

A STUDY ON BORROWER'S BEHAVIOUR TOWARDS PERSONAL LOANS DURING COVID-19 PANDEMIC

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ABSTRACT

The COVID-19 outbreak and the response to it has had unfortunate effects on Indian economy and credit market is no exception. Loss of jobs and failure of business due to the restrictions imposed has severely impacted the repayment capacity of borrowers and has resulted in spike in default rates. Overall demand and supply of credit has gone down threatening cash flow slump. Reserve Bank of India has come out with measures and schemes to prevent systemic failures in the financial system. Against this background, this research aims to find out impact of borrower's attitude, awareness and perception on his desire to avail personal loan during Covid-19 pandemic. This study will help in understanding the factors affecting demand for personal loans, thereby suggesting the measures to spike up the demand.

Keywords: Personal Loans, COVID-19, Awareness, Attitude, Perception, Behaviour

1. Conceptual Background

Personal loan is a type of unsecured loan offered by banks and other financial institutions to individuals. It is specifically crafted to meet personal expenses of a borrower. The credit is sanctioned on the basis of individual's credit score (CIBIL), income of borrower and payment history of previous loans taken by the person.

The personal loan market has grown tremendously over past few years. According to RBI's report on credit market in India, personal loans amounted to nearly 96% of incremental non-food credit for the year 2018. In 2019, there was a 26.9% increase in the number of personal loans. The features which make personal loans a preferred choice by borrowers, are listed below:

Easy Norms - The process of applying for a personal loan has become simpler over the years partly due to advent of Digital Banking and increase in efficiency in banking system. Attractive rates and discount schemes also attract prospective borrowers. Hassle free sanction as compared to other types of loans such as home loans and car loans is another plus point of personal loans.

Collateral Free Loan - Being unsecured loans, borrower does not need to provide any collateral for personal loans. Borrower's ability to pay back and track record of earlier

repayments are the major variables that are considered before disbursing credit.

Quick Processing - Another point in favour of personal loans is the quick processing, right from the time of application to final disbursement. The time line is relatively shorter than that of other types of loans available. As the collateral is not required, the whole process is usually completed within 48 hours. Pre-approved loan offers are also given to regular customers.

Less Documentation - Application of personal loan requires submission of very less documents. There is no need of verification of assets by banks due to absence of collateral. Borrowers are required to submit only address, identification and income proof documents.

Can be availed online - IT revolution in banking sector has transformed the way services are offered. Number of digital platforms like internet banking, phone banking and banking applications has made the process much simpler and quicker. A majority of banks allows borrowers to apply for personal loans online. Information about the interest rate and documents required is available on the website or application. Applicant can submit the documents online followed by online approval of application by bank and finally the loan is disbursed directly into borrower's account.

Multi-Purpose - Personal loans are multi-purpose loans. It can be used for range of

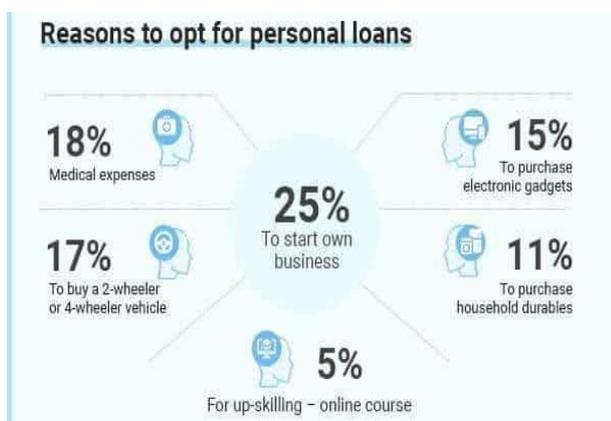
personal requirements like marriage, business, education, financing an asset, medical expenses, leisure and travel to name a few. There is no restriction on usage as in case of home loans or vehicle loans.

Ease of Repayment - Flexibility in payment terms is another benefit offered by personal loans. Borrower can choose the term according to his need (usually ranging from 1 year to 5 years). The interest rates are inversely proportional to the term of loan. Though interest rates are also dependent on CIBIL Score.

Debt Consolidation - Debt consolidation is another reason that people opt for personal loans. They use personal loans to pay off credit card debts, pay off one loan EMI and foreclose other loans. It is easier to manage one personal loan than debt through multiple sources.

Personal Loan Market in India

According to the Reserve Bank of India (RBI), personal loans today account for 28% of total bank credit. The year 2019 showed growth in unsecured lending, which includes consumer durable loans and personal loans. This particular segment grew by over 100% in 2019 over 2018, with fintech lenders offering loans either through partnerships with existing NBFCs or banks or by acquiring an NBFC license. According to the report published by an Indian digital company, 37% of millennial customers resorted to borrowing for emergencies like medical emergencies it is expected to grow further by 10% by 2025.



Source: <https://www.livemint.com/news/india/25-borrowers-took-personal-loan-to-start-their-own-business-amid-covid-survey-11616483956858.html>

The nationwide study was based on data collected from over 150,000 borrowers in the age group of 21-55 years, from tier-I and tier-II cities, during the period 25 March 2020 to 20 March 2021.

Another encouraging trend being witnessed is borrowers opting for personal loans to start the business. Around 25% borrowers opted for a personal loan to start their own business, while 18% borrowers opted for a loan to manage their medical expenses and 17% borrowers opted for a loan to either buy a 2-wheeler or 4-wheeler, largely due to covid-19 pandemic and the resultant social and economic impact, according to a new survey on loan trends among young Indians.

The impact of Covid 19 on personal loans can be studied in two terms (i) growth of personal loan market (ii) payment performance of personal loans. Though the share of personal loans in total credit market is increasing, but the average ticket size and disbursements has gone down.

Loss of jobs and downturn in business due to lockdowns are the major factors behind low payment performance of personal loans. Industry regulators have been swift to respond and RBI has proposed a range of temporary measures designed to help customers with certain credit products who face financial difficulty as a result of the corona virus pandemic. In March 2020 RBI announced measures like Loan moratoriums and Rescheduling of payments for term loans. Recently (May 6, 2021) RBI announced loan moratorium to individuals, small borrowers. Under this guideline, the moratorium of up to two years will be available to individuals and small and medium enterprises that did not restructure their loans in 2020 and were classified as standard accounts till March 2021. RBI in its 'Report on Trend and Progress of Banking in India 2019-20' (March 2020) highlighted the measures for reviving growth and mitigating effects of COVID-19. It gave the detailed account of measures taken, eligibility for such schemes and extent to which loan moratorium was availed.

'The Impact of Covid-19 on the Personal Loan Market' (April 2020), research study conducted by Financial IT studies the impact of pandemic on personal loan market in the UK

and USA. They found out that these has been significant contraction in the market with a reduction of 30 to 40% in the demand for personal loans, combined with a marked contraction in the supply of credit across nearly all lenders. Industry regulators have been swift to respond and yesterday [April 2, 2020] the FCA proposed a range of temporary measures designed to help customers with certain credit products who face financial difficulty as a result of the corona virus pandemic.

Their proposals to the sector include temporary payment freezes on loans and credit cards, zero interest overdrafts of up to £500, along with the guidance that consumers using these temporary measures should not have their credit rating affected.

CGAP Research on 'Consumer Protection and COVID-19: Borrower Risks as Economies Reopen (October 2020), presents preliminary recommendations for policy makers, regulators, and FSPs on how to keep borrower financial needs front and center without putting excessive stress on FSPs. They categorised risks into two main areas: (i) challenges with existing loans and (ii) challenges in lending new credit and suggested the measures thereof. Few pointers are Forbearance, Interest accrual, Interest on interest or interest capitalization,

Moratorium, Payment holiday, Refinancing, Rescheduling and Restructuring.

Davies, Finney, Collard and Trend (August 2019) conducted the study on Borrowers' Behaviour to understand people's borrowing behaviour and how it impacts their financial wellbeing. It involved a structured, critical analysis of around 150 relevant items and an assessment of their methodological strengths and weaknesses. They found that major factors that affected borrowers' behaviour are income, owned assets, psychological factors (personality traits, self-control, perception, cognitive capacity etc.), macro-economic conditions and financial literacy.

2. Research Methodology

This research was carried out under the assumptions of descriptive research design. Primary data was collected using structured close ended questionnaire. Five-point Likert scale was used to measure the opinion of respondents for their agreement level for measurement variables. The survey was conducted using purposive sampling as the population was unrestricted and infinite. Ms-excel was used for data sorting and recording the responses whereas SPSS was used for descriptive data analysis and to test hypothesis.

Variables Considered for Research

Sr. No.	Measurement Variable	Observed Variable
1	Confident to repay the loan EMIs on time	Borrower's Attitude
2	Motivated to repay the loan EMIs	
3	Want to foreclose the loan	
4	Aspiration to avail the top-up on loans	
5	Banks keep informed about loan status	Borrower's Awareness
6	Aware about moratorium schemes	
7	Aware about loan transfer and closure schemes	
8	Aware about the Government policies and support schemes	Borrower's Perception
9	Personal loan is very costly	
10	Personal loans are very fast processing loans	
11	Personal loans are very useful	
12	Personal loans are highly affordable	Borrower's Intention
13	I will again avail personal loan	

Objectives of the Study

1. To study the impact of borrower’s attitude, awareness and perception on his desire to avail personal loan during Covid-19 pandemic.

Hypothesis of the Research

1. H_0 = Borrower’s intention of availing personal loan is not dependent on their attitude, awareness and perception.
 H_a = Borrower’s intention of availing personal loan is dependent on their attitude, awareness and perception.

3. Data Analysis

Descriptive data analysis for this research was done in order to understand the demographic characteristics of the respondents whereas the inferential analysis has helped in hypothesis testing.

Descriptive Data Analysis

It has been observed that maximum 56.9% of respondents were from 20-30 years age group followed by 41-50 years (22.7%), 31-40 years (16.3%), and 51-60 years (2.3%) and above 60 years (1.7%). 82% respondents said yes and 18% said no to that they will again avail personal loan out of total 471 respondents.

Maximum respondents were private sector employees (80.7%) followed by self-employed 12.5%, Government sector employees (4.9%) and Semi Government sector employees (1.9%). Maximum respondents participated in survey were from service industry (59%) followed by production (27.2%) and rest 13.8% were from other industries. Maximum 85.4% respondents were from less than 10 Lakhs income group (68.8%) followed by 11-20 lakhs (7.4%) and 7.2 % from more than 20 lakhs. It is also observed that 68.8% respondents had less than 10 years of professional experience followed by 19.1% with 11-20 years, 7.4% 21-30 and 4.7% with more than 30 years.

Hypothesis Testing

H_0 = Borrowers’ intention of availing personal loan is not dependent on their attitude, awareness and perception.

Test of regression statistics was used to test this hypothesis. Table below indicated the variables entered in the regression model where dependent variable “I will again avail personal loan” represents the regression line and listed independent variables represents the scatterplot.

Variables Entered/Removed ^b			
Model	Variables Entered	Variables Removed	Method
1	Personal loans are highly affordable, Aware about moratorium schemes, Personal loan is very costly, Aspiration to avail the top-up on loans, motivated to repay the loan EMIs, Personal loans are very useful, want to foreclose the loan, Aware about the Government policies and support schemes, Confident to repay the loan EMIs on time, Personal loans are very fast processing loans, Aware about loan transfer and closure schemes, Banks keep informed about loan status ^a		Enter
a. All requested variables entered.			
b. Dependent Variable: I will again avail personal loan			

Table below indicates the summary of regression model. It has been observed that the hypothesised model is significantly fit and

acceptable with p value for F statistics is less than 0.05.

Model Summary ^b											
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson	
					R Square Change	F Change	df1	df2	Sig. F Change		
dimension0	1	.529 ^a	0.28	0.261	1.027	0.28	14.811	12	458	0.000	1.933
a. Predictors: (Constant), Personal loans are highly affordable, Aware about moratorium schemes, Personal loan is very costly, Aspiration to avail the top-up on loans, Motivated to repay the loan EMIs, Personal loans are very useful, Want to foreclose the loan, Aware about the Government policies and support schemes, Confident to repay the loan EMIs on time, Personal loans are very fast processing loans, Aware about loan transfer and closure schemes, Banks keep informed about loan status											
b. Dependent Variable: I will again avail personal loan											

R value indicates the 52.9% significance of correlation among the variables entered in the regression model. R square value indicates the total variance explained by the independent variables to predict the dependent variable and it means that borrower's intention of availing

personal loan is 28% dependent on independent variables measuring their attitude, awareness and perception Borrowers' intention of availing personal loan is not dependent on their attitude, awareness and perception as shown in model summary table.

ANOVA ^b						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	187.493	12	15.624	14.811	.000 ^a
	Residual	483.148	458	1.055		
	Total	670.641	470			

ANOVA table explains the acceptance of hypothesized model with significant F

distribution of opinion of respondents towards their interest to avail personal loan.

Coefficients ^a								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
		1	(Constant)	.760			.273	
	Confident to repay the loan EMIs on time	.289	.070	.273	4.115	.000	.151	.426
	Motivated to repay the loan EMIs	.348	.064	.341	5.419	.000	.222	.475
	Want to foreclose the loan	.257	.061	.253	4.182	.000	.136	.377
	Aspiration to avail the top-up on loans	-.180	.051	-.177	-3.493	.001	-.281	-.079
	Banks keep informed about loan status	-.098	.077	-.099	-1.261	.208	-.250	.054
	Aware about moratorium schemes	-.045	.073	-.048	-.614	.540	-.187	.098
	Aware about loan transfer and closure schemes	.108	.079	.107	1.366	.173	-.047	.263
	Aware about the Government policies and support schemes	-.133	.055	-.144	-2.434	.015	-.241	-.026
	Personal loan is very costly	.150	.043	.151	3.515	.000	.066	.234
	Personal loans are very fast processing loans	-.042	.084	-.034	-.498	.619	-.208	.124
	Personal loans are very useful	.070	.058	.067	1.220	.223	-.043	.184
	Personal loans are highly affordable	.029	.065	.028	.447	.655	-.099	.158
a. Dependent Variable: I will again avail personal loan								

Above table indicates the individual impact of variables listed in table and beta value indicates the capacity of that individual variable to

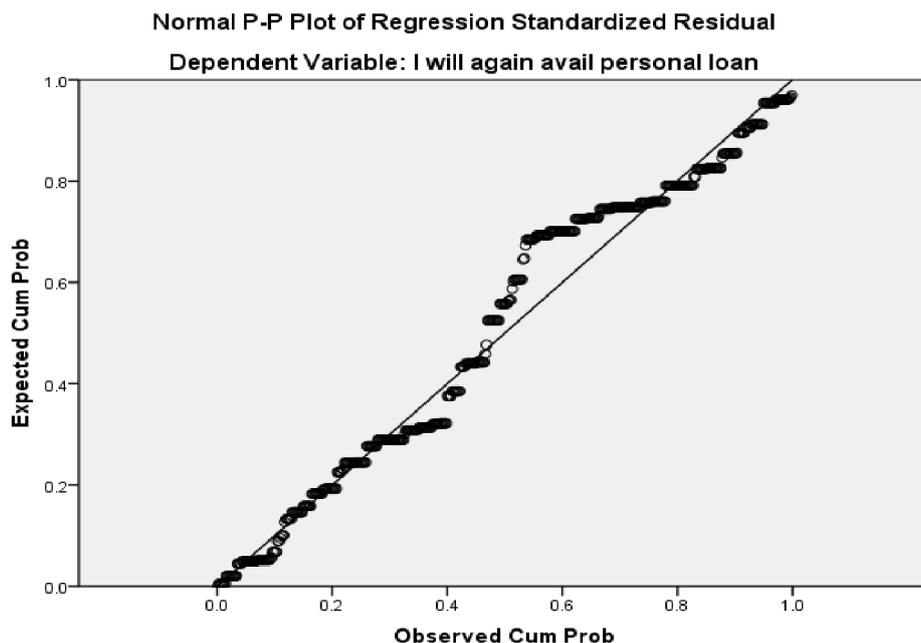
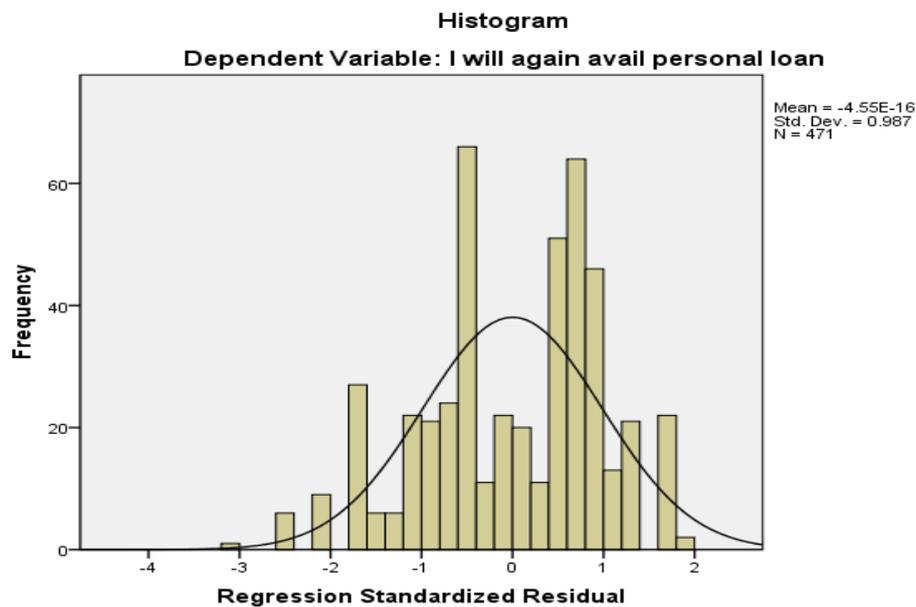
predict the respondent's interest to avail personal loan during pandemic situation.

Residuals Statistics ^a					
	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	1.51	4.48	3.03	.632	471
Residual	-3.207	1.925	.000	1.014	471
Std. Predicted Value	-2.397	2.305	.000	1.000	471
Std. Residual	-3.123	1.874	.000	.987	471

a. Dependent Variable: I will again avail personal loan

Residual statistics indicates the amount of impact by other various factors which are not considered in this model. It can be seen that

maximum of 1.925% of variance cannot be explained by the hypothesized model.



Histogram and observed probability plot indicate the bell shape curve of normal distribution of statistical data and supports the rejection of null hypothesis which proves borrower's intention of availing personal loan is significantly dependent on their attitude, awareness and perception.

4. Discussion and Conclusion

Personal loans are one of the most preferred way of meeting individual credit requirements these days. Through this study, researchers intended to find out the prevailing conditions in personal loan market in India and the impact of borrower's attitude, awareness and perception on his desire to avail personal loan during Covid-19 pandemic. The data analysis suggested that borrowers' attitude (willingness and confidence to repay loan) is the most important determinant category followed by Borrower's Perception (usefulness and affordability). The awareness about the personal loans has the least impact on borrowers' intention to go for personal loans.

The banks can induce confidence in potential borrowers by offering various schemes such as; quick online processing, lower interest, payment holidays and flexible terms. This will attract users of funds towards this particular loan category and demand for personal loans will go up as a result.

The share of personal loans has increased in credit market though the overall demand for loans has gone down. The main factors for this shift are; it does not require a collateral and can be used for multiple purposes. The impact of COVID-19 can also be seen on how people are using personal loans. Earlier people availed personal loans for marriage and other domestic purposes but these days it is used for starting businesses, meeting medical expenses and financing online courses. The schemes offered by Reserve Bank of India to counter the effects on non-payment of loans as result of pandemic will boost the confidence of both users and suppliers of credit and help in economic recovery.

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