Original Article
ISSN (Online): 2582-7472

ShodhKosh: Journal of Visual and Performing Arts
July 2024 5(7), 1072–1075

RETAIL LOAN PERFORMANCE IN INDIA: AN EMPIRICAL STUDY IN PUBLIC AND PRIVATE SECTOR BANKS

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DOI
10.29121/shodhkosh.v5.i7.2024.4893

Funding: This research received no specific grant from any funding agency in the public, commercial, or not-for-profit sectors.

ABSTRACT

Using an empirical methodology, this study investigates the performance of retail loans in Indian public and private sector banks, with a focus on house and education loans. It seeks to assess important performance metrics including borrower satisfaction, default rates, repayment trends, and loan disbursement trends. 120 respondents, evenly divided across the two banking sectors, provided primary data using structured questionnaires as part of a descriptive study methodology. According to the data, public sector banks are more active in offering education loans while having higher default rates, whereas private sector banks perform better in terms of efficiency, recovery rates, and customer satisfaction, particularly in the housing loan area. Suggestions for enhancing risk management and service provision in retail banking are included in the study's conclusion.

Keywords: Retail Loans, Public Sector Banks, Private Sector Banks, Loan Performance, Default Rate, Customer Satisfaction, Banking Efficiency, Etc

1. INTRODUCTION

Over the past 20 years, India's retail banking industry has seen a significant transition thanks to legislative changes, economic liberalisation, technology advancements, and the country's expanding middle class. Retail loans, especially housing and school loans, have become important parts of the retail banking business, both in terms of volume and strategic significance for banks. In addition to meeting people's financial requirements, these loan products make a significant contribution to banks' asset portfolios. Given their extensive distribution and smaller average ticket size, retail loans are seen as being less hazardous and more stable than corporate loans. But non-performing assets (NPAs) in the retail sector, especially in the education loan category, have raised concerns in recent years, leading to a reassessment of risk assessment and loan performance procedures (RBI, 2023).

How to cite this article (APA): L., M., and Goel, R. S. (2024). Retail Loan Performance in India: An Empirical Study in Public and Private Sector Banks. *ShodhKosh: Journal of Visual and Performing Arts, 5*(7), 1072–1075. doi: 10.29121/shodhkosh.v5.i7.2024.4893

Both public and private sector banks make up the Indian banking industry; each has its own clientele, risk tolerance, and operating philosophy. While private sector banks are renowned for their technology-driven services and effective risk management, public sector banks (PSBs) frequently serve a bigger portion of the rural and economically disadvantaged people and have a wider reach. Depending on how they handle client acquisition, underwriting requirements, recovery procedures, and policy adherence, retail loans in these two divisions may perform differently. Therefore, it becomes essential for financial institutions, regulators, and policymakers to comprehend and compare the performance of retail loans in public and private sector banks.

With an emphasis on house and education loans from Indian public and private sector banks, this study aims to conduct an empirical examination of retail loan performance. Key performance indicators like loan disbursement trends, repayment patterns, default rates, non-performing assets (NPA) levels, and the efficacy of risk mitigation techniques across different banking segments will all be assessed by the study. The results are intended to provide light on the operational effectiveness of retail loan portfolios and point out possible areas where credit policy and customer interaction tactics might be strengthened.

2. LITERATURE REVIEW

Because of its increasing proportion in bank portfolios and its effects on financial stability, retail lending has drawn a lot of attention in the banking literature. Increased consumption, housing demand, and growing young ambitions have been the main drivers of India's post-2010 retail lending boom, which has resulted in higher education loan acceptance, according to Mishra and Arora (2020). The authors also underlined that housing loans have demonstrated rather steady repayment patterns, whereas education loans have been more likely to default, particularly when borrowers face unclear or delayed work prospects after completing their school.

Private sector banks have often maintained a stronger retail loan performance because of sophisticated credit assessment procedures and early warning systems, according to a comparative research by Singh and Sharma (2019). On the other hand, public sector banks frequently offer credit based on social duties and government programs, especially when it comes to school loans, which increases the likelihood of non-repayment. The overall quality and profitability of retail portfolios in both groups are impacted by this difference in credit philosophy. Additionally, Kaur and Kapoor's (2021) study emphasised how economic cycles affect the performance of retail loans. While house loan repayments are often stable during economic downturns, particularly when borrowers view housing as a basic need, education loan defaults typically increase during these times as students struggle to find work. According to the authors, macroeconomic factors like inflation and employment rates have a big impact on how retail loans behave.

In its annual report, the Reserve Bank of India (2023) saw a consistent increase in retail lending by scheduled commercial banks, with housing loans accounting for the majority of these loans. But it also raised worries about rising education loan delinquencies, especially in PSBs, where recovery attempts encounter legal and administrative obstacles. The RBI suggested updating the rules for evaluating consumer credit for retail loans, particularly with regard to post-approval monitoring and borrower profiling.

According to Jain and Mehta (2022), technology and digitisation play a significant impact in retail loan performance. According to their research, private banks use automated systems and data analytics to monitor borrower behaviour, guarantee on-time collections, and provide adaptable restructuring options. These strategies help them achieve higher performance metrics in retail lending. Although they are making progress, public banks are still lagging behind in terms of completely integrating digital technologies, which has an impact on recovery and service efficiency.

Retail loan performance is also influenced by borrower education levels and regional characteristics, according to a sectoral study conducted by Gupta and Yadav (2020). For example, because of erratic revenue flows and limited financial literacy, banks in semi-urban and rural areas frequently struggle with repayment. This is especially true for school loans, where a large number of borrowers are from economically disadvantaged backgrounds and do not have collateral, which leads to unsecured lending and a rise in non-performing assets.

In conclusion, the body of current research offers a thorough grasp of the difficulties and factors influencing the performance of retail loans. Public sector banks have systemic issues in risk appraisal and recovery, particularly for education loans, whereas private banks have demonstrated higher efficiency in handling retail loans, particularly house loans. This study attempts to fill the gap in the literature by conducting a current empirical comparison of public and private banks with an emphasis on India's changing loan environment following the epidemic.

2.1. OBJECTIVES

Analysing and contrasting the performance of retail loansmore especially, house and school loansin Indian public and private sector banks is the aim of this study. It seeks to evaluate important metrics including default rates, repayment trends, disbursement trends, and overall retail credit portfolio management efficiency.

3. METHODOLOGY

The performance of retail loans in Indian public and private sector banks is examined in this study using a descriptive research approach. A systematic questionnaire approach is used to gather data from bank executives and individual loan recipients. Stratified random selection is used to pick a sample size of 120 respondents, guaranteeing representation from banks in the public and private sectors in various geographical areas.

3.1. DATA ANALYSIS

Data gathered from 120 respondents60 from each of the public and private sector bankswere analysed. Comparing the performance of house loans with school loans using metrics such loan disbursement, repayment patterns, default rates, and customer satisfaction was the main goal.

Loan Type	Public Sector (%)	Private Sector (%)
Home Loan	65%	75%
Education Loan	35%	25%

As can be seen, house loans account for the majority of the retail portfolio in both sectors, with private banks holding a larger percentage (75%) than public banks (65%). Because public sector banks prioritise inclusive lending and government-backed programs, education loans are more common there.

Regarding repayment trends, private sector bank respondents reported making their payments on time. About 80% of borrowers in the private sector said they made their EMIs on time, compared to 67% of borrowers in public sector institutions. This suggests that private banks have performed comparatively better in terms of loan servicing effectiveness.

Figure 1

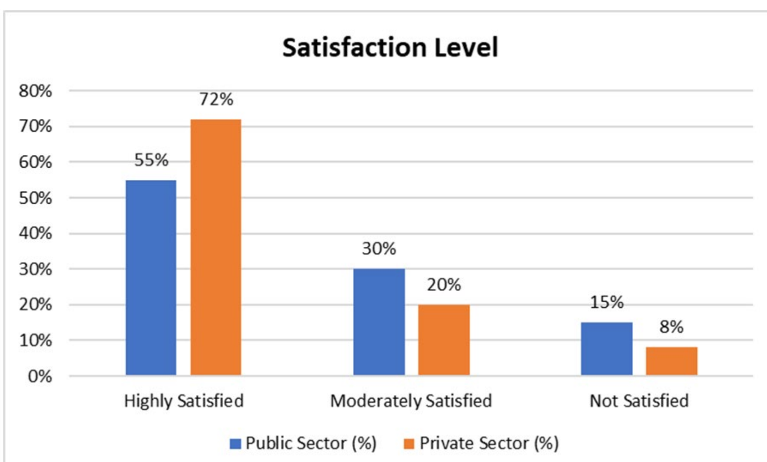

Figure 1 Satisfaction Level

72% of private sector borrowers said they were very satisfied with the loan approval and payout procedure, citing digital documents and speedy processing. On the other hand, just 55% of borrowers in the public sector expressed satisfaction, suggesting that customer service effectiveness should be increased.

Finally, the research looked at how well risk mitigation techniques including EMI monitoring, co-borrower regulations, and collateral restrictions worked. Because 85% of school loans from private banks needed a guarantor or co-borrower, compared to 60% from public banks, private banks were more consistent in implementing risk management measures.

In terms of loan recovery, default control, and borrower satisfaction—particularly with regard to house loans—private sector banks perform better than public sector banks, according to the report. Even though they face more risks and defaults, public sector banks are essential in providing education financing to underserved populations.

4. CONCLUSIONS

According to the report, public and private sector banks in India perform significantly differently when it comes to retail loans, especially those for homes and schooling. Public sector banks are essential in fostering financial inclusion by offering education loans to economically disadvantaged groups, even if private sector banks are more efficient in loan disbursement, payback collection, and customer satisfaction. But there is cause for concern given the increased default rate on student loans, particularly from public sector institutions. While education loans remain a more hazardous area that requires strategic attention, housing loans have generally demonstrated greater consistency and better performance across both sectors.

5. RECOMMENDATIONS

Banks, especially those in the public sector, should improve their post-disbursement monitoring and credit evaluation processes in order to improve the performance of retail loans, particularly education loans. Controlling defaults can be achieved by implementing stricter risk mitigation policies, such as requiring guarantors and providing borrowers with improved financial counselling. Automation and digital platforms should be used more efficiently to increase processing speed and enhance customer support. Additionally, recovery rates can be raised by educating students about their financial obligations and providing them with flexible repayment choices. Better identification and follow-up of eligible borrowers may also be facilitated by cooperation with government organisations and educational institutions.

CONFLICT OF INTERESTS

None.

ACKNOWLEDGMENTS

None.

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