



Why Unsecured Loan Having High Loan Delinquency

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Abstract: The paper focuses on Unsecured loan especially personal loan. A personal loan is a kind of credit borrowed either from a banking institution or Non-banking institution for private utility; it enables the person to buy essential goods or services to sustain a livelihood. This research also highlights the Personal Loan Disbursement Portfolio of banks in Bhopal. To analyze the trend and challenges of defaults or NPA of unsecured loans. Presently, banking and financial institution's overabundance facilitates a variety of loans like a car loan, home loan, personal loan, mortgage loan and agriculture loan. To attract or influence the customers, the banking providing several tactics to connect with their banking facilities like easy payment services, low-interest rate, rapid availability of loans, less paperwork, etc. Enhance the chances of NPA and defaulter cases. Moreover, the paper keenly and comprehensively analyzes the issues and measures to reduce defaults the defaulter by conducting a questionnaire survey method and demonstrating the consequences that can help overcome the defaulting, strengthening the market's feasibility.

INTRODUCTION

In this ease of living and worldly life, everyone is willing to attain a desirable and sustainable life with lots of luxury ingredients and strive to fit them in a small pocket budget. Thus to fulfill the desire to endeavor in the budget, Bank came to mind. The banking sector is playing a critical role in everyone's life which is directly interlinked with the national economy's elevation and thrust and flourishing GDP. Banking or Financial institute paves the channelized way for comfortable availability of funds and credit to the individual seeking productive utilization, basic essentiality and creation of assets.

Presently, a superfluity of banking and financial institutions facilitates a variety of loans like a car loan,

home loan, personal loan, mortgage loan, and agriculture loan. To attract and influence the customers, the banking operationalizes several tactics to connect with their banking facilities like easy payment services, low-interest rate, rapid availability of loans, less paperwork, etc. Additionally, offering other value-added services such as technical and legal assistance and consultation facilities is essential for the borrower while borrowing specific types of loans.

Indian banking sector endows with 12 public sectors working simultaneously with 22 private sector banks, exploring the globalization Indian market flourishing with 56 Foreign banking institutions. The rural economy strengthens the rural credit sector by establishing around 96000 rural cooperative banks. Demonstrating the

maximum growth rate compared with the other service sector as the RBI statistics reveals that the share of personal loan in total bank credit is 24% in the financial year 2020 compared to the 16.6% five years ago. Personal loans are increasing over 20% plus growth per year.

A personal loan is a kind of credit borrowed either from a banking institution or non-banking institution for private utility; it enables the person to buy essential goods or services to sustain a livelihood. It comes under the category of consumer financing services which assures short-term loans vary from 12-84 months for personal accessibilities such as buying luxury items for family and individual users or meeting other huge household expenses. There are eight kinds of personal loans available in India, like education loans, house renovation loans, pension loans, travel loans and so on. It provides easy accessibility to the goods and services individuals desire as it comes under a flat interest rate category.

In India, where 70% of the population are rural and suffering from a credit crunch, micro-financing played an inevitable role in inclusive growth and ensuring financial sustainability among the lower-income development. A Micro-financial Institution (MFI) is a tool for social-economic upliftment and effective for poverty alleviation. The paper focuses on the Madhya Pradesh Capital Bhopal district and its loan disbursement research. The statistical analysis reveals that in Bhopal, the poverty ratio is between 40 and 60% which means more than half of the population lives in vulnerable conditions. Thus, the micro-financial role is very significant for fulfilling the weaker section of society's desire by offering loans at low interest rates.

With the increasing banking market in India, the banking sector's challenge is also transforming steadily. The "defaulter" or NPA (Non-Performing Asset) is one of the Indian Banking Market's critical challenges. Loan defaults are when one is unable to pay the lender the credit amount he/she borrowed. That means the borrower's inability to pay the amount to the client as mentioned in the agreement in a particular period. However, one must focus on this that the borrower is willing to pay the loan but because of capabilities and the economically vulnerable circumstances that make him incapable in banking terminology, when Defaulter is converted into NPA when he is unable to pay three consecutive months that is within 90 days the principle of interest. Another language is delinquent loans that are the sum of the amount not paid by the customer to the institute and converted into default when the retrieval of money is minimal because of overdue time, past schedule time and so on.

NPA is a condition when the payment of the principal's installment is not credited to the financial institute for a specific period. Usually, according to the mechanism of RBI, if someone fails to pay the installment

within 90 days, the asset in banking norms is considered as a non-performing asset. Although, the non-performing assets are classified into three categories-substandard asset-the principal's interest is not paid for less than or equal to the tentative 12 months.

Doubtful asset-if the asset has not been performing for the time duration which is more than 12 months. Loss assets or written-off assets-the asset after an investigation by the bank or inspected by the auditor as loss and have not been entirely written off.

The leading causes of NPA or being default in the Indian banking system are internal banking framework, credit policy, inappropriate contingency planning to mitigate the risk, lack of robust management policy for sanction loan and appropriate appraisal of management of the borrower. Further, the relaxing or comfortable lending norms, particularly for the corporate executives and improper or inadequate analysis of their credit rating and asset properly. Moreover, unforeseen emergencies like COVID pandemic and devastating ecology conditions like drought, flood being the primary reason for NPA in Indian ground being the internal and external reason for NPA's occurrence in Indian banking institutions.

Literature review: Dahiya and Bhatia^[1], the researcher focused on Non Performing Assets (NPAs) and the challenges facing India's public banking sector. The banking sector's main objective is to lend funds to numerous industries like personal loans, agriculture, business and industry, among others. Non-performing assets are an implacable burden on the banking industry, decreasing the reliability and faith from the banking sector and a harsher impact on the Banking System's financial credit. The paper discusses the RBI measures and other government initiatives to curtail the default impact on the Banking sector. The government should take the default happening as the prioritized agenda to tackle effectively because strengthening and robust mechanisms are essential to handle unforeseen challenges like COVID and other Global take exceptions.

Sharif Mohamad, the research focuses on Microfinance Institute's significance and how it plays an influential role in uplifting the country. The paper highlights the defaulter's cause and why the issue is enhancing day by day and defecting the Indian Banking structure. The paper operationalized its methodology by taking relevant data from the Microfinance Institutions in India, NABARD reports and examines the retrieved data about loan disburse, loan outstanding, NPA assets and others. The paper exhibits that the NPA rate in MFI from 0.14% raised to 0.69% demonstrates that the NPA is steadily becoming a challenge for Commercialized Banks and the Micro Financial Institution.

Bandyopadhyay and Saha^[2], in this study, the researcher focuses on the housing loan and the defaulter

conditions that occur in India's perspective. They investigate the key elements that are requisite for a housing loan and related features. The paper highlights the housing loan default conditions like the critical factor responsible for the housing loan payment and the asset's market value concerning the EMI. The paper keenly analyzed in this regard proposed the statistics that a ten percent decrease in the market value to unusual default by 1.5%. However, when a ten percent increase in EMI to income ratio enhances willful neglect by 4.50%. The things that are intensively embedded in loan defaulting conditions are marital status, locality, age, house and employment circumstances and so on.

Sinha and Kundu^[3] research analyzed the scenario of personal loan disbursement by the Commercial banking sector in India for some time from 2004-2016. The paper highlighted the RBI data regarding the statistics about the personal loan regional detail which evince that the largest disbursement is from the Southern region followed by the Western part of India. However, the data shows the unfortunate least percentage of loan credit. The paper's primary concentration is to evaluate the disbursement of personal loans regional wise in India, for which the researcher distinguishes India into six regional zones.

Bandyopadhyay^[4] the paper concentrates on the risk factor in education loans. The article for analysis of the object took the survey of about five thousand borrowers which collaborated the data from the particular public sector bank. The paper evinces the critical risk for education loan defaults embedded with the components like the security, repayment period of the loan and the borrower margin. Further, the regional location plays an inevitable role in enhancing the loan default condition. The paper concluded by suggesting specific risk mitigation measures like portfolio monitoring, assessment by credit rating, risk assessment framework and so on addition to the robust technology implementation analyze and resolve the borrower problems.

MATERIALS AND METHODS

Objective: The main objective is to analyze the Personal Loan Disbursement Portfolio of private banks in Bhopal. To analyze the trend and challenges of defaults or NPA of personal loans in private banking. Analysis of the measure needed to stop the default risk in personal loans in Bhopal. To analyze that which type of loan having maximum default. To analyze advertisement impact on customer decision towards personal loans.

Research questions:

- Why do people take personal loans?
- How to reduce default cases?
- Why do people not repay loans?
- How we can reduce default in Loans?

- Is COVID-19 being a serious cause of loan delinquency?
- Is an advertisement dominating customer decision towards loan?

Research hypothesis:

- H₁: people take personal loans for urgent financial needs
- H₂: attractive loan advertisements attract customers to take loans
- H₃: strict laws against loan default will reduce default
- H₄: customer pays their loan timely due to CIBIL score and future loan possibilities

Problem statement: To analyze the loan disbursement in Bhopal Division and understand why loans convert into defaulters. We could see defaults among individuals to repay their loans if the stress in the Indian economy rises. While during analysis, the main challenge is to research the circumstances in the banking structure of Bhopal because the secondary data regarding the personal loan is inadequately available which hinders the comprehensive study of the topic?

Research design: This research selected the survey method to gather and analyze the relevant information related to un-secure loan disbursement. To understand the main reason why personal loan converted into defaulter and measures how to control them. For this, the researcher conducts a survey that consists of specific questionnaires. The research systematically evaluated employing primary and secondary resources to conduct smooth analysis and reached a particular conclusion.

To determine the root causes of NPA or default, quantitative and qualitative methods will be used for analysis and data collection. The qualitative method is selected to analyze the relevant information based on an empirical finding by conducting a survey method. For a survey, the paper randomly selected 160 responders who are the customers of Unsecured loan. The research will collect qualitative and primary data from surveys to rate their experience and interaction based on 13 questionnaires.

This study will also use secondary data from other literature for research purposes. In quantitative methods, the researcher focuses on enhancing the understanding mainly oriented and revolving around the secondary sources like literature articles, journals, the internet and another open-source.

Data collection and analysis: For gathering data, two approaches can be done which is the primary and secondary method. A primary methodology is a qualitative approach based on the survey method to collect data from several questionnaires asked from the

Loan customers of the banks respective to the topic to analyze their response keenly. The data collected will be defined in detail in survey results, tables and graphs for easy understanding. Another method is to analyze data relevance as a secondary method based on open-source data embarrassed with literature articles, the internet, governmental statics and relevant data.

In this research, seeking to analyze the practical ground, the paper chose a primary survey method. For a comprehensive study, the topic compressing the entire minor the secondary resource is selected.

Findings: The finding is based on the customer's responses, for which the qualitative method is selected to analyze the relevant information based on an empirical finding by conducting a survey method. For a survey, the paper has chosen randomly 160 responders who are the customers of un-secure loan. The research will collect qualitative and primary data from surveys to rate their experience and interaction based on 13 questionnaires.

Q1. Why do people take Personal Loans? (Table 1): As the data retrieved from the survey shows that those who took personal loans significantly to fulfill the demands of expensive luxury about 63.13% of the respondents took personal loans for that motive only, followed by households by 32.50% who take loans to fulfill their needs. Personal loans are purely unsecured loans so banks are charging higher interest rates as compared to other secured loans. Personal loans are helpful for any urgent need but based on the survey most of the customers taking a loan for the luxury purpose only as followed by households^[5].

Q2. Do you think loan providers, banks/financial institutes force people to take personal loans? (Table 2): This is one of the exciting questions which exhibit the reality that financial institutions enforced customers to take a personal loan as data reveals this by 69.38% of the respondents were in favour. In contrast, the survey illustrated about 24% of the customers didn't take the loan in any force or influence. Nowadays customers are frequently getting many calls and emails for pre-approved loans and bankers trying to conveyance customers to take the loan. They are sanction loans after creating the luxury need of customers.

Q3. What is the biggest type of personal loan advertising that forces people to take personal loans? (Table 3): In this digital or virtual world, social marketing tactics influence enormously which demonstrates that 54.38% of the customers get influence from the email and online medium followed by tele-calling facilities that force people to take personal loans.

Table 1: Parameters of personal loans

Question asked	Count	Highest (%)
Why do people take personal loans?		
Education	1	0.63
For Households	52	32.50
Health	6	3.75
Luxury	101	63.13

Table 2: Banks/financial institutes force people to take personal loans

Question asked	Count	Highest (%)
Do you think loan providers, banks/financial institutes force people to take personal loans?		
Maybe	25	15.63
No	24	15.00
Yes	111	69.38

Table 3: The biggest type of personal loan

Question asked	Count	Highest (%)
What is the biggest type of personal Loan advertising that forces people to take personal loans?		
Email and Online Medium	87	54.38
Personal Meeting	28	17.50
Tele-calling	40	25.00
Television	5	3.13

Table 4: Loan repayment methods

Question asked	Count	Highest (%)
Do people ask for loan repayment methods seriously while taking loans?		
No	140	87.50
Yes	20	12.50

Q4. Do people ask for loan repayment methods seriously, while taking loans? (Table 4): The survey reveals that the awareness regarding banking facilities and services is very low or negligible in customers. They did not know the alternative method for repayment of the loan if they are suffering from a cash crunch, which illustrated that 87.50% of the respondent did not ask for any remedial measure for loan repayment while taking the loans. Basis on the survey we know as most of the customer's unknown about loan basic term and conditions^[6].

Q5. According to you, how can we reduce loan default cases? (Table 5): This being the prominent question as the research objective is to identify the measures for reducing loan default cases and the survey reveals that to reduce loan default cases by enhancing education about taxes, interest rates and loan repayment methods as it holds about 70% of the respondent vote^[7].

Q6. Why do people become Loan Defaulters? By taking- Health, Education or Luxury Loan? (Table 6): The survey found that most people took loans for luxury expenses as 91.25% of this criteria loan got default listed because of expensive ambition people unable to fulfill their cash flow and thus came in the default category.

Table 5: How can we reduce loan default cases?

Question asked	Count	Highest (%)
According to you, how can we reduce loan default cases?		
By educating about taxes, interest rates and loan repayment methods	112	70.00
By telling the seriousness of loan repayment	48	30.00

Table 6: Parameters of loan defaulters

Question Asked	Count	Highest (%)
Why do people become loan defaulters?		
By taking		
Education loans	6	3.75
Health loans	8	5.00
Luxury expense loans (Vehicle/Marriage/Home & etc.)	146	91.25

Table 7: COVID-19 becoming a problem of loan default

Question asked	Count	Highest (%)
Is there COVID-19 becoming a problem of loan default?		
No	16	10
Yes	144	90

Table 8: Comments for reducing loan defaults

Question asked	Count	Highest (%)
Do you have any comments for reducing loan defaults?		
Customer awareness during loan sanction.	47	29.38
Need a fast track tribunal for loan default issues	28	17.50
Strict laws	85	53.13

Q7. Is COVID-19 becoming a problem of loan default? (Table 7): The COVID-19 pandemic is one of the challenging socio-economic circumstances faced worldwide. As the data reveals from the survey that 90% of the respondent find COVID-19 being the reason or problem of loan default.

Q8. Do you have any comments for reducing loan defaults? (Table 8): One of the prominent findings being on the research question too is what measures should be taken by the institutional banking bodies to subdue or curtail loan defaults. The survey finds that Strict Law can reduce the defaulter case as 85% of respondents were in his favor, followed by the Customer awareness during loan sanction as it holds about 47% of the respondents after that need of fast track tribunal for loan default issues.

Q9. Do you think people don't want loans but advertisements attract people to get loans? (Table 9): The main reason to take a personal loan is attracting toward lavishness, which enforces people for expensive dreams. They forget to cut their dress according to their clothes and are stuck in a vicious cycle of loans as the data demonstrate that around 90.63% of the respondents are not actually required for loans. Still, attractive advertisements influence them to indulge themselves in this.

Table 9: People don't want loans but advertisements attract people to get loans

Question asked	Count	Highest (%)
Do you think people don't want loans but advertisements attract people to get loans?		
Maybe	12	7.50
No	3	1.88
Yes	145	90.63

Table 10: Many loan defaults actually default with actual intention

Question asked	Count	Highest (%)
How many loan defaulters default with actual intention? (%)		
<10	128	80.00
Up to 25	30	18.75
Up to 50	2	1.25

Table 11: Type of loan has more default/Delinquency

Question asked	Count	Highest (%)
Which is the type of loan having more default/Delinquency?		
Pre-approved personal loan	91	56.88
Salaried personal loan	19	11.88
Self employed personal loan	50	31.25

Q10. How many loan defaults actually default with actual intention? (Table 10): As the data explain NPA's real intention, <10% of the respondent accounts for around 80% of the surveyor responses that default who opt unethical purposes while others are not intended to do so but their vulnerable financial condition unawareness regarding repayment make them defaulters.

Q11. Which type of loan has more default/Delinquency? (Table 11): The survey being an effective tool to analyze the root of the default and type of bankruptcy in particular loan types. The survey reveals that Pre Approved Personal Loan cases occupy 56.88% of the respondents, being the primary cause of more default.

Q12. What are the causes of loan delinquency/default in Personal Loan? (Table 12): The primary cause of loan delinquency or default is the high-interest rate offered by the Banking Institutes as it holds 44.38% of the responder's view, followed by the job loss condition. This being the prominent reason why people unable to maintain their cash flow and came under the defaulter list.

Q13. What forces customers to pay delinquency? (Table 13): The central question regarding pay delinquency is illustrated from the pie chart that Fear of losing future loan by dropping CIBIL Score being the most prominent reason as it holds 37.50% of the respondents that they are forced only because to maintain CIBIL score followers by Case against customer's personal wealth which accounts about 28.75% of the total respondent^[8].

Table 12: The causes of loan delinquency

Question asked	Count	Highest (%)
What are the causes of loan delinquency/default in Personal Loan?		
Business failure	28	17.50
High-interest rate	71	44.38
Illness of death in the family	18	11.25
Intestinally	12	7.50
Job loss	31	19.38

Table 13: The forces customers to pay delinquency

Question asked	Count	Highest (%)
What forces the customer to pay delinquency?		
The case against customer's guarantors	20	12.50
The case against customer's wealth	46	28.75
Fear of losing future loan by dropping CIBIL score	60	37.50
High charges during the delinquency period	19	11.88
Social impact (loss of status)	15	9.38

RESULTS AND DISCUSSION

The paper's primary intention is to identify the conditions that lead to default in Personal Loan in Bhopal city further requisite measures to stop them. The foremost question is why people take personal loans. Hence, the survey data shows that maximum people took personal loans for their fulfillment of luxury expenses demands followed by health and education loans. So, the customer's primary intention is to take a personal loan to maintain social status and lead an extravagant life; however, they didn't require any loan and dragged them self into such a tense situation of a stressful life.

This is interesting because financial institutions enforced customers to take personal loans as data reveals this by 72.8% of the respondents were in favor. In contrast, the survey illustrated about 13.9% of the customers didn't take a loan in any force or influence. Although if someone is willing to loan and unfortunately cannot pay the loan and comes in the defaulter category list, they should take adequate measures to reduce loan default. The survey reveals that to reduce loan default cases by enhancing education about taxes, interest rates, and loan repayment methods before taking the loans. Financial knowledge is essential and seeks to take advice from institutional authority regarding cash crunch and try to find specific measures to repay the loan smoothly. They did not know the alternative method for repayment of the loan if they are suffering from a cash crunch which illustrated that 89.4% of the respondent did not ask for any remedial measure for loan repayment while taking the loans.

The primary intention to take a personal loan is luring toward sumptuousness which enforces people for expensive dreams. They forget to cut their dress according to their clothes and are stuck in a vicious cycle of loans as the data demonstrate that an immense amount of the respondents are not requisite for loans. Still, attractive advertisements influence them to indulge themselves in

this. In this digital or virtual world, social marketing tactics affect enormously which demonstrates that 57.6% of the customers get influence from the email and online medium followed by tele-calling facilities that force people to take personal loans. The survey reveals that awareness regarding banking facilities and services are very low or negligible in customers^[9].

CONCLUSION

A personal loan is a kind of credit borrowed either from a banking institution or non-banking institution for private utility; it enables the person to buy essential goods or services to sustain a livelihood. It comes under the category of consumer financing services, which assures short-term loans vary from 12-84 months for personal accessibilities such as buying luxury items for family and individual users or meeting other huge household expenses. There are eight kinds of personal loans available in India, like education loans, house renovation loans, pension loans, travel loans and so on. It provides easy accessibility to the goods and services individuals desire as it comes under a flat interest rate category.

The main reason to take a personal loan is attracting toward lavishness which enforces people for expensive dreams. They forget to cut their dress according to their clothes and are stuck in a vicious cycle of loans as the data demonstrate that around 90.63% of the respondents are not requisite for loans. Still, attractive advertisements influence them to indulge themselves in this. The survey shows that the personal loan is taken for the luxury essentiality as 63.13% of the respondents take loans to fulfill their expensive luxury needs. The research also found that most of the people took loans for luxury expenses as 63.13% of this criteria loan got default listed because of expensive ambition people unable to fulfill their cash flow and thus came in the default category.

Regarding the defaulter intention, the paper found that <10% of the respondent who accounts around 80% of the surveyor responses that default who opt unethical purposes while others are not intended to do so but their vulnerable financial condition and unawareness regarding repayment make them defaulters. Thus the default is not intentional practice that took place coincidentally, however, it is an unfortunate outcome.

One of the prominent findings being on the research question is what measures should be taken by the institutional banking bodies to subdue or curtail loan defaults. The survey finds that Strict Law has the potential for reducing the defaulter case as 53.13% of respondents were in his favour, followed by the Customer awareness during loan sanction as it holds about 29.38% of the respondents after that fast legal proceeding.

Eventually, in conclusion, the paper suggests that forcefully influenced by the banking sector, unawareness regarding repayment of the loan, attracting toward lavish and materialistic life utilizing virtual or social marketing

tact played an inevitable role for immense default cases. To reduce them a strict and robust regulatory mechanism for institutional surveillance and supervision along with conducting awareness program for the customers to understand the loan procedure and repayment mechanism effectively, also aware about the outcome if unable to pay the interest amount of the loan is need of the hour to subdue the cash crunch and slow down of financial growth of the market.

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