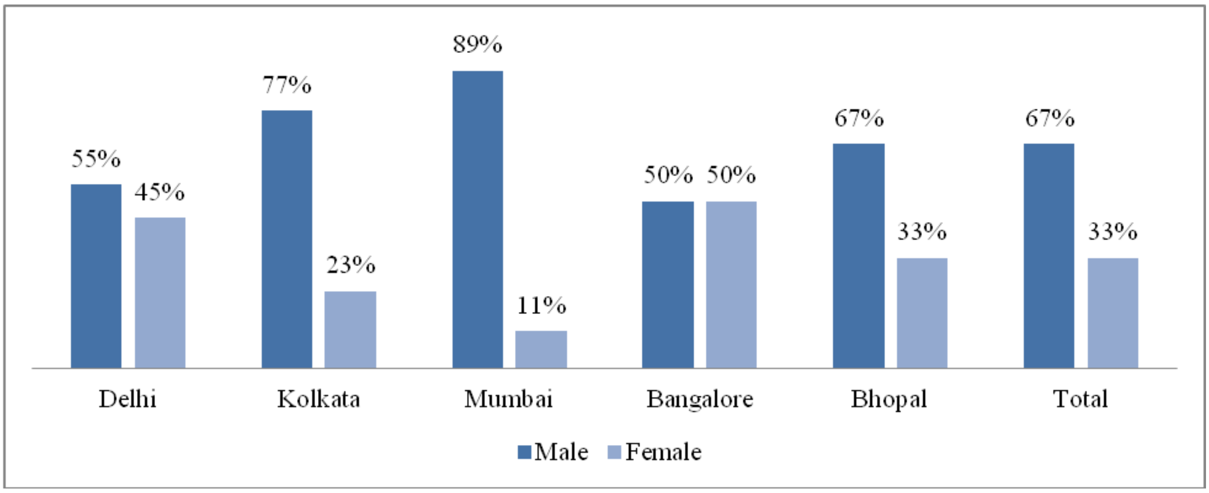
	Observations	%	Mean	Standard Deviation	Minimum	Maximum
Gender	844		0.327	0.469		
Age (Years)	844		35.150	10.591	18	70
Married (%)	844	72	0.295	0.479		
Secondary education or higher (%)	844	50	3.316	1.391		
Income (Rs.)	844		13443.6	13451.8	0	80000
Own house	844	65	0.706	0.456		

Source: Authors' compilation

Note: The minimum and maximum of binary variables is not reported in the table.

30 The respondents fell into four categories of monthly family income: < Rs.10000 (18%), 10000-25000 (41%), 25000-50000 (31%), and > 50000 (10%).

Figure 7: Male and female distribution in the five cities



Source: Primary survey

The city-wide distribution of the respondents, along with other characteristics is presented in Table 3. About 65% of the respondents owned a house, and 72% of the respondents were married. Approximately 50% of the respondents had secondary education or higher degrees. The table also reports the number of male and female respondents, the average age of the respondents and the education level of the respondents. This is reported in two ways: first, the number of respondents in each city educated up to high school level and below, and, number of respondents educated to senior secondary (Class 12) level or above. Data on the employment profile of the five cities is also presented in Table 3.

Table 3: Distribution of respondents across the cities

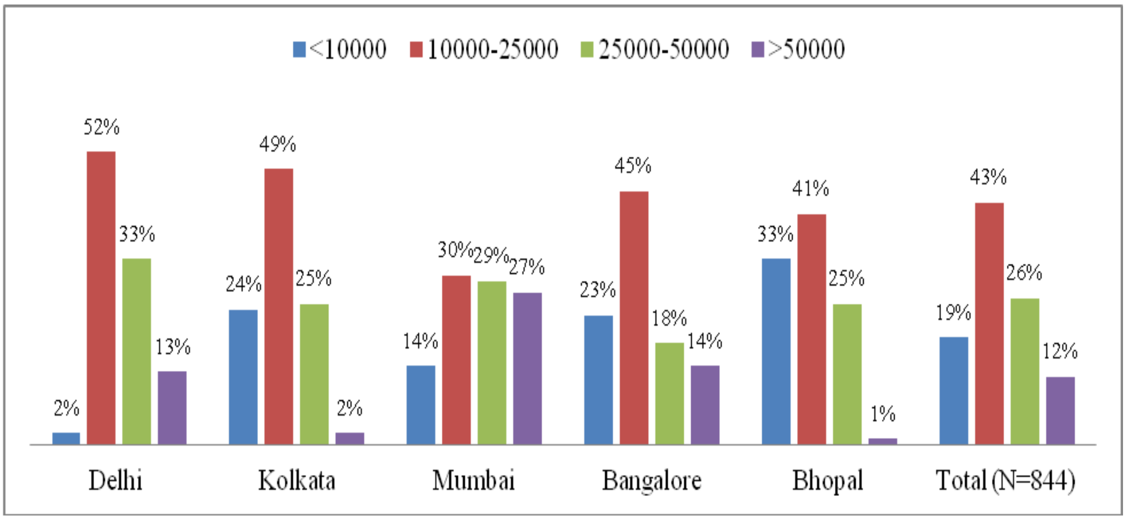
	Bangalore	Bhopal	Delhi	Kolkata	Mumbai	Total Respondents	% of total
No. respondents (male)	94	108	90	132	144		67
No. of respondents (female)	94	52	73	40	17		33
Total number of respondents	188	160	163	172	161		
Average age of respondent	34	33	34	40	35		
Education							
Education level (number of respondents with high school and below)	53	87	95	103	87		50
Education level (number of respondents with senior secondary and above)	135	75	68	69	74		50
Employment							
Employment type - daily wage (% of persons engaged in daily wage by total number of daily wagers)	4	24	39	12	20	123	
Employment type - home maker (% of persons engaged as home maker by total number of home makers)	47	47	47	47	47	106	
Employment type - salaried (% of persons engaged in daily wage by total number of salaried)	54	5	23	17	1	157	
Employment type - self-employed (% of persons engaged in daily wage by total number of self-employed)	16	13	29	17	24	190	
Employment type - students (% of persons engaged in daily wage by total number of students)	8	23	10	29	30	218	
Financial inclusion							
Number of persons with bank account	184	138	153	168	111	754	
Number of persons with loans for consumer durables	132	24	29	61	8	254	
Number of persons with other loans	90	41	31	61	8	231	
Persons without any loans	54	136	134	111	153	588	
Family characteristics							
Type of family – nuclear (%)	92	27	44	82	56		62
Total number of family members (average)	4	5	5	5	4		5

Source: Authors' compilation

About 89% of the respondents had a bank account. Of the 90 persons who did not have an account, 69 were males, while 21 were female. 457 (54%) respondents had bought a consumer durable in the past year. 254 respondents reported having taken a loan to buy a consumer durable in the past year. The source of funds to buy consumer durables, and mobile phones in particular included (only 256 answered this question): banks, 6%; family and friends, 3%; EMIs 36%, while the bulk, 54%, used their own savings. The family income of respondents can be divided into four categories: a) < Rs.10000 b) 10000-25000, c) 25000-

50000, and d) > 50000. The percent of respondents in each of these categories were 19, 43, 26 and 11% respectively. Figure 8 below shows the income distribution of the respondents by city.

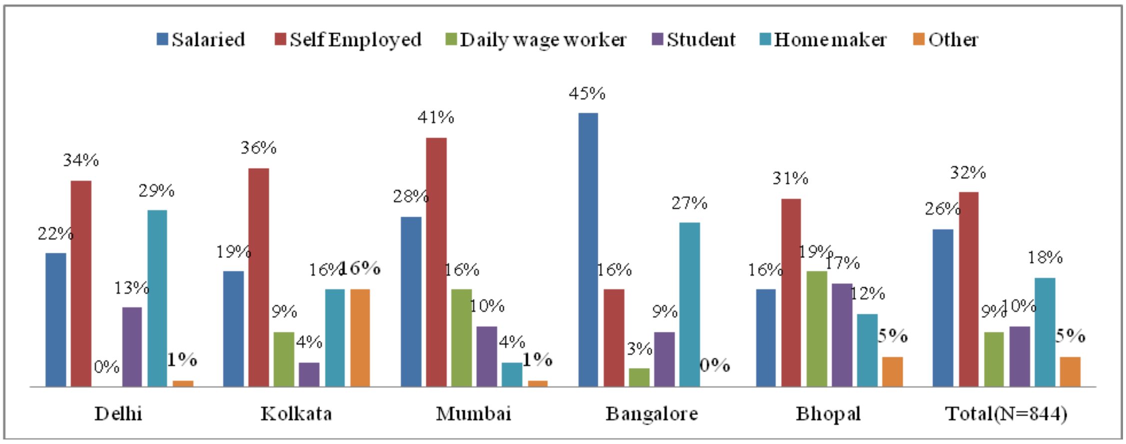
Figure 8: Income distribution of respondents in five cities



Source: Primary survey

From Figure 9, presented below, we note the employment profile of the respondents in the five cities. There are five main categories: daily wage worker, salaried, home maker, self employed and student. The share of each of the above categories is 15, 13, 19, 23 and 26 respectively. The largest group of respondents in Delhi, Mumbai, Kolkata and Bhopal is self-employed, while the largest group in Bangalore is salaried. The second largest group in two cities, Mumbai and Kolkata is salaried; in Delhi, the second largest group is in the home maker category, while in Bhopal it is daily wage worker. Some cities also had a sixth category, ‘other’, which included causal workers, or people who had their own shops, unemployed or retired persons. The share of this category in overall employment is 6%.

Figure 9: Employment profile of respondents

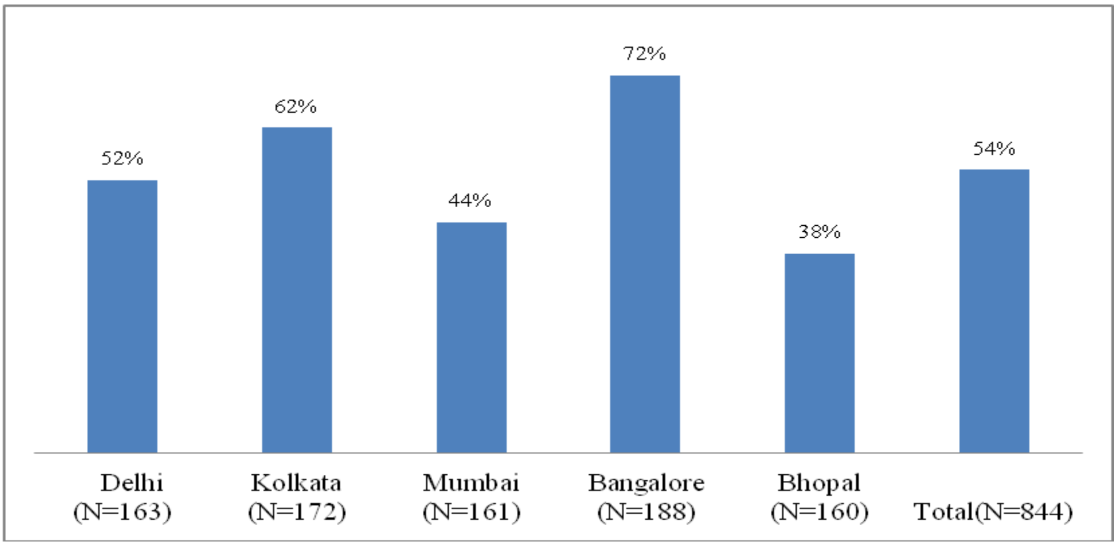


Source: Primary survey

5.2 Key messages from the survey

The city-wise distribution of data (shown in Figure 10), shows that the highest number of respondents who (72%) had bought consumer durables in the last year were from Bangalore followed by Kolkata (62%) and Delhi (52%). Bhopal reported the lowest, with just about one-third (38%), having made any such purchase.

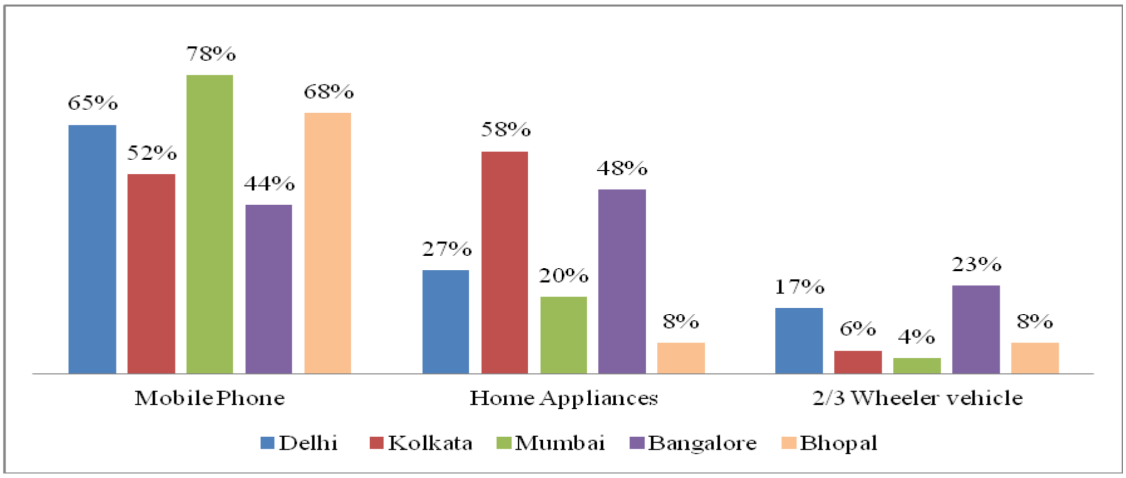
Figure 10: Status of Purchase of Consumer Durables - cities



Source: Primary survey

City-wise analysis of items bought shown in Figure 11 suggests that mobile phone purchase were the highest in Mumbai (78%) followed by Bhopal (68%); kitchen/home appliances purchases were highest in Kolkata (58%) followed by Bangalore (48%); and 2-3 wheeler purchases were highest in Bangalore (23%) followed by Delhi (17%).

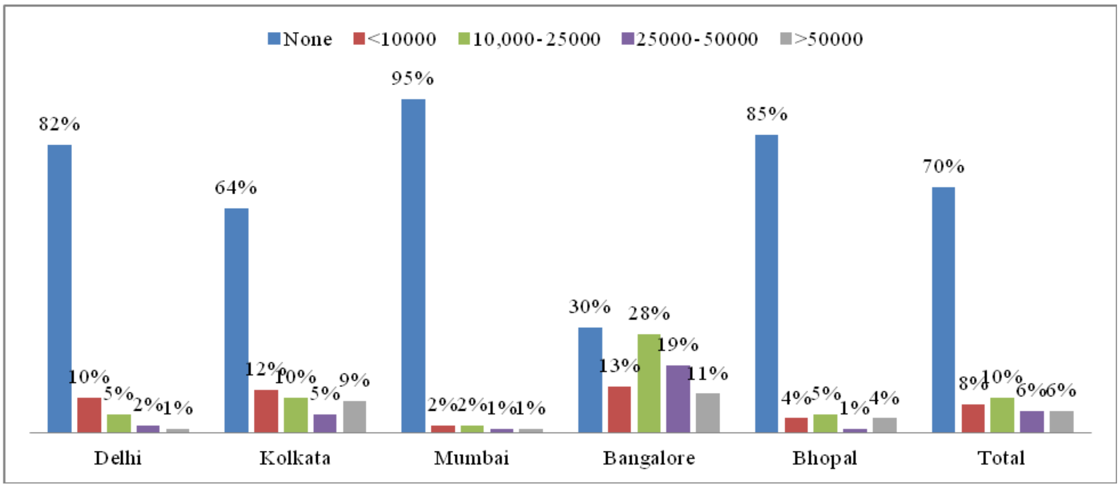
Figure 11: Consumer Durables Bought in Cities



Source: Primary survey

One of the study's key questions was whether the respondents were aware of the availability of loans for consumer products such as mobile phones/ kitchen/ home appliances, laptops or two-wheelers and three-wheelers from NBFCs such as Bajaj Finserve, and Capital First. More than half (56%) of the participants responded in the affirmative, of which, 67% were in the middle-income group, while 44% were in the low-income group. At 74%, Bangalore had the highest number of respondents, while only 31% of respondents in Bhopal were aware of the existence of loans through NBFCs. Bangalore also had the highest proportion of respondents who had availed of loans: 70% (belonging to different income slabs) said that they had availed of such loans in different slabs. The quantum of consumer loans taken by the respondents is shown in Figure 13. In Mumbai, 95% of the respondents reported that they had not taken any such loans in the last year. The participants were also asked about the overall debt of the households. When other forms of outstanding debt is considered, it was found that much of the debt originated from formal sources. In Bhopal, 98% of participants reported that they had taken loans from formal sources while for Bangalore, the corresponding figure was 88%. Out of the respondents in Kolkata, 54% reported that they took most of their loans from informal sources. The source of the loans is reported in Figure 13.

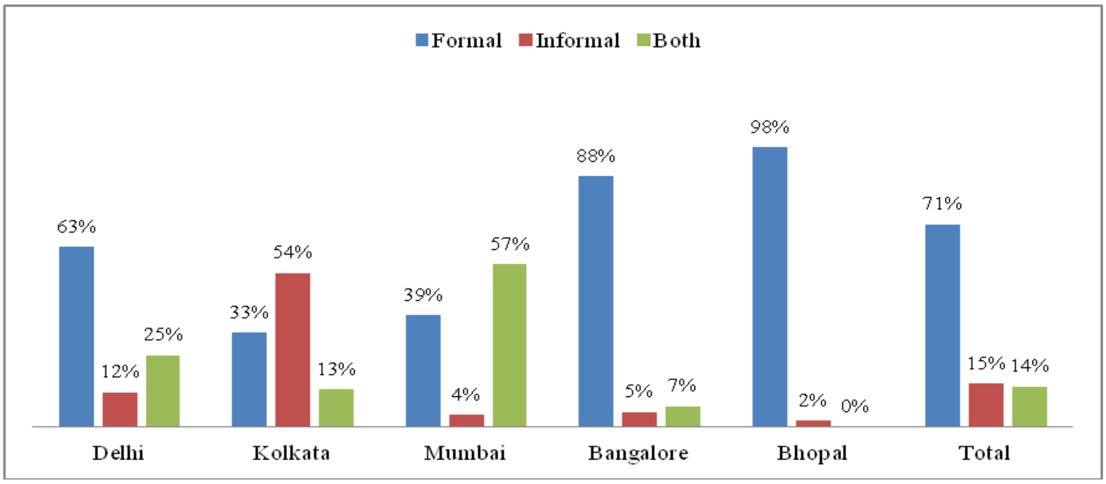
Figure 12: Quantum of consumer Loans- cities



Source: Primary survey

The respondents revealed that the increased possibilities of availing consumer loans from banks and NBFCs was financially empowering as they did not have to wait for their savings to accumulate for longer periods of time. The respondents were also asked whether they had had any difficulty getting such loans and overall, 74% said that there had been difficulties in getting bank loans. The corresponding percentage of respondents who had faced difficulties in taking loans from NBFCs was significantly lower (8%). When asked about the kind of difficulties they faced, no clear factor emerged, for either kind of institution. Overall, almost three-fourths of the respondents cited a lack of clarity in procedures, in both kinds of institution. Overall, 29% respondents said the other difficulty they faced was with extensive paperwork that banks required; just 8% of respondent reported difficulties with loans from NBFCs.

Figure 13: Source of all loans - cities



Source: Primary survey

With respect to mode of repayment of bank loans, 95% of the respondents said they paid off loans through bank account debits. Banks used cash collection by agents and by merchants at the point of sale. When respondents were asked whether they were open to taking consumer finance from NBFCs in the near future, 76% of the respondents said they were willing. In Bhopal, 98% of the respondents said that they were likely to avail consumer finances in the near future. Nine out of every ten respondents in Kolkata said that they would take loans, while in Mumbai, almost half of the respondents gave a negative reply.

The respondents were asked where they had heard about bank loans and loans from NBFCs. Overall, 81% of the respondents got their information about the bank from their retailers, while the corresponding figure was 73% for NBFCs suggesting the important role played by publicity at the point of purchase. Another 19% and 23% people got information about the bank and NBFCs, respectively, from their relatives or friends.

6. Concluding remarks

Financial inclusion has emerged as one of the most critical development challenge. For a country like India, with a large unbanked population this is particularly so. Schemes like the PMJDY are greatly aiding this goal of the government. While there have been many recent efforts towards financial inclusion by the RBI as well as the Government of India, there are many challenges still: it is in this context that NBFCs can play an important part. This opens up an unprecedented opportunity for all players in the financial market including consumer finance companies.

While the market for consumer goods is constantly evolving and expanding into hitherto untapped sections of society, there are also a large number people getting integrated into the formal financial market. With the increased use of technology and digital intervention, not only are new players entering the market, but existing players are also diversifying their products. This intensifies the competition as the same segment is being targeted by many players.

Aided by impressive and consistent growths in national income, private consumption has been expanding. Currently private final consumption expenditure accounts for about 55% of national GDP and has been growing consistently over the last few years (CSO, 2017).[31] According to the RBI, in the past three years, personal loans or household debts have grown at a CAGR of 18% against 10.2% CAGR in India's gross national disposable income (at current prices) during the period. Dubbed as the fifth largest retail market in the world (FICCI, n.d), the Indian market is expected to continue its growth as much of the market potential is yet to be realised. The RBI has raised concerns about the growing share of final consumption expenditure (private and government), in India's incremental GDP growth in its Annual Report for FY2017 (RBI, 2017e). This may result in higher household indebtedness that may threaten the sustainability of India's growth model in the longer term.

From the consumer survey presented in the paper, which captures the perceptions of a very small slice of the population, several messages emerge. Firstly, there are very many important differences among the cities. There is appetite for more credit in cities which are relatively more underserved. The other important finding is that for most people taking a loan, publicity at the point of sales, helps in decision-making. For the poor, managing money is central to their life, more than any other group (Collins et al., 2010). For such people particularly, clarity of procedures was a daunting challenge. This brings to the fore, the importance of financial literacy. This is the key to achieving greater financial inclusion in the country.

---

[31] http://www.mospi.gov.in/sites/default/files/reports_and_publication/statistical_publication/National_Accounts/NAS17/NAS2017.pdf

References

Boston Consulting Group –Confederation of Indian Industries (2015). NBFC 2.0: Enormous Potential in Non-Banking Finance and Ways to make it Happen.

Chandrasekhar, C.P. and Ghosh, J. (2018). The Banking Conundrum: Non-Performing Assets and Neo-Liberal Reform, *Economic and Political Weekly*, March 31.

Collins, D., Morduch, J., Rutherford, S., and Ruthven, O. (2010). Portfolios of the poor: how the world's poor live on $2 a day. Princeton University Press.

Credit Suisse (2015), India financials sector, sector forecast- retail loans: A second coming. Asia Pacific/India Equity Research.

Crisil Inclusix (2018) Crisil, February. Accessed from https://www.crisil.com/content/dam/crisil/our-analysis/reports/Research/documents/2018/march/crisil-inclusix-financial-inclusion-surges-driven-by-Jan-Dhan-yojana.pdf

CSO, Central Statistics Office (2017). National Accounts Statistics 2017. Central Statistics Office, Ministry of Statistics & Programme Implementation, Government of India, New Delhi.

Demirgüç-Kunt, A., Klapper, L., Singer, D., Ansar, S., and Hess, J. (2018). *The Global Findex Database 2017: Measuring Financial Inclusion and the Fintech Revolution.* Washington, DC: World Bank. doi:10.1596/978-1-4648-1259-0. License: Creative Commons Attribution CC BY 3.0 IGO.

Demirgüç-Kunt, A., Beck, T., Honohan, P. (2008). Finance for all?: Policies and pitfalls in expanding access. A World Bank policy research report. Washington DC; World Bank.

Disney, R. and Gathergood, J. (2013). Financial literacy and consumer credit portfolios. Journal of Banking & Finance, 37(7): 2246-2254.

Duflo, E., Banerjee, A., Glennerster, R., and Kinnan, C. J. (2013). The miracle of microfinance? Evidence from a randomized evaluation, NBER Working paper # 18950.

FICCI, Federation of Indian Chambers of commerce and Industries (n.d). Retail & Internal Trade. Accessed from http://ficci.in/sector.asp?sectorid=33, on 13th July 2013

Hilgert, M. A., Hogarth, J. M., and Beverly, S. G. (2003). Household financial management: The connection between knowledge and behavior. Federal Reserve Bulletin, pages 309-322.

Lindholm, R. W. (1964). Consumer Credit and Economic Growth. *Challenge*, 13(2), 20-22.

McKinsey and company (2013), Retail banking in Asia Actionable insights for new opportunities.

NSSO, National Sample Survey Office (2014). Key Indicators of Debt and Investment in India, NSS 70th Round, 2013. National Sample Survey Office, Ministry of Statistics & Programme Implementation, Government of India, New Delhi.

Planning Commission (2009), A Hundred Small Steps - Report of the Committee on Financial Sector Reforms. Government of India. New Delhi. Available at http://planningcommission.nic.in/reports/genrep/rep_fr/cfsr_all.pdf (last accessed on September 22, 2017).

Rajeev, M., and Vani, B. P. (2017). Financial Access of the Urban Poor in India: A Story of Exclusion. Springer.

RBI (2008). Draft Report on 'Financial Literacy and Credit Counselling Centres'. Apr 03, 2008. Available at https://m.rbi.org.in/scripts/PublicationDraftReports.aspx?ID=526 (last accessed on September 22, 2017).

RBI, Reserve Bank of India (2014a). Financial Stability Report, Issue No 9, June 2014. Reserve Bank of India, Government of India, Mumbai. Accessed from https://rbidocs.rbi.org.in/rdocs/PublicationReport/Pdfs/0FSR26062014F.pdf, on 22nd July 2018.

RBI (2014b). Financial Stability Report, December, Issue no. 10, December. Reserve Bank of India, Mumbai

RBI (2015a), Report on the Committee on Medium-term Path on Financial Inclusion. December. https://rbidocs.rbi.org.in/rdocs/PublicationReport/Pdfs/FFIRA27F4530706A41A0BC394D01CB4892CC.PDF (last accessed on September 22, 2017).

RBI (2015b). Report on Trend and Progress of Banking In India 2014-15.

RBI (2016a). Financial Inclusion in India – The Journey so far and the Way Ahead, Speech by Mr. S. S. Mundra, Deputy Governor - September 19, 2016 - at the BRICS Workshop on Financial Inclusion in Mumbai. Available at https://www.rbi.org.in/scripts/BS_SpeechesView.aspx?Id=1024 (last accessed on June 04, 2017). Reserve Bank of India.

RBI (2016b). Financial Stability Report. Issue No. 13. Reserve Bank of India.

RBI (2016c). Report on Trend and Progress of Banking in India 2015-16. Reserve Bank of India. December.

RBI, Reserve Bank of India (2017a). Annual Report 2016-17. Reserve Bank of India, Government of India, Mumbai. Accessed from https://rbidocs.rbi.org.in/rdocs/

AnnualReport/PDFs/RBIAR201617_FE1DA2F97D61249B1B21C4EA66250841F.PDF on September 23, 2017.

RBI, Reserve Bank of India (2017b). Indian Household Finance, Report of the Household Finance Committee. Accessed from https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=41471, on 22nd July 2018.

RBI (2017c). Non-Banking Finance Companies in India's Financial Landscape, October 10. https://www.rbi.org.in/scripts/BS_ViewBulletin.aspx?Id=17147#F2

RBI, Reserve Bank of India (2017d). Report on Trend and Progress of Banking In India 2016-17. Reserve Bank of India, Government of India, Mumbai.

RBI, Reserve Bank of India (2017e). List of NDSI NBFC Registered with RBI as on April 30, 2017. Accessed from https://www.rbi.org.in/scripts/bs_nbfclist.aspx, on August 05, 2017.

RBI (2017 f). Review of Guidelines on "Pricing of Credit", February 02. RBI/2016-17/219, DNBR.CC.PD.No. 084/22.10.038/2016-17.

RBI, Reserve Bank of India (2018). Financial Stability Report, Issue No. 17, June 2018.

Sethuraman, J. (2010), Retail Banking - Models, Strategies, Performances and the Future The Indian Scenario. http://www.iibf.org.in/documents/reseach-report/Report-12.pdf

Singh, N. (2017). Financial inclusion Concepts, Issues and policies for India, IGC.

Stiglitz, J. E., and Weiss, A. (1981). Credit rationing in markets with imperfect information. *The American Economic Review*, 71(3), 393-410.

S&P (2015). 'Financial Literacy around the world: Insights from the Standard & Poor's Ratings Services Global Financial Literacy Survey', available at http://gflec.org/wp-content/uploads/2015/11/3313-Finlit_Report_FINAL-5.11.16.pdf?x87657 (last accessed on August 02, 2018).

World Bank (2004). Credit Bureau Development in South Asia, Finance and Private Sector Development Unit South Asia Region. The World Bank. Analysis Report on South Asian Credit Information Bureau Development based on a two-day conference organized by the World Bank, the Central Bank of Sri Lanka, and the Credit Information Bureau of Sri Lanka (CRIB), on May 10–11, 2004, in Colombo, Sri Lanka.

World Bank. (2014a). The Global Findex Database 2014 - Measuring Financial Inclusion around the World. World Bank Policy Research Working Paper 7255. Authored by Demirgüç-Kunt, A., Klapper, L., Singer, D., and Van Oudheusden, P.

World Bank (2014b). Global Financial Development Report 2014: Financial Inclusion. Washington, DC.

Xu, L. and Zia, B. (2012). Financial literacy around the world: An overview of the evidence with practical suggestions for the way forward. Policy Research Working Paper, World Bank, Washington, DC, 6107.

Websites

https://www.rbi.org.in/Scripts/FAQView.aspx?Id=92

https://rbi.org.in/scripts/FAQView.aspx?Id=102

https://www.rbi.org.in/scripts/bs_viewcontent.aspx?Id=2705

https://www.rbi.org.in/scripts/bs_nbfclist.aspx

https://www.rbi.org.in/scripts/BS_ViewMasCirculardetails.aspx?id=9012

https://static-02.vndirect.com.vn/uploads/prod/VPB_Initiation_20171204.pdf

http://www.worldbank.org/en/country/vietnam

http://www.itpc.gov.vn/importers/news/2018/01/2018-01-09.213221/MISNews_view/?set_language=en

Newspaper Articles

‘RBI release new outsourcing norms for NBFCs’, By Joel Rebello, Economic Times, Nov 09, 2017. https://economictimes.indiatimes.com/news/economy/policy/rbi-asks-nbfcs-not-to-use-coercion-during-loan-recovery/articleshow/61582939.cms

‘Live roundtable talk on consumer finance’, July 12, 2017. http://www.vir.com.vn/live-roundtable-talk-on-consumer-finance.html

‘NBFC cash loan against gold restricted to Rs 25,000: RBI’, Indian Express, March 09, 2017. http://indianexpress.com/article/business/banking-and-finance/nbfc-cash-loan-against-gold-restricted-to-rs-25000-rbi/

Appendix

Assessment of the importance of consumer finance in financial inclusion: Structured Questionnaire

Section1: Background

Sl. No.	Question	Response	Code
1.	Name of the respondent		
2.	Gender	Male	1
		Female	2
		Other	3
3.	How old are you?	Years	
4.	How many years of education have you completed?	Illiterate	1
		No formal education	2
		Less than class 7	3
		High school	4
		Senior Secondary	5
		Graduate and above	6
5.	What is your employment type?	Salaried	1
		Self-Employed	2
		Daily wage worker	3
		Student	4
		Home maker	5
		Other (specify)	6
6.	Current salary (per month) of the respondents		
7.	Do you have a bank account?	Yes	1
		No	0
8.	If yes, what was the motive for opening the bank account?	For receiving salary	1
		Saving	2
		For receiving government transfers (pensions, scholarships, LPG subsidy etc)	3
		For obtaining Loan/ Credit	4
		Other (Specify)	5
9.	What is your marital status?	Single	1
		Married	2
		other	3
10.	What is the type of your family?	Nuclear	1
		Joint	2
		Extended	3
11.	How many people are in your household? (Number)	Male	
		Female	
		Total	
12.	Average Monthly Family Income	<10,000	1
		10,000-25,000	2
		25,000-50,000	3
		>50,000	4
13.	What is your residential status?	Self-owned accommodation	1
		Rented accommodation	2
14.	Ration Card of the Household	APL	1
		BPL	2
15.	What is the distance of the nearest local market (for consumer products like Mobile, Home appliances, consumer durable) from your home? In Kms.		

Section 2: Expenditure and loans

<table>
<tr><th>Sl. No.</th><th>Question</th><th>Response</th><th>Code</th><th>Skip</th></tr>
<tr><td rowspan="2">16</td><td rowspan="2">Have you or any family member bought any consumer durable in the last one year (goods like Mobile phone, Kitchen/ Home appliances, Laptop, Computer,2/3wheelers)</td><td>Yes</td><td>1</td><td></td></tr>
<tr><td>No</td><td>0</td><td></td></tr>
<tr><td>17.</td><td colspan="4">If yes,
<table><tr><th>Name of the product purchased</th><th>Yes (1) /No (0)</th><th>Money spend on purchase in last one year (Amount Rs)</th><th>Source of finance *</th></tr><tr><td>Mobile Phones</td><td></td><td></td><td></td></tr><tr><td>Kitchen/ home appliances</td><td></td><td></td><td></td></tr><tr><td>2/3 wheeler</td><td></td><td></td><td></td></tr><tr><td>Other (Specify)</td><td></td><td></td><td></td></tr></table>
*Source of finance: Use codes
1- Savings 2-Bank 3- Friends/Family 4- Private lender 5- Instalment credit/EMI/NBFCs 6-Other(Specify)</td></tr>
<tr><td rowspan="2">18</td><td rowspan="2">Are you aware of availability of loans for durable like mobile phone/ kitchen/ home appliances, laptop or 2/3 wheelers from companies like Bajaj fin serve, capital first, etc?</td><td>Yes</td><td>1</td><td></td></tr>
<tr><td>No</td><td>0</td><td></td></tr>
<tr><td rowspan="5">19.</td><td rowspan="5">What was the quantum of loan taken for consumer durables in last 12 months by you or any member in your family?</td><td>None</td><td>0</td><td></td></tr>
<tr><td><10,000</td><td>1</td><td rowspan="4"></td></tr>
<tr><td>10,000-25,000</td><td>2</td></tr>
<tr><td>25,000-50,000</td><td>3</td></tr>
<tr><td>>50,000</td><td>4</td></tr>
<tr><td rowspan="2">20</td><td rowspan="2">Have you or your family member availed any other type of loan in the last 1 year?</td><td>Yes</td><td>1</td><td></td></tr>
<tr><td>No</td><td>0</td><td></td></tr>
<tr><td rowspan="6">21a</td><td rowspan="6">What is the total outstanding loan of your household as of today?</td><td>Up to Rs. 10,000</td><td>1</td><td></td></tr>
<tr><td>Rs. 10,001- 25,000</td><td>2</td><td></td></tr>
<tr><td>Rs. 25,001-50,000</td><td>3</td><td></td></tr>
<tr><td>Rs. 50,001-1,00,000</td><td>4</td><td></td></tr>
<tr><td>More than Rs 1,00,000</td><td>5</td><td></td></tr>
<tr><td>No outstanding, all repaid</td><td>6</td><td></td></tr>
<tr><td rowspan="3">21b</td><td rowspan="3">Source of all loans</td><td>Formal (banks, EMI, NBFC)</td><td>1</td><td></td></tr>
<tr><td>Informal (Friends, Family, Private lender)</td><td>2</td><td></td></tr>
<tr><td>Both formal and informal</td><td>3</td><td></td></tr>
<tr><td rowspan="2">22a</td><td rowspan="2">Are you open to availing consumer finance from an NBFC in the future?</td><td>Yes</td><td>1</td><td></td></tr>
<tr><td>No</td><td>0</td><td></td></tr>
<tr><td>22b</td><td>If not, why</td><td></td><td></td><td></td></tr>
<tr><td rowspan="2">23</td><td rowspan="2">Do you use any mobile financial application or e-wallets like paytm, mobiquick, freecharge, bhim app etc?</td><td>Yes</td><td>1</td><td></td></tr>
<tr><td>No</td><td>0</td><td></td></tr>
<tr><td rowspan="4">24</td><td rowspan="4">If yes, how regularly do you use such apps?</td><td>Daily</td><td>1</td><td></td></tr>
<tr><td>Few times a week</td><td>2</td><td></td></tr>
<tr><td>Few times a month</td><td>3</td><td></td></tr>
<tr><td>Very rarely</td><td>4</td><td></td></tr>
</table>

Section 3: Consumer Finance – To be filled if response to Q 10 is either 2 or 5 for source of finance

Sl. No.	Question	Response	Bank	NBFC
25.	How did you come to know about such a loan?	Dealer or retailer recommendation(including kiosks at point of sales)	1	1
		Suggestions by friends or relatives	2	2
		Newspaper/TV advertisements	3	3
		Other (specify)	4	4
26.	Did you face any difficulty in securing the loan	Yes	1	1
		No	0	0
27.	If yes, what were these difficulties?	Lack of clarity regarding procedure	1	1
		Extensive paperwork	2	2
		Unhelpful attitude of the shop owner	3	3
		Delay in releasing the amount	4	4
		High initial cost	5	5
28.	What was the method of repayment	Auto Debit from bank account/through bank account	1	1
		Cash collection by company agent	2	2
		Through e-wallet payments	3	3
		Through merchant/ point of sale	4	4
		Other (specify)	5	5
29.	Reasons for choosing NBFC or bank (or both) for taking a consumer loan			

	NBFC	Bank
Knowledge of the institution		
Trust and confidence in the institution		
Located nearby		
Procedures are easy		
Cooperative staff		
Interest rate		
Other reasons (specify)		

LATEST ICRIER'S WORKING PAPERS

NO.	TITLE	AUTHOR	YEAR
366	INNOVATION, EFFICIENCY AND INCLUSION: INTEGRATION OF DIGITAL TECHNOLOGIES IN THE INDIAN MICROFINANCE SECTOR	SAON RAY SANDEEP PAUL SMITA MIGLANI	OCTOBER 2018
365	TRADE, TRADE AGREEMENTS AND SUBSIDIES: THE CASE OF THE INDIAN APPAREL INDUSTRY	ARPITA MUKHERJEE ANUSREE PAUL ANGANA PARASHAR SARMA SOHAM SINHA	OCTOBER 2018
364	SKILL MISMATCH AND RETURNS TO EDUCATION IN MANUFACTURING: A CASE OF INDIA'S TEXTILE AND CLOTHING INDUSTRY	PRATEEK KUKREJA	SEPTEMBER 2018
363	EMERGING TRENDS IN INDIA-PAKISTAN TRADE	NISHA TANEJA SAMRIDHI BIMAL VARSHA SIVARAM	AUGUST 2018
362	HIGH-SKILLED LABOUR MOBILITY IN AN ERA OF PROTECTIONISM: FOREIGN STARTUPS AND INDIA	ARPITA MUKHERJEE AVANTIKA KAPOOR ANGANA PARASHAR SARMA	JULY 2018
361	LAND USE AND LAND ACQUISITION LAWS IN INDIA	ANWARUL HODA	JULY 2018
360	UPGRADING IN THE INDIAN AUTOMOBILE SECTOR: THE ROLE OF LEAD FIRMS	SAON RAY SMITA MIGLANI	JUNE 2018
359	THE ROLE OF WATERWAYS IN PROMOTING URBAN RESILIENCE: THE CASE OF KOCHI CITY	ZEBA AZIZ INDRO RAY SANDEEP PAUL	MAY 2018
358	TOWARDS SUSTAINABLE, PRODUCTIVE AND PROFITABLE AGRICULTURE: CASE OF RICE AND SUGARCANE	ASHOK GULATI GAYATHRI MOHAN	APRIL 2018
357	SUPPORTING INDIAN FARMERS: PRICE SUPPORT OR DIRECT INCOME/INVESTMENT SUPPORT?	ASHOK GULATI TIRTHA CHATTERJEE SIRAJ HUSSAIN	APRIL 2018
356	SOLID WASTE MANAGEMENT IN INDIA AN ASSESSMENT OF RESOURCE RECOVERY AND ENVIRONMENTAL IMPACT	ISHER JUDGE AHLUWALIA UTKARSH PATEL	APRIL 2018

About ICRIER

Established in August 1981, ICRIER is an autonomous, policy-oriented, not-for-profit, economic policy think tank. ICRIER's main focus is to enhance the knowledge content of policy making by undertaking analytical research that is targeted at informing India's policy makers and also at improving the interface with the global economy.

ICRIER's office is located in the institutional complex of India Habitat Centre, New Delhi. ICRIER's Board of Governors include leading academicians, policymakers, and representatives from the private sector. Dr. Isher Ahluwalia is ICRIER's chairperson. Dr. Rajat Kathuria is Director and Chief Executive.

ICRIER conducts thematic research in the following eight thrust areas:

- Macroeconomic Management Financial Liberalisation and Regulation
- Global Competitiveness of the Indian Economy – Agriculture, Manufacturing and Services
- Multilateral Trade Negotiations and FTAs
- Challenges and Opportunities of Urbanization
- Climate Change and Sustainable Development
- Physical and Social Infrastructure including Telecom, Transport Energy and Health
- Asian Economic Integration with focus on South Asia
- Skill Development, Entrepreneurship and Jobs

To effectively disseminate research findings, ICRIER organises workshops, seminars and conferences to bring together academicians, policymakers, representatives from industry and media to create a more informed understanding on issues of major policy interest. ICRIER routinely invites distinguished scholars and policymakers from around the world to deliver public lectures and give seminars on economic themes of interest to contemporary India.